THEMATIC STUDY

Additionality in the EBRD – Review of Concept and Application

EvD ID: SS17-107

March 2018

EBRD EVALUATION DEPARTMENT

European Bank
for Reconstruction and Development

The Evaluation Department (EvD) at the European Bank for Reconstruction and Development (EBRD) reports directly to the Board of Directors, and is independent from the Bank's Management. This independence ensures that it can perform two critical functions: reinforce institutional accountability for the achievement of results; and provide objective analysis and relevant findings, to inform operational choices and improve performance over time. The EvD evaluates the performance of the Bank's completed projects and programmes relative to their objectives.

The EvD's Special Studies review and evaluate Bank activities at a thematic or sectoral level. They provide an objective assessment of performance, often over time and across multiple operations, and extract insights from the Bank's experience that can contribute to improved operational outcomes and institutional performance.

This study has been prepared by the EvD, and is circulated under the authority of the Chief Evaluator. The views expressed herein do not necessarily reflect those of the EBRD Management or its Board of Directors. The relevant Operations teams were invited to comment on it prior to internal publication. Any comments received will have been considered and incorporated at the discretion of the EvD. While the EvD considers the Management's views in preparing its evaluations, it makes the final decisions about the content of its reports.

This report was prepared by Regina Husakova, Senior Evaluation Manager, EBRD Evaluation department under the overall guidance of Chief Evaluator Joseph Eichenberger.

Valuable comments were provided by Bob Finlayson, Senior Evaluation Manager; Chiara Bocci, Senior Evaluation Manager; and Saeed Ibrahim, Principal Evaluation Manager, all with EvD. Nicholas Burke and Amitava Banerjee, consultants, provided external peer review. Further support was provided by Stephanie Crossley and Sofia Keenan, Senior Officers, EvD. Valuable inputs provided by Management are acknowledged with thank

One Exchange Square
London EC2A 2JN
United Kingdom
Website: www.ebrd.com

TABLE OF CONTENTS

Abbreviations

AMI	Annual Mobilised Investment
ATC	Advanced Transition Countries
CDC	CDC Group plc (formerly the Commonwealth Development Corporation)
CRR	Capital Resources Review
DAQ	Directors' Advisors' Questions
DCF	Donor Co-Financing (EBRD)
DFI	Development Finance Institution
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EPG	Economics, Policy and Governance (EBRD)
ESAP	Environmental and Social Action Plan
ESCO	Energy service company
ETC	Early Transition Countries
EU	European Union
EvD	Evaluation Department (EBRD)
GET	Green Economy Transition
IFC	International Finance Corporation
IFI	International Finance Institution
MDB	Multilateral Development Bank
OCE	Office of the Chief Economist (EBRD)
ODA	Official Development Assistance
OE	Operation Evaluation
OECD DAC	Organisation for Economic Co-operation and Development – Development Assistance Committee
OPA	Operation Performance Assessment
OPAV	Operation Performance Assessment Validation
OSP	Operation Strategy and Planning (EBRD)
PFI	Partner Financial Institution
PSI	Private Sector Instrument
SCF	Strategic and Capital Framework
SDG	Sustainable Development Goals
SEFF	Sustainable Energy Finance Facility
SEMED	Southern and Eastern Mediterranean
SIP	Strategy Implementation Plan
SME	Small and Medium-sized Enterprises
SOE	State Owned Enterprise
TC	Technical Cooperation
TI	Transition Impact
TIMS	Transition Impact Monitoring System

Executive Summary

Additionality is one of EBRD's three foundational operating mandates. It has featured centrally since 1992 in investment selection and design, in Bank representations of its role and purpose, and in Board/shareholder engagement with Management. For EBRD shareholders Additionality is the foundation of their claim for public resources and therefore has been of consistently high interest and concern.

Likely because the stakes are high, additionality has always been a debated issue in the Bank. But while differences of view have arisen regularly around broadly the same questions, an institutional status quo has existed on the issue for the past 20 years that has been viewed as reasonably satisfactory. There has never been an overall review of how additionality is understood and applied in the Bank and whether specific issues need reflection.

However, key aspects of the question have changed. Dramatic shifts in global capital markets and in the circumstances and direction of member countries over the last ten years represent major strategic challenges to the Bank and how it can execute its demanding mandate. In EBRD and across the IFI system shareholders are demanding greater effectiveness in leveraging more private capital flow into countries where it can improve development outcomes – that is, in being additional. A major cross-IFI effort has been launched to develop a harmonised approach to leveraging private sector resources and additionality among IFIs, with active EBRD participation.

This review seeks to fill some gaps that exist around additionality in EBRD and contribute to emerging Board and Management efforts to develop a stronger and more satisfactory institutional framework. It is based on a thorough examination of the conceptual roots of additionality, key documents and debates, and a review of how it has been treated across more than 300 Bank transactions. It aims to highlight where the concept could be sharpened and operational guidance refined. This work has been accelerated in order to inform an internal Management effort launched a few months ago to identify whether its additionality tools can be strengthened.

The additionality concept

The concept of additionality has been adopted widely by multilateral and bilateral agencies focussed on private sector development; it is not unique to the EBRD. The principle is that MDB support of the private sector should contribute beyond what is already accessible or in some form that is otherwise absent from the market; it should not crowd out the private sector. EBRD's definition of additionality is consistent with treatment in relevant inter-MDB agreements and with the approach of bilateral donors. Across the IFI system a pressing need is seen for greater effectiveness in catalysing commercial capital to achieve ambitious global goals – that is, more additionality.

Operationalisation in the EBRD

While the conceptual basis of additionality is set out in the Bank's founding Agreement, specific guidance is limited – just a few technical papers and the 1996 Policy on Graduation. Because the definition is not one against which projects can be rigorously measured for compliance, each additionality assessment is essentially a judgment. Financial additionality is generally well understood conceptually, but not easy to demonstrate without counterfactuals. Broader interpretations of additionality (beyond financial dimensions) exist but have never been universally accepted. This includes bringing in Bank influence on the 'design and functioning' of the project (i.e. non-financial aspects) as an integral part of the additionality assessment.

The difference between non-financial additionality and transition impact is conceptually sound, but in practice not well understood or applied consistently. Additionality must be understood as an input because it represents Bank influence on a project over and above that which could be provided by an alternative financier. This often includes aspects that could be linked to transition objectives for the project. Consequently, the same benchmarks or indicators are used to define EBRD's additionality on the one hand, and to monitor output-level transition results on the other. As a result there is overlap, lack of clarity and a blurring over time of how additionality is to be understood.

Additionality may have financial and non-financial elements

Financial additionality exists when finance is not offered by the private sector or not on reasonable terms. Some element is almost always claimed; cases where no financial additionality is asserted at project level are rare. In most loans, financial additionality rests on the provision of longer tenor than is available in the market, thereby making the judgment that the market could only provide finance on unreasonable terms. However empirical verification of financial additionality – evidence of what would happen without EBRD finance – is not available for projects that obtain the financing. In the past the Bank prepared a fairly detailed capital market review for each project providing some evidence to substantiate the case for financial additionality. However this has been discontinued, so the project-specific additionality narrative is no longer linked to broader market benchmarks.

Financial additionality also exists when supplemental third-party capital is obtained due to EBRD attributes, such as the comfort provided by preferred creditor status, ability to mitigate political risk, or knowledge of local markets. The significance of contributions of this kind has been confirmed in many evaluations.

Non-financial additionality on the other hand is present mainly in Bank conditions that exceed what would normally be asked by alternative financiers. The fact that the client is willing to commit to Bank conditions that in principle come at a cost is evidence of additionality. Most commonly these are environmental and social standards, and aspects of corporate governance and business practices; for public sector clients also sector reform and institution building. In some of these cases conditions are also linked to expectations of incremental transition impact.

Some risks to additionality

Claims of financial additionality are weakened when clients have strong market and financial standing and an evident ability to access finance, especially where no evidence is provided of above market pricing. Mobilisation of parallel or syndicated finance is generally taken to indicate financial additionality. Co-financing by other IFIs cannot be considered a type of commercial mobilisation, although this has sometimes been claimed in Bank transactions. Early pre-payments can indicate low financial additionality, as can cancellations of significant shares of originally approved/ signed projects. In both cases, the Bank also loses its ability to monitor and enforce any conditions. Finally, where liquidity is high projects with local financial intermediaries struggle to demonstrate additionality at the level of the client.

Refinancing/retroactive financing is prima facie evidence that other sources of finance are available. The Bank's financial additionality argument therefore rests on 'unreasonable' existing terms and conditions rather than on other finance not being available at all. Similarly, projects in advanced transition countries often fail to make the additionality case expected by the Board.

On non-financial additionality Bank expertise in a particular circumstance is often invoked. However evidence tends to be limited and anecdotal, and clear discussion of how such attributes will be delivered is rare. The role of conditions as non-financial additionality can also be overstated, or lack justification that they would not materialise with other sources of finance. A common example is application of environmental and social standards by a client already subject to EU-harmonised regulations. Ultimately, the credibility of conditions as a source of non-financial additionality rests on the Bank's ability and willingness to enforce their implementation, which relies in part on the Bank retaining financial additionality. There are many examples of conditions being abandoned by early prepayment or where the Bank is a minority shareholder. For this reason financial and non-financial additionality can be inter-dependent.

Main findings

This report provides a number of specific findings or observations intended to inform EBRD internal review and discussion of how it might more effectively engage its additionality challenge in the future.

1. Internal ownership of and responsibility for additionality resides collectively with the Operations Committee; it lacks the clear lower-level institutional accountabilities long in place for the Bank's two other mandate functions – Transition Impact and Sound Banking.
2. The additionality judgment is now binary - Yes or No; there is no means to assess relative value or 'magnitude'. Projects often provide little on different components, comparability between projects, or what constitutes sufficient value added.
3. Financial additionality is asserted without links to broader market benchmarks or 'additionality gaps'.
4. Non-financial additionality assessment lacks clear guidance on acceptable sources, and on ways to understand its value.
5. There is no aggregate monitoring and reporting on additionality.
6. There is a need to clarify whether the consideration of alternative finance refers only to private sources or to any (including public) sources.
7. The question of whether financial and non-financial additionality can be independently sufficient or whether some financial additionality is necessary needs clarification. The question is whether the Bank will potentially displace some private financing in return for better TI or improved project quality or sustainability.
8. Financial and non-financial additionality are often inextricably linked; it is therefore not possible to judge financial additionality independently of understanding the value provided through attributes and potential costs imposed through conditions. In addition, the ability of the Bank to impose and later enforce its conditions at least partially stems from its financial additionality; i.e. potential trade-offs between financial and non-financial additionality are limited by the diminishing enforcement capacity.
9. The current project-level approach to additionality is not well-suited to capture additionality at a framework level.
10. The application of the additionality concept to public sector projects, especially for sovereign guaranteed operations, is not well-articulated in guidance or in project-level assessments.
11. Bankers lack sufficiently detailed guidance to identify and substantiate Bank additionality. Better guidance would also usefully distinguish between different instruments of the Bank as well as different type of clients (private, public, repeat) and different contexts (ETCs, ATCs). The justification of additionality at project level should provide the Board with maximum clarity useful for decision-making.
12. Any new approach to additionality will also need to be developed in the context of improved IFI harmonisation in this area, and the strengthened focus on mobilisation of private investors including in public sector projects.

1. Purpose of this review

The concept of Additionality has become mainstreamed within public development institutions and invoked consistently as an essential way to justify their engagement and understand their intended contributions. However it has never been well-defined, and over the years has been invoked by institutions, largely with shareholder support, to justify operational work across an ever wider range of activities. Meanwhile circumstances in the development business have changed dramatically. Public development funds now go overwhelmingly to emerging and middle-income countries with access to abundant domestic resources; huge pools of capital are widely available globally from both public and private sources; publics are demanding greater accountability from the development system they have supported for many decades; and, a proliferation of institutions are actively and often competitively engaged in similar activities using similar instruments backed by many of the same shareholders. As a result, there is a strong perceived need among shareholders to better understand how the concept of additionality is understood and applied, whether it requires a fundamental rethink, and what role it may be expected to serve in the future.

All of these factors are especially relevant and pressing at EBRD. The Bank's founding Articles established Additionality as one of its three fundamental mandates and gave it equivalent priority to Sound Banking and TI. But while the concept is regularly invoked in EBRD it has to date received relatively little attention in terms of how it has evolved, how it is being operationalised, and what can be understood about its overall contribution to the work and effectiveness of the EBRD. These issues are getting much closer attention within the Bank in connection with the Board's desire for a strategic review, wider initiatives to improve effectiveness of the international financial institutions, and the dramatic shifts in international capital markets.

This paper is intended to examine the conceptual roots and operational experience of the Bank with additionality, develop a factual and analytical basis to illuminate these issues, and contribute to what will be a longer and deeper reflection by Board and Management on the Bank's focus, instruments and future. In particular, the paper:

- Reviews the additionality concept in general and in EBRD, at both project and strategic level (Section 2);
- Reviews how additionality is operationalised in EBRD – how effectively does the system support consistent analysis, application and monitoring of the concept at project level, and build an understanding of what is being 'delivered' (Section 3); and
- Presents relevant findings and evidence from evaluation of additionality issues in more than 300 projects (Section 4).

2. Additionality concept

2.1 General principles

2.1.1 MDB principles

Additionality is a general guiding principle adopted by all key multilateral and bilateral agencies working in the area of private sector development. The concept and principle of additionality of operations is not unique to the EBRD. While different institutions have different mandates and different operating procedures, there have been collective agreements on common principles guiding their work with the private sector.

MDBs have agreed on general principles guiding their approach when engaging with the private sector, including additionality. In 2011 the Private Sector Roundtable published a joint report of 31 multilateral and bilateral finance institutions, which discussed the specific development contributions that DFIs make when engaging with the private sector.[1] The following year the Heads of Multilateral Development Banks (MDBs) endorsed a set of general principles underpinning their conduct within the private sector.[2] The paper confirms five common core principles that guide MDBs' engagement with, and support of, the private sector, so as to achieve development (transition) goals consistent with their individual mandates: i) Additionality, ii) Crowding-in, iii) Commercial sustainability, iv) Reinforcing markets, and v) Promoting high standards. As for the definition of additionality in particular, the paper states: "*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*."[3]

There can be justification for concessionality in private sector but concessionality in itself should not be a justification of additionality. The agreed principles underscored the approach to the provision of finance to the private sector on market-based, non-concessional and sustainable terms to avoid crowding-out private sources, introducing market distortions or undermining demonstration effects. Recognising however that there are instances where concessionality might exceptionally be justified, especially in cases where market failure causes a gap between the private and social returns of a project, the Private Sector Roundtable commissioned a Working Group, led by the EBRD and the IFC and comprising representatives of MDBs and bilateral agencies, to provide guidance on the use of concessional finance in the private sector. The ensuing document provided more detailed guidance on where concessional finance might be justified in private sector operations, and how to deploy it in ways consistent with the broader principles of working with the private sector as outlined above.[4] With respect to the principle of additionality, this paper emphasises that it is critical for concessionality in itself not to be viewed as a source of additionality. In fact, concessionality undermines additionality when crowding out private finance.

2.1.2 Recent initiatives

There has been a growing recognition of the need to catalyse commercial capital for the achievement of development objectives and global infrastructure needs. Within the context of the Sustainable Development Goals (SDGs), the Paris Agreement on climate change and the Addis Ababa Action Agenda, and the significant resources needed to reach the objectives of these global agreements, the focus has shifted towards the catalytic use of official/ public finance to mobilise other sources of finance. A joint MDB report highlighted the need for significant transformation of development finance, and presented a vision for the role of MDBs.[5] MDBs have established project preparation facilities to help prepare and structure complex infrastructure projects,[6] and scaled up pooled investment vehicles that channel third-party capital.[7] The World Bank Group has set out a long-term vision for crowding-in private sector investment and creating markets – introducing new 'cascade' principles for infrastructure finance, which seek to mobilise commercial finance, enabled by upstream reforms where necessary to address market failures and other constraints to private sector investment at the country and sector level. Where risks remain high, the priority will be to apply guarantees and risk-sharing instruments.[8]

In this context effective IFI coordination is further emphasised, including on additionality. G20-led process of greater MDB coordination and clearer division of labour also encompasses the role of MDBs in mobilising the private sector. MDBs have agreed that their concerted efforts should focus on three main areas: (a) strengthening investment capacity and policy frameworks at national and sub-national levels; (b) enhancing private sector involvement and prioritising commercial sources of financing; and (c) enhancing the catalytic role of MDBs themselves. The agreed Principles on Crowding-in Private Sector Finance provide a common framework among MDBs to increase levels of private investment in support of their

[1] International Finance Institutions and Development Through the Private Sector, IFC 2011
[2] Multilateral Development Bank Principles to Support Sustainable Private Sector Operations; April 2012
[3] Ibid., p.3
[4] Private Sector Roundtable: DFI Guidance for Using Investment Concessional Finance in Private Sector Operations; April 2013
[5] From Billions to Trillions: Transforming Development Finance: Post-2015 Financing for Development: Multilateral Development Finance Development Committee Discussion Note; DC2015-0002, World Bank 2015
[6] E.g. the World Bank's Global Infrastructure Facility; or the EBRD Infrastructure Project Preparation Facility (BDS14-246)
[7] E.g. IFC Managed Co-lending Portfolio Programme; in EBRD the Institutional Investment Partnerships initiative (CS/FO/14-10) has seen the establishment of the Equity Participation Fund (BDS15-255)
[8] Forward Look – A Vision For The World Bank Group in 2030: Progress and Challenges, World Bank Group 2017

development objectives.[9] The 2017 G7 summit called for existing structures for MDB coordination to become more effective, and ensuring that MDBs are not dealt with as individual institutions competing for scarce resources but as a system of complementary actors. The ensuing Principles for effective IFI coordination include a call for MDBs to '*develop a harmonized approach to leveraging private sector resources and additionality, including a common framework to identify and track the value added of their investments with the private sector, with a view to crowding in private financing*.' It further adds: '*The extent to which MDBs' activities with the private sector generate additional investment and development impact, which would not materialize without public intervention (i.e., additionality), remains a debated topic. […] While recognizing that additionality is hard to pin down, MDBs tend to unduly assess it through measures of private funds leveraged—which are either not relevant or may even represent a tradeoff to genuine value addition of public funds.*'[10] There has been an inter-IFI working group established to follow up on this agenda of harmonising a framework for additionality, and its work is currently in progress with first outputs expected in early 2018.

2.1.3 OECD

Additionality will constitute a key criterion for ODA-eligibility of donors' private sector instruments. At the level of governments as bilateral donors, the members of OECD DAC agreed at their high level meeting in February 2016 on a set of principles of Official Development Assistance (ODA) modernisation on Private Sector Instruments (PSIs).[11] These principles also follow from the growing recognition of the importance of strengthening private sector engagement in development and the desire to encourage the use of ODA to mobilise additional private sector resources for development. They were designed to ensure that the DAC statistical system reflects the effort of the official sector in providing PSIs in a credible and transparent way while offering the right incentives and removing disincentives in the use of these instruments. The implementation of these principles, currently still on-going, includes among other the work on the definition of additionality for PSIs.[12] Additionality will constitute a key criterion for ODA-eligibility of PSIs and will be assessed at both activity and institutional level.

The proposed definition of additionality is as follows: "*In the context of reporting on PSI in DAC statistics, official transaction is considered additional either because of its "financial additionality" or "value additionality", combined with its "development additionality". Such a transaction is financially additional if it is extended to an entity which cannot obtain finance from the private capital markets (local or international) with similar terms or quantities and for similar developmental purposes without official support, or if it mobilises investment from the private sector that would not have otherwise invested. It is additional in value if the official sector offers to recipient entities or mobilises, alongside its investment, non-financial value that the private sector is not offering and which will lead to better development outcomes, e.g. by providing or catalysing knowledge and expertise, promoting social or environmental standards or fostering good corporate governance. It conveys development additionality if the development impact of the investment would not have occurred without the partnership between the official and the private sector.*"[13]

---

[9] G20 – IFA WG Principles of MDB s' strategy for crowding - in Private Sector Finance for growth and sustainable development; April 2017
[10] G7: Principles for effective IFIs coordination; 2017
[11] DAC High level meeting communiqué, February 19, 2016
[12] DCD/DAC(2017)18/REV1: Implementation details of 2016 HLM agreement on ODA modernisation of Private Sector Instruments: Decision points; 5 July 2017
[13] Ibid., p.15

2.2 EBRD principles

Additionality is one of the three core operating principles of the EBRD. The Bank's founding Articles established Additionality as one of its three fundamental mandates and gave it equivalent priority to Sound Banking and Transition Impact.[14]

> *The Bank shall operate in accordance with the following principles: [...]*
>
> *vii) the Bank shall not undertake any financing, or provide any facilities, when the applicant is able to obtain sufficient financing or facilities elsewhere on terms and conditions that the Bank considers reasonable; [...]*
>
> *xi) in its investments in individual enterprises, the Bank shall undertake its financing on terms and conditions which it considers appropriate, taking into account the requirements of the enterprise, the risks being undertaken by the Bank, and the terms and conditions normally obtained by private investors for similar financing;*

The concept is further expanded in the accompanying explanatory notes to the Agreement.[15]

> *In sub paragraph (vii), the intention of Delegates was that the Bank should not compete with other organizations; rather, it should complement or supplement existing financing possibilities. Delegates also understood that "financing" and "facilities" were broad terms involving the whole range of Bank operations, including underwriting. Delegates intended this sub paragraph to be read together with sub paragraph (xi), where the latter applies.*

The Bank's founding documents thus present additionality primarily as a financial dimension, to be assessed against "terms and conditions normally obtained by private investors."

Bank additionality arises directly from the existence of market and/or institutional deficiencies,, and derives from the specific attributes of the Bank which allow it to offer finance under reasonable conditions while still observing the principles of sound banking. In other words, the Bank is additional where it offers terms and conditions which reflect risk and other funding is not available on reasonable terms. That such opportunities exist is a result of imperfectly functioning markets in combination with the Bank's attributes compared to those potential private alternatives, which lower the risk of the project or its perception – these include for example the Bank's relationship with governments who are its shareholders and the mitigation of political risk, its preferred creditor status, or its ability to access grant finance for technical assistance to the projects.

Management subsequently provided some comment on additionality, its interpretation and implications for EBRD operations, often in the context of specific operational issues. The issue arose most frequently regarding the role of the Bank, and specific operations brought for Board review, in countries at advanced stages of transition.

The Bank's Policy on Graduation (1996) presented the clearest elaboration since the Article as to how the concept was to be understood and in doing so introduced criteria that materially expanded its scope. It stated that '*additionality should be judged in relation to the magnitude and quality of the Bank's impact on the <u>existence, design or functioning</u> of a project and whether such impact would have been provided by other sources of finance on reasonable terms and conditions in the absence of the Bank's involvement*.'[16] The Policy further expands that '*in examining whether alternative sources of financing and facilities are available on reasonable terms, the Bank should take into account both its <u>full contribution to the project and all the dimensions of terms and conditions applicable to the project</u>*.'[17] Thus the additionality of the Bank comprises not only the financial terms offered to the client but also non-financial aspects it brings to the project that lower risk or improve quality.

[14] Agreement Establishing the European Bank for Reconstruction and Development, 1991
[15] Chairman's Report on the Agreement Establishing the European Bank for Reconstruction and Development, Explanatory notes
[16] BDS96-166: A Policy on Graduation of EBRD Operations; p.8, emphasis added
[17] Ibid., p.12, emphasis added

The expectation has been that as countries move through their transition path the opportunities for the Bank to be additional in certain segments of the market will diminish and it will move onto segments where additionality (and transition needs) remains. This process of evolving product/instrument composition through various transition stages has been described in previous papers related to the issue of graduation.[18]

Finally, additionality needs to be understood as an *input* that the Bank contributes to each project, bound up intrinsically in the package provided by the Bank to a client. This is in contrast to objectives that the Bank hopes to achieve as outcomes or impacts of the project, that is, its transition impact. In other words, additionality refers to the Bank's influence on the project, while transition impact refers to the influence the project has on the market, economy or society. There is nevertheless an underlying expectation that the Bank's additionality can, through its influence on project design and implementation, contribute to the enhancement of transition impact.[19]

2.3 Findings

Additionality concept and interpretation

i) **As originally described and subsequently developed additionality is not a definition against which performance can be rigorously measured; assessment of additionality is a judgment call.**

Additionality can only be verified through a counterfactual (what happens in the absence of EBRD involvement), which is not available, or possible to accurately reconstruct, for projects which obtain EBRD finance. In addition, judgment is required on what constitutes 'reasonable' terms offered outside of EBRD, and further complicated by the inclusion of non-financial considerations as aspect of terms and conditions.

ii) **The wider 1996 interpretation of additionality has never been fully accepted as faithful to the original Agreement.**

This relates specifically to the inclusion of the Bank's influence on the 'design and functioning' as opposed simply to its role in making the project possible in the absence of other finance. This interpretation essentially makes non-financial elements integral to the additionality concept, and does it in a way that can be read as allowing for offset between financial and non-financial components. Some Board Directors express unease with this interpretation, and believe that it provides for an unwarranted relaxing of the concept with little definition or guidance on how to judge the necessary 'magnitude' of the non-financial aspects. This has led, in their view, to a shift in the way additionality is treated at project level, with non-financial aspects becoming more prominent over time. Non-financial aspects have become weightier over time and at odds with the intent of the Agreement and the primacy it gave to financial additionality.

Similar view was in a broader context expressed in a recent CDC discussion paper, which points out that the non-displacement rules for IFIs were set when public flows predominated but since then IFIs have become a less important factor in driving capital flows. It notes that *"While the MDBs have not taken on the issue of the rules, they have instead evolved their approaches to deal with the effects of the rules. They have defended their additionality position by building up an armory of linked products, including advice, measurement, standard setting and a wide range of technical assistance, which help to distinguish them from private financiers. […] Where technical assistance or other broad–based work is done that benefits the client alongside others in the economy, it almost certainly will not be priced or charged for. For these reasons, pricing comparisons with alternative private funding may not take full account of the total value that the MDB is adding for a particular client."*[20]

---

[18] BDS96-166: A Policy on Graduation of EBRD Operations; CS/FO/05-6: Review of some issues concerning graduation
[19] SGS98-62: Additionality Workshop on 23 March 1998, background paper
[20] Additionality: A discussion paper for CDC Group; not dated, no page numbering

iii) **There is a conceptually sound and important difference between non-financial additionality and TI, but it is not well understood nor consistently treated operationally.**

Additionality is an input, a specific element of project content over and above of what would be brought into the project by an alternative financier. EBRD conditions may represent such elements; examples include covenanted requirements on corporate governance, business practices or environmental standards, which would not be normally required by commercial banks. At the core of the transition impact concept,[21] in contrast, is the subsequent systemic change caused by implementation of the project, i.e. some broader identifiable influence of the project. Additionality is a project feature; transition is a project result.

The Bank has had long-standing difficulty providing good evidence of these effects (i.e. to collect/monitor data beyond clients and beyond the duration of the project, and to credibly assert the contribution/ attribution of any wider changes to the Bank's activities). Partly as a result, transition impact has often been represented by output-based, client-level 'transition benchmarks', with expected broader effects only implied. This has led to projects using identical proxy indicators for both additionality and transition impact.

Not all conditions are expected to lead to further transition impact. For example, a condition on corporate governance standards may or may not be included as a transition benchmark depending on whether its implementation will have further standard setting/ demonstration effect on other companies in the sector. This can depend for example on the assessment of local transition gaps in the sector – are these standards still generally lacking or is it a specific problem of the client? If this requirement is expected to have transition impact, than this impact is also over and above of the transition that would have been achieved if the project was financed commercially. Therefore, the link between non-financial additionality and transition impact may in fact be strong, such as where specific conditions are the source of TI that otherwise would not be there. In others there is no link such as when all expected transaction impact derives solely from the project being funded, and would also follow another source of finance.

A lack of conceptual clarity about this important distinction between non-financial additionality and transition impact is both strengthened by and reflected in the fact that the same indicators can appear in two different sections of project documents, and a common view is that Bank sometimes 'justifies additionality with transition impact' or that there is an 'overlap' between these two categories.

When discussing projects at the Board, the information provided is also not always helpful in clarifying the conceptual difference between additionality and impacts*: "Several Directors [...] had concerns regarding the Bank's additionality. Management clarified that additionality would be mainly achieved via innovation, research and development, and skills transfer."*[22] or *"Management explained that the capital expenditure and the transition impact would be in Kosovo, whereas the Bank's additionality was most prominent in its support of the capital markets in Slovenia. In recognition of <u>these impacts</u> in different countries, the project was designated as being regional."*[23]

iv) **The Agreement is not precise on whether alternative finance applies solely to private sources or any other (including public) sources.**

The Agreement makes reference to 'the terms and conditions normally obtained by private investors', and this is in line with the presumed key rationale of the additionality principle – not displacing/ crowding out private finance. Yet the explanatory notes counsel not competing 'with other organizations' – leaving the definition open to interpretation. Where no private finance is available and IFIs provide the main source of funds there is no problem of displacement. Nevertheless, EBRD involvement still represents opportunity costs and raises broader questions about institutional value added (why should the EBRD, and not another IFI or a government agency, finance this particular

[21] As defined until 2016
[22] BDS/M/14-22 (Add 1): Minutes of the Board Meeting of 11 November 2014
[23] BDS/M/16-10 (Addendum 1): Minutes of the Board Meeting of 25 May 2016, emphasis added

project). The Operations Manual does refer to official finance (‘*Alternative sources include the local financial system, foreign banks, the international capital markets and official sources, where applicable.*’[24]). Both approaches can be found at project level – comfort with not displacing private funds (‘*there is very limited external medium and long term financing available to the SME sector due to the financial crisis. In most countries, the IFIs have become a main source of medium and long-term financing*’); or justifying EBRD’s presence over other IFIs based often on non-financial aspects of additionality (e.g. pre-existing relationship with the client or stronger push for reform-type conditions).

3. Operationalisation

3.1 Additionality at the project level

Each project’s expected contribution to financial and non-financial aspects of additionality is assessed. The Operations Manual[25] refers to both the Agreement, and the 1996 Graduation Policy as the framework for applying the concept. The project team and the economist jointly assess additionality at an early stage based on whether the Bank's presence is required to ensure that the project will proceed. Although the economist provides advice on how to undertake the additionality analysis, bankers are responsible for writing and articulating it. These assessments are to be based on the three following dimensions of additionality:[26]

- providing financing at reasonable **terms**, in particular appropriately priced, otherwise not available from private sources; and/or
- sharing specific **attributes**, in particular as a multilateral institution; and/or
- structuring **conditionalities**, in particular to deliver transition impact (or other important Bank objectives).

The additionality argument in the project document should address these specific points, and may be strengthened by a counterfactual of whether the project or how a different project would proceed absent of the Bank. This is commonly summarised in table like this:[27]

Additionality Dimension	**Verification and/or counter factual results**	**Timing**
Terms	*market (country and segments) benchmarks*	*e.g. - Already achieved as result of project preparation*
EBRD attributes	*preferred creditor status, political risk carve out, dialogue with federal or local governments, regional relationship with sponsor, experience in country, sector or with innovative financial instrument…*	*e.g. - Before signing*
Conditionalities	*corporate governance standards, board representation, procurement, environment…*	*e.g. - During implementation*

The Manual explicitly indicates that rating does not apply to additionality. The Bank either is or is not additional in a project, and project cannot be considered to be "highly" additional or to have "little" additionality.[28]

[24] EBRD Operations Manual Chapter 1.5 – Format/Content of structure review and final review memoranda
[25] The Operations Manual is currently undergoing revisions. This and subsequent sections refer to the Operation Manual contents as of September 2017, and as presented on the EBRD intranet.
[26] EBRD Operations Manual Chapter 1.5 – Format/Content of structure review and final review memoranda
NB: In Chapter 2.5 – OCE, the Manual indicates: “*The team and the OCE assess the Bank’s additionality in a project based on whether the Bank’s presence is required to ensure that: (a) the project will proceed; and/or (b) its design or functioning are strengthened*.” (emphasis added)
[27] Ibid.

3.2 Additionality at the strategic or institutional level

Although mainly invoked as a project-level attribute, additionality can also be used beyond the project level. While not as well articulated and formalised these uses in some instances are becoming more prominent.

Institutional additionality

This dimension of additionality tries to capture the Bank's unique, distinguishing value relative to other sources of finance, its 'comparative advantage'. It is alluded to in corporate strategies, such as the SCF which anchors the Bank's business model in specific attributes such as adhering to the additionality principle at project level, sound banking, private sector expertise plus the ability to work with the public sector, risk-taking capacity, global shareholder base, regional knowledge and local presence. The SCF concludes that these attributes and the transition mandate '*distinguish the Bank from most other institutions and instruments of public policy*.' It notes that the Bank's core competencies stem from this business model/ approach and allow it to structure market-based, commercially oriented and predominantly private-sector solutions.[29] This institutional additionality is then embedded in country and sector strategies through the type of priorities and instruments for involvement selected for EBRD presence in the sector/country.

Complementarity

This dimension is closely related to the Bank's institutional value added. It is a direct application of the Bank's unique attributes and competencies relative to those offered by other potential financiers. Some public sector projects already assert institutional advantages over other IFIs as project-level additionality. At the level of country (and some sector) strategies, the Bank's complementarity is usually demonstrated with respect to the existing presence of other IFIs, and a capacity to act where others can or do not. In Egypt, for example: "*The Bank will ensure it is additional vis-à-vis existing IFIs efforts in the areas of corporate and economic governance. EBRD will therefore focus on specific areas or topics where it can complement other IFIs and where the Bank can leverage its core capabilities. […] The Bank will also focus on [areas] where other IFIs are currently not engaged in*."[30] More recent strategies include a complementarity matrix. This does not seek to show that complementarity drove unique strategic priorities but rather that the selected priorities are complementary with others. This also underpins the approach to active coordination and non-duplication of activities with other public sector sources of finance – governments, IFIs, EU, and donors.

Strategic additionality

Additionality may be a strategic driver – an active component in strategic priority setting. With the recent revision of the transition concept[31] and results architecture, the approach to strategic prioritisation at country level has further evolved.[32] EvD's early assessment of the most recent approach suggests movement to improve the clarity of how additionality shapes the selection of priorities. New country strategies are based on a three-pronged approach to finding the right priorities for EBRD, seeking an intersection of the answers to i) What needs to change? (country diagnostics); ii) Can in be changed? (local context, government priorities, political economy); and iii) What can EBRD do? (institutional competencies, lessons learned, complementarity). The third point is where the Bank's additionality manifests itself. In some examples, this discussion is centred on aspects of institutional additionality (business model and specific attributes and competencies) and complementarity to other actors.[33] However, in the new country strategy for the Slovak Republic, additionality is presented as a strategic constraint in the country and the strategy is effectively developed around it. An assessment of past implementation ('*The Bank has been able to source and close, on average, only 4-5 projects per year since. This performance reflects the*

[28] EBRD Operations Manual Chapter 2.5 – OCE
[29] BDS15-013 (Final): Report of the Board of Directors to the Board of Governors: 2015 Annual Meeting – Strategic and Capital Framework 2016-2020; p.17
[30] BDS/EG/16-1 (Final): Strategy for Egypt; p.21
[31] BDS16-181 (Final): Transition Concept Review
[32] SGS16-231: Country Strategies - Operational Effectiveness & Efficiency (OE&E) Review
[33] See e.g. BDS/MO/17-1 (Rev 1): Strategy for Moldova (DRAFT); or BDS/SB/17-1: Strategy for Serbia (DRAFT)

Bank's reduced additionality in an advanced transition country amid narrowing transition gaps, abundant ESIF inflows and EIB loans, and a banking sector that is highly liquid, with ample resources for traditional debt financing in the corporate sector.') leads to sharpened strategic focus, which avoids transition qualities with largest remaining transition gaps but low assessed additionality, in favour of qualities where the Bank remains additional.[34] At the country strategy workshop *'many Directors welcoming the focus on just two remaining transition gaps as reflective of the Bank's declining additionality, and highlighting the approach as a good model for advanced transition country strategies*.'[35]

3.3 Monitoring and evaluation of additionality

Additionality is not tracked during project implementation although specific elements may be. Consideration of additionality is almost exclusively a pre-approval activity in the Bank, with little or no post-approval attention. Financial additionality (terms) is mostly considered to be delivered at the signing of the project, so there is no perceived need for follow-up monitoring. Some aspects of non-financial additionality are monitored separately as applicable through established monitoring systems – such as the monitoring of outstanding covenants, commercial mobilisation, monitoring of the implementation of environmental and social action plan agreed with the client, monitoring of transition impact benchmarks, or the delivery of advisory implemented with technical cooperation funds.

Additionality is assessed ex-post as part of each project's Operation Performance Assessment. In general, each stand-alone project is gets an ex-post self-evaluation (Operation Performance Assessment, OPA) intended to review project performance along all relevant dimensions, which is completed by the project team. This is the sole opportunity to take the measure of the initial additionality claims, as well as the 'delivery' of any specific non-financial additionality components. A sample of OPAs taken up each year by EvD for validation (OPAV) considers the evidence presented including for additionality, and provides an independent rating. Other evaluation products, including project level in-depth Operation Evaluations (OE) and special studies also consider and assess additionality on the same terms.

3.4 Findings

Institutional ownership of additionality

i) **There is no specifically designated custodian of advocate for additionality in the Bank; as a result it hasn't gotten sustained or coordinated focus.**

While responsibility for other mandate issues – transition and all elements of sound banking – is clearly specified, this has never been the case with additionality. Bankers are responsible for additionality at the project level, with possible advice from the economist. At OpsCom EPG often comments on additionality component, but not exclusively and without a deciding role. The overall verdict on the additionality justification is effectively a tacit one, embedded in the collective OpsCom decision to proceed with a project. Additionality queries in the Board are usually responded to by whoever is representing Banking. With an increasing proportion of projects not subject to OpsCom decision or Board approval under delegated authority the locus of accountability is even more diffuse. Overall therefore, and despite keen Board interest over the life of the Bank, additionality has not been not subject to the same degree of Management accountability as either transition impact or sound banking.

ii) **High comfort with the long-standing diffuse level of responsibility for additionality is rooted in the prevailing view within Banking that the case for additionality is overwhelmingly "self-evident" at the project level.**

That is, the fact that a project proceeds with a willing client is itself sufficient evidence of its additionality. This is reflected in part also in the fact that there has been virtually no improvement in

[34] BDS/SK/17-1: Strategy for the Slovak Republic (DRAFT)
[35] WS/C/17-07 (Rev 2): Workshop on the Strategy for Slovak Republic

the clarity of the concept or progress in its operationalisation since the mid-1990s; the last (and only) additionality workshop was held in 1998. Another illustration is that while EPG is leading an effort to develop improved guidance, neither EPG nor Banking view it as a natural owner of the additionality assessment at project level, as this relies on specific knowledge that rests with Banking.

Operational processes

i) **The operationalisation of additionality at project level is viewed by many as the least robust out of the three key operating principles of the Bank, and important aspects of rigour have been reduced.**

The presentation of financial additionality (terms) commonly refers to the market conditions in fairly generic terms, providing little analysis/data on broader market conditions or relevant benchmarks. Up until about 2012 all projects annexed a 'capital market review', which provided this type of information in some depth, including e.g. review of recent loans and syndications in the sector, bond issues, finance from IFIs, or stock exchanges and equity investments, as relevant. This material is no longer provided although the Operations Manual still requires it ('*For all advanced and intermediate transition countries, a detailed presentation of the country's commercial loan market should be provided in an Annex, based on BIS loanware information and on Country team, resident offices and sector market intelligence*.'[36]). According to Banking this practice was discontinued for resource and efficiency reasons. As presented now the transaction terms can be seen by some Board Directors as lacking enough specificity to reach an informed judgment. Especially for projects in more advanced countries, Directors' Advisors' Questions regularly seek more detail on financial additionality.

The presentation of non-financial additionality is often seen as overlapping with transition impact, as discussed above. In addition, there appears little guidance for what can constitute non-financial additionality – for example the fact that the project implementation will be compliant with the EBRD's environmental and social policy or procurement rules is seen by some as 'given' and something that should not be used as an additionality argument.

ii) **The current approach doesn't provide a good sense of the value of the additionality contribution.**

The Graduation policy, which forms the basis of the current approach, advises that additionality should be judged in relation to the *'magnitude and quality'* of the Bank's impact on the project. The magnitude or value of the Bank's additionality is not always easy to understand from its presentation, especially for the non-financial aspects. There is little in terms of perspective on different components, comparability between projects or guidance on what constitutes sufficient value added on balance. This contributes directly to the inability subsequently to form an evidence-based assessment of effect. This consideration becomes especially pertinent when non-financial additionality is used in some way to offset or compensate for weaker or non-existent financial additionality. Some further issues regarding the balance of financial and non-financial additionality are discussed in more detail below.

iii) **Additionality assessment could be made more objective and transparent by complementing project-level assessments with contextual 'additionality gap analysis' at country level.**

The information /data on the state of the capital markets, is known and analysed by Banking to the extent that it is available. Combined with some contextual analysis of financing gaps and the existing market/institutional deficiencies and obstructions that lead to these, it would allow for a more objective view on how proposed projects fit into this context – including on whether the special attributes of the Bank in fact mitigate the existing risks/failures. The desire for country diagnostics to be extended to in-depth analysis of the availability of finance has some Board support.[37] Management's view mostly differs with two main concerns cited: a) additionality is a dynamic concept and can change relatively quickly based on emerging economic or political situation; this is much more true for additionality than for example for transition gaps; and b) additionality is very client

[36] EBRD Operations Manual Chapter 1.5 – Format/Content of structure review and final review memoranda
[37] Information session: Assessment of Transition Challenges: the Transition Qualities; 28 April 2017

specific, and client-level circumstances can be more important for the assessment of the Bank's additionality than general capital markets context.

iv) **Work is underway to increase standardisation in the treatment of additionality.**

EPG has been directed by ExCom to develop a more standardised test/assessment of additionality at project level. It would usefully be preceded by a discussion between the Board and Management to introduce more clarity on some of the issues raised in this review to improve common understanding of the concept and operational expectations for additionality. A more transparent screening tool and more evidence-based additionality justification will probably be welcome by all. More detailed guidance for staff on how to identify and substantiate Bank additionality in a given project will be needed, and also useful in distinguishing between different instruments of the Bank as well as different type of clients (private, public, repeat) and different contexts (ETCs, ATCs Current efforts to improve IFI harmonisation in this area are also relevant.

Financial and non-financial additionality

i) **Additionality at project level can be broadly classified as financial and non-financial.**

Financial additionality is found in the particular terms and structure of an investment (pricing, but also other key aspects such as tenor, grace, repayment structure, or currency), together with risk mitigation (including specific attributes of the Bank such as its preferred creditor status) and commercial resource mobilisation. Non-financial additionality is represented by all other features that the Bank brings into the project, including specialist advice and expertise, requirements on improving company standards, or introduction of policy/regulatory changes. Non-financial additionality is often implemented through the Bank's conditions and/or through the employment of technical cooperation funds.

ii) **No specific requirements exist on the composition of additionality for individual projects.**

The Operations Manual notes that all dimensions are not necessarily present in all transactions. It is not explicitly articulated whether financial and non-financial additionality are independently sufficient to satisfy the condition of additionality or whether aspects of financial additionality have to be present. In other words, whether a hypothetical project for which private financing would be available on broadly similar terms, can be additional solely through the conditions the Bank imposes beyond what a private investor would, thus improving the project 'design and functioning' and often creating expectations of incrementally higher transition impact as a result.

iii) **The discussion on the balance between financial and non-financial additionality is tied to the question of why additionality matters.**

The implicit rationale of the additionality principle in the original Agreement establishing the Bank was to ensure that the finance provided by the Bank would not displace other (presumably primarily private) sources of finance, but be additional to them. This is then the main objective of ensuring financial additionality, which seeks to establish that no other sources of finance for the project are available. Mobilising the participation of additional private sources that would otherwise demonstrably not be present is also an important part of financial additionality. As noted above, since 1996 this core concept of additionality has been further interpreted as considering not only the full financial terms and structure of the finance but also comparing the design and implementation of the project. This means that some aspects of additionality can have effect on better (transitional) results of the project or its quality, and the comparison is no longer carried out on the basis of financial terms but on the project as whole. This provides considerably more flexibility in justifying additionality given the practical difficulty to meaningfully compare items of different nature.

iv) **As currently operationalised non-financial aspects can in principle be the only source of project additionality.**

This view is corroborated by the way the 'test' for additionality is described in the Operations Manual. It states that "*In more advanced countries, one test of additionality is that the client is willing to pay a price for EBRD's participation (either as financial return above market and/or through conditionalities not required by the private sector [...]). In early transition countries with limited supply of private finance and without available price comparison, the additionality of the Bank, in providing financing on reasonable terms not otherwise available, will be largely self-evident.*"[38] This argument was expanded in the background paper for the Workshop on Additionality, which discussed the project-level test of additionality. It describes the test to be either with regard to the project's existence (i.e. the project would not go forward without the Bank's participation as no 'reasonable' terms are privately offered), or with regard to the project's design and functioning (i.e. the project would proceed but would be qualitatively inferior – '*relating in particular to transition impact, sound banking, the environment*'). In the latter case EBRD's terms might be more stringent than the commercial ones, indicating perceived additional value to the client willing to pay the price, or they may be similar to the market prices but introduce conditions/ requirements which impose further costs on the client.[39] This approach is also consistent with the MDBs agreed principles on private sector operations as discussed above, which state that "*MDBs should always seek to provide financial and/or non-financial additionality*".[40]

v) **The 'test' for additionality therefore distinguishes between conditions with transitional/qualitative added value, which represent some form of costs for the client, and attributes, which bring value added to the client and should be appropriately priced in.**

The rationale of the test can be summarised as follows:

In early transition countries:

- Absence of counterfactuals in terms of financing opportunities is often the evidence of financial additionality;
- Where financing opportunities exist, the willingness of the client to commit to conditions that come at a cost provides evidence of Bank's additionality.

In advanced countries:

- The Bank demonstrates that it obtains better terms than the private sector, i.e. that the client is willing to pay more in order to have access to the EBRD's attributes;
- The client demonstrates the willingness to commit to the Bank's conditions that come at a cost.

vi) **While this distinction is more or less straightforward in principle, in practice the balance of the different additionality components is difficult to identify with the information normally provided.**

References to pricing and its level with respect to any market comparison are very rare; thus there is no way to know whether client's access to the Bank's specific attributes (including e.g. country/sector experience, advisory, or political clout) has been reflected in the terms agreed (i.e. whether the client is 'willing to pay' for them). The potential cost of the conditions is also unknown; in many cases implementation of conditions is supported by technical cooperation funds. In most cases the project document lists both attributes and conditions that the Bank. This is complemented by an account of financial additionality ('terms'), and a Bank judgment on the 'reasonableness' of terms available.

[38] EBRD Operations Manual Chapter 1.5 – Format/Content of structure review and final review memoranda
[39] SGS98-62: Additionality Workshop on 23 March 1998, background paper, p.4
[40] Multilateral Development Bank Principles to Support Sustainable Private Sector Operations; April 2012; p. 3; emphasis added

vii) **The balance struck in accepting different sources of additionality ultimately turns upon choosing to potentially displace some private financing in return for better transition impact or some element of higher project quality/ sustainability.**

If non-financial elements aren't invoked, then more detailed information should be provided with respect to the terms of the finance available on the market and the terms obtained by the Bank, especially in advanced transition countries. This should be complemented by some account of how the Bank's attributes have been priced in or whether the project is implicitly subsidised by embedded value/services not charged for. If non-financial elements are included, then efforts should be made to maximise the non-financial additionality aspects in each project (i.e. additionality ceases to be a binary attribute). Evidence should be provided of the additional nature of conditions (i.e. evidence that they would not materialise if project was financed from alternative sources), and more granular information should be provided on their value/ magnitude and the leverage of the Bank in the project to credibly enforce their implementation. Monitoring/ reporting system should be introduced for accountability purposes. There should be a clear understanding of the expected non-financial additionality that is to be delivered and how its scale can be consistently determined across projects. How to judge the cost of the potential private displacement against the benefit of higher transition impacts, and how much of this benefit is 'enough'? This discussion should also take into consideration that financing any project imposes opportunity costs on the Bank (other projects not funded), and the possibility that a fully financially additional project could be financed instead (while also being transitional). In any case, the Bank's expectations on the balance of additionality sources should be stated with more clarity, and appropriate operational guidance developed accordingly.

viii) **Where the weight of additionality is placed clearly influences internal incentives around project origination and development.**

When the lack of financial additionality can be offset with non-financial aspects incentives increase to attach further transitional elements to projects, which otherwise would not be present. Whether this is seen as desirable depends on views on how the Bank's mandate should be interpreted and executed in the light of the context within which the Bank operates, expectations for the future, and the Bank's position within the IFI architecture.

Project-level vs. segment-level additionality

i) **Additionality in the EBRD is operationalised at project level.**

The Additionality Workshop in 1998 noted that the "*project level is decisive in relation to the Agreement Establishing the Bank because that is the way the Agreement is framed and because project detail is vital. Nevertheless, segment and country level considerations can be suggestive and point to relevant questions or evidence*." Additionality considerations at the segment level would focus on the Bank's impact on the total supply and demand of funds. For example, in a specific situation where the market segment is quantity-constrained, at certain level of risk appetite, EBRD funding would not displace other funds even if offered finance at market terms, and additionality would be achieved even though the project could in principle obtain alternative funding – as not all such projects of comparable risk would be able to obtain such alternative funding. Nevertheless, the paper notes that the segment-level approach to additionality does not incorporate consideration for the 'qualitative aspects' of additionality, i.e. mostly the non-financial contributions which affect the project design and functioning. From this perspective, EBRD would be likely additional in market segments with low accounting, environmental or procurement standards, provided these form a part of the Bank's conditions.[41] The Board workshop "*agreed that the final test of additionality for the Bank was at the project level (sector and country level provided a useful context).*"[42]

[41] SGS98-62: Additionality Workshop on 23 March 1998, background paper
[42] WS/C/98-8: Workshop on Additionality 23 March 1998

ii) **However the same approach is also used for additionality at framework level.**

This argument for project-level operationalisation of additionality is somewhat contradicted by the way additionality is treated at framework and related sub-operations level. Frameworks represent an approach to a segment of a market in a country (occasionally a region). Additionality is presented in the way as for stand-alone projects yet rarely with more depth of context analysis. In many cases, sub-operations do not present client specific circumstances; on the contrary, there is almost literal replication of the additionality justification from the framework document with minimal or no variation across multiple clients and years. This is especially true for financial intermediaries' frameworks; see for example the SlovSEFF frameworks I-III and their sub-operations where the additionality section barely registered any changes over 10 years.[43] Variants of this approach can be found in other sectors as well; see for example the recent Egypt Renewable Feed-In-Tariff Framework and its six sub-operations.[44]

This is not to say that the additionality argument is not valid or relevant; but there is clearly opportunity for the additionality argument to be substantially more developed at framework (segment) level. The argument that additionality is tied to unique client circumstances simply does not hold true in these and various other cases, and neither does the argument that additionality is too dynamic and fluid to be substantively captured at segment level.

This supports the case for a higher-level approach to additionality with the development of some country-level additionality gap analysis, as proposed above. The analysis of the available sources of finance but also of the existing market/institutional circumstances that create an opportunity for the Bank to be additional while still observing sound banking principles, and of the impacts of subsidies/concessionality on the market where relevant, would provide an appropriate context for individual sub-operations in each framework. This should not preclude approaching client-level specificity at project level, as can be done currently.

iii) **Similarly, including policy dialogue aspects does not always concur with additionality as a project level attribute.**

Policy dialogue by nature has uncertain outcomes, is related to sector-level objectives, and is often not short-term. Therefore its inclusion as an element of project-level additionality (usually in 'attributes' section) is often not quite aligned with the intent of non-financial additionality as capturing the Bank's influence on project design and functioning. References range from non-specific mention of Bank' 'policy dialogue skills' with no further indication of any policy dialogue efforts or expectations, to specific descriptions of on-going or expected policy dialogue in the sector. One type of project contains the implicit assertion that Bank investment is a necessary precondition for policy dialogue ('*involvement in this project gives the Bank opportunity to engage in policy dialogue to improve general enabling conditions for commercial development*'). This may be true but does not strictly speaking correspond to the way additionality is currently operationalised and understood as the Bank's influence over the project. It is rather a potential transition impact of the project, which enables the Bank to influence the framework for market functioning.

There are nevertheless examples where policy dialogue is expected to have direct effect on the functioning of the project itself. Notwithstanding the fact that the outcomes of policy dialogue are never fully under the Bank's control, such cases do represent Bank additionality. This is especially true for projects implemented with governments and public sector entities, where investments are often accompanied by parallel advice and policy dialogue on sector reforms – and the ability of the Bank to provide this advice is indeed additional to some other potential financiers. The case for additionality in these cases could be strengthened by directly linking the outcomes of the policy dialogue to the project in tangible ways – for example through conditions on the implementation of the policy dialogue outcomes. One evaluation found that *'covenanting of tariff methodology and other*

[43] BDS07-198 and related Addenda; BDS14-027 and related Addenda; Until 2010 the Frameworks and Sub-Operations did include the Capital/Loan Market Review annexes, which discussed the situation at the capital markets in more depth.
[44] BDS17-075 and related Addenda

transition measures was attempted but firmly rejected by the client'[45] [a state-owned company]; this does not diminish the case for policy dialogue as such but does put into question the inclusion of the policy advice as an argument for additionality at the project level in such case.

Additionality in private vs. public sector operations

i) There is currently no operational distinction in how additionality analysis is approached for private and public sector clients.

The concept was defined in the context of an institution intended primarily as a new approach to private sector investment (although a lesser role for public sector operations was also envisioned). Notably all the inter-institutional agreements and definitions as referred to above discuss additionality explicitly only as applicable to operations with the private sector. There are no examples of the treatment of additionality for public sector clients among other IFIs in the same way that EBRD does. The main reason is probably the fact that high concessionality, parallel provision of grant finance and blending, and accompanying substantial technical cooperation packages and policy dialogue are generally regarded as an acceptable (and indeed necessary) way to finance public sector projects. Such high levels of direct and indirect concessionality and subsidy defy comparisons to anything that private sector might be able to provide.

ii) Adjusted approach to additionality in public sector projects could be considered, especially for sovereign guaranteed operations.

For municipalities or state-owned enterprises which do to some extent have the potential for commercial borrowing, the current approach can somewhat work – with the emphasis on introducing elements of commercialisation, fiscal discipline and limiting recourse to sovereign guarantee. For sovereign projects, where the Bank has limited degree of freedom over its pricing and where the level of concessionality is in some cases mandated, the justification of additionality would often be better served with focus on institutional value added and complementarity, and the delivery and enforcement of non-financial additionality. Why is EBRD the right institution among other IFIs to finance this project? Why is EBRD well positioned to advise and deliver on the accompanying sector reform? In some public sector projects this approach is already applied; there is however no consistent operational guidance. Importantly, the additionality of risk-sharing instruments to facilitate the crowding-in of commercial finance into public sector projects will become increasingly significant.

Concessionality

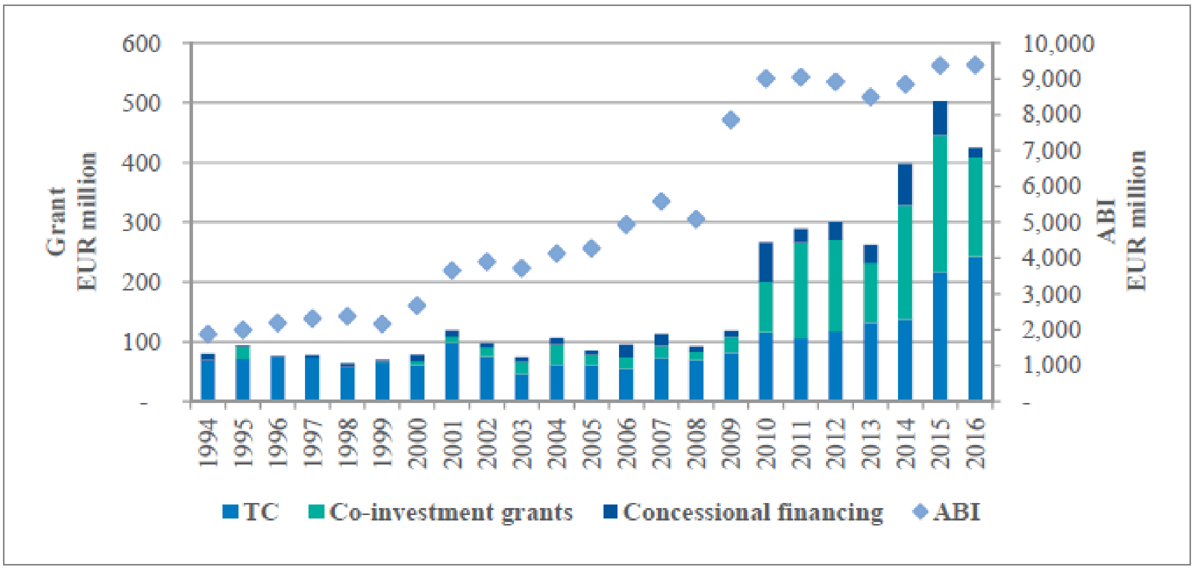
i) Bank operations increasingly incorporate grants and concessional funds.

The current SIP2017-2019 outlines the rationale and the perspective on the use of these resources. An important trend is the increased use of concessional finance instruments (as opposed to grants) to support the priority areas. It is expected that this will grow in future years.[46] Recent Grant co-financing report presented the trend data showing the growing use of both grants and concessional finance, as reproduced in Chart 1.

Investment grants (capex) are used almost exclusively to support projects in the public sector. Private sector is however the recipient of concessional loans, incentive payments and loss covers. Based on data provided by DCF, private sector received over €400 million through these non-TC donor-funded instruments over the period of 2010-2016. Incentive grants were the main non-TC instrument used with the private sector, representing just over half of the total volume. Concessional loans represented about third of the amount; all originating from Climate Funds in the strategic area of GET.

[45] PE14-588
[46] BDS16-190 (Final): Strategy Implementation Plan: 2017-2019

Chart 1: Evolution of grants and concessional finance 1994-2016



Source: 2016 Grant co-financing report[47]

ii) **Concessionality in private sector operations is not incompatible with financial additionality.**

Provision of concessional finance and subsidies to private sector can be justified, especially in cases where market failure causes a gap between the private and social returns of a project. However concessionality is not a source of financial additionality. The argument for additionality needs to show how the Bank is additional despite the subsidy, not because of it – i.e. show that the subsidised financing is not crowding out private finance and is not preventing the emergence of private financing instruments. This is in line with the aforementioned DFI Guidance for Using Investment Concessional Finance in Private Sector Operations, which was also translated into EBRD internal guidance in 2015.[48]

Strategy

i) **The link between additionality and risk has implications for the Bank's strategic portfolio management.**

Strategic portfolio management demands that both the stock of existing projects and the flow of new commitments are managed to pursue transition impact whilst balancing, in the portfolio, risks, returns and cost. In particular, the portfolio must be balanced across countries, products and other risk categories in order to achieve transition impact whilst ensuring the Bank's financial viability.[49] The Bank has committed to developing new tools to enhance the implementation its strategic portfolio approach over the current SCF period to cope with contextual uncertainties.[50] There is an assumed link between additionality and risk, in that – generally speaking – riskier projects tend to be more additional and vice versa. This link was already explored in the 1995 paper on the Bank's role in countries at more advanced stages of transition. The paper presented the relatively stable risk profile of the Bank's activities over time as evidence for the Bank's sustained additionality achieved by its moving to riskier market segments in countries as they progressed through transition.[51] Greater reliance on strategic portfolio management reinforces the need to strengthen and systematise additionality analysis.

---

[47] CS/BU/17-07: 2016 Grant Co-Financing Report
[48] SGS15-074 (Addendum 2): Information Session: New Guidelines for the use of non-TC grants in EBRD operations
[49] BDS14-098 (Final): Re-Energising Transition: Medium-Term Directions for the Bank
[50] BDS15-013 (Final): Report of the Board of Directors to the Board of Governors: 2015 Annual Meeting – Strategic and Capital Framework 2016-2020
[51] CS/FO/95-30: The Bank's Role in Countries at More Advanced Stages of Transition

ii) **The Board has discussed the question of portfolio risk and additionality without resolution.**

As far back as the 1998 additionality workshop a suggestion that a regional approach to additionality could allow the Bank some projects which were relatively less additional but which made money, in order to finance highly additional, but perhaps less profitable, projects elsewhere was countered by the view that additionality is a fundamental requirement.[52] At the more recent discussion of the SIP several Directors cited *'the importance of continued activity in advanced transition countries in order to achieve a balanced portfolio in terms of risk*.'[53] And the representatives of the EU countries expressed the view that Bank operations in the EU-10 region are an important revenue driver and a risk mitigant and enable the Bank as a whole to operate in more grant-intensive regions [54] However others argued to use the Treasury portfolio '*as a risk-balancing and fundraising instrument rather than financing low transition, low risk projects in advanced transition countries that fall out of the Bank's mandate*.'[55]

While the need for the balanced portfolio is universally acknowledged, at project level there are common calls at the Board for the 'highest standards of additionality' and high selectivity for projects in advanced transition countries (4.9), which creates some friction with the strategic portfolio approach. The risk-balancing argument is still nevertheless occasionally made at project level discussions.

- In the answers to the DAQs for a large project in Poland with no financial additionality, management argued that this '*large A-rated exposure will improve the Bank's risk corporate portfolio especially under the current situation of increasing portfolio risks in Ukraine and Russia. From a sound banking and a Credit perspective, the benefits accrue more from the diversification of the cyclical sector portfolio than from only the income from the loan*.'[56]
- In discussing a loan project in Poland, some Directors '*said that the Bank needed sound banking projects to offset other projects which were undertaken in more risky countries*.'[57]

Monitoring and evaluation of additionality

i) **There is no aggregate reporting on additionality as exists for TI and sound banking.**

There are aggregate reports on some individual dimensions of additionality, notably for example on syndications or on mobilised parallel finance, and various other aspects of additionality are monitored at project level. These are however not monitored from the perspective of additionality – for instance, there is no reference to the impact on additionality when covenants are waived, ESAP not implemented, loan is pre-paid or largely cancelled, or commercial finance is not mobilised for syndication as was expected. There is therefore little possibility to establish a more aggregate picture of the Bank's performance in additionality. Quarterly performance reports do not mention additionality.

ii) **Evaluation guidance reflects the ambiguities of operational guidance on additionality.**

The guidance for evaluators with respect to additionality has undergone some changes since 2010 – see Annex 3 for an overview. Overall, the main ambiguities of the general operational guidance (as discussed above) are reflected in the guidance for evaluation as well, and the guidance does not provide clarification of some of the finer points on the required composition of additionality sources. In practice, there has been some weighting towards financial additionality observed in the review of past evaluations, in the sense that evidence of other sources of finance being available for the project would result in downgrading of additionality even if conditions held. A new distinction in rating between 'expected additionality' and 'demonstrated additionality' was introduced to the system for

[52] WS/C/98-8: Workshop on Additionality 23 March 1998
[53] BDS/M/15-24 (Final): Minutes of the Board Meeting of 11 November 2015
[54] SGS17-057: Information Update: Conclusions of the EU-11 Representatives to the EBRD Meeting
[55] BDS/M/15-17 (Addendum 1)(Final): Minutes of the Board Meeting of 22/23 July 2015
[56] Directors' Advisers' Questions (BDS15-148)
[57] BDS/M/15-06 (Addendum 1)(Final): Minutes of the Board Meeting of 11 March 2015

2016 on a pilot basis. The intention was to allow for a comparison between the plausibility of additionality claims at the point of project approval and the way they were borne out in practice over the life of the project. One evaluation verified expected additionality at approval in terms of the plausibility of the Bank's role as an anchor investor to facilitate a bond placement. Nevertheless, in the event the transaction ended up having also other anchor investors, including the IFC, making EBRD's demonstrated additionality weaker than expected at approval.[58] This split of expected/ demonstrated additionality however in practice also highlighted the confusion between non-financial additionality and transition impact, where same indicators were used to justify demonstrated additionality and TI or environmental and social performance of the project, which could lead to double-counting. EvD has not retained this pilot rating element, but conceptually it can be valuable. It will be kept under review in adapting evaluation to anticipated operational changes by the Bank.

4. Additionality drivers and constraints

This section discusses the main sources of EBRD additionality. It draws mainly on the review of EvD project-level validations from 2011-2016 (over 300 unique projects), together with a review of EvD special studies and other products, presenting themes emerging from their findings and lessons learned. This was complemented by a review of meeting minutes of the Board, other relevant documentation, and some aggregated quantitative data where available. The presentation of additionality in projects is a qualitative argument, as is its final verification/ evaluation, therefore this section presents a variety of illustrative examples of how additionality is manifested in different projects. It tends to over-represent cases where additionality was in some ways questioned, and this is intentional. Whilst evaluations find that additionality has been fully or largely verified for the vast majority of projects (4.1), the focus of future attention to additionality should be on the margins – the cases where additionality is not quite clear or straightforward. This is in line with the purpose of this paper: to provide inputs for future reviews of additionality, to present instances where the concept could be sharpened, and to facilitate the identification of situations where the operational guidance could be more specific or where the handling of additionality does not conform to the current operationalisation of the concept.

4.1 Trends in the Bank's additionality

All mature stand-alone EBRD projects are self-evaluated by the Banking team through a standardised Operation Performance Assessment (OPA). Until the end of 2016 a random representative sample of these OPAs was independently validated or evaluated by EvD as standard practice.[59] Based on this yearly sample of evaluated projects, EvD has been able to keep records of long-term trends in the Bank's performance across all evaluation criteria, including additionality. These data are updated and presented in each Annual Evaluation Review. The source of all data in this section is the 2016 Annual Evaluation Review.[60]

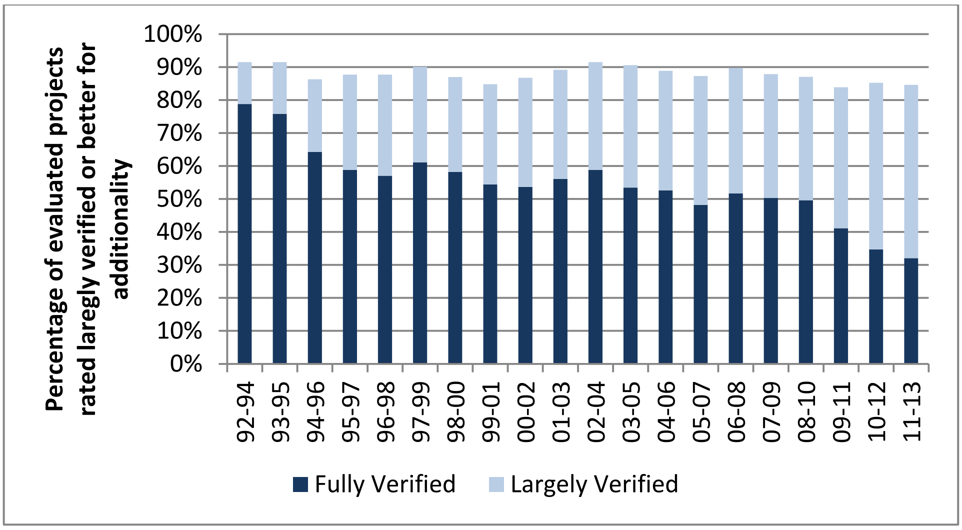
[58] PEX156-716

[59] The full description of the methodology for identifying evaluation-ready project population and the sample selection, and the statistical description of the sample are available in the annexes to the Annual Evaluation Review reports.

[60] BDS17-093: Evaluation Department: Annual Evaluation Review 2016

Chart 2 presents the long-term trend of the share of projects with fully or largely verified additionality.

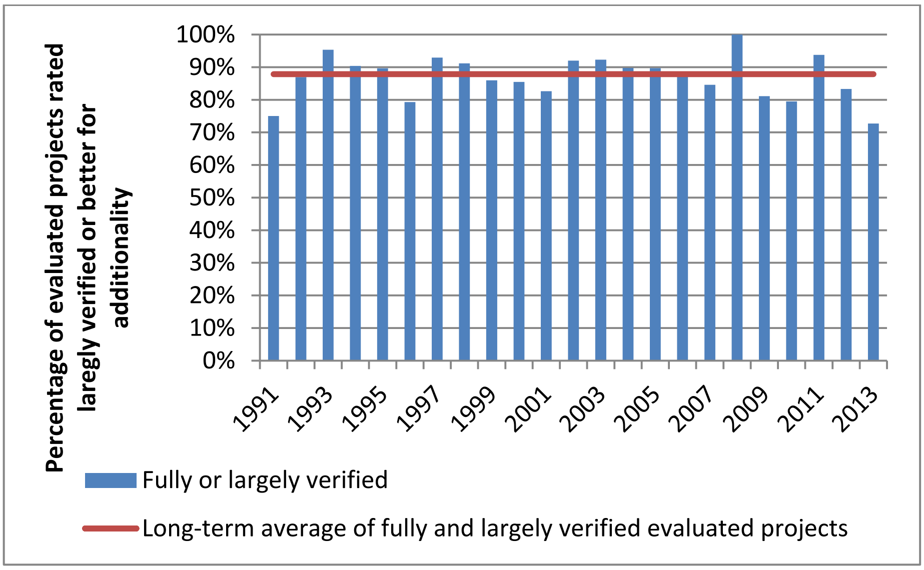
Chart 2: Additionality by approval year (three year rolling sample)



As the chart indicates, the additionality of Bank projects has generally been rated largely verified or better in over 80 per cent of cases, with long-term average of 88 per cent. The data for the most recent period show that for 85 per cent of projects approved 2011-13 additionality was largely verified or better. There is nevertheless a clear sustained trend of falling proportion of projects with fully verified additionality. In the most recent period (2011-2013 approvals) the proportion of these projects fell to 32 per cent.

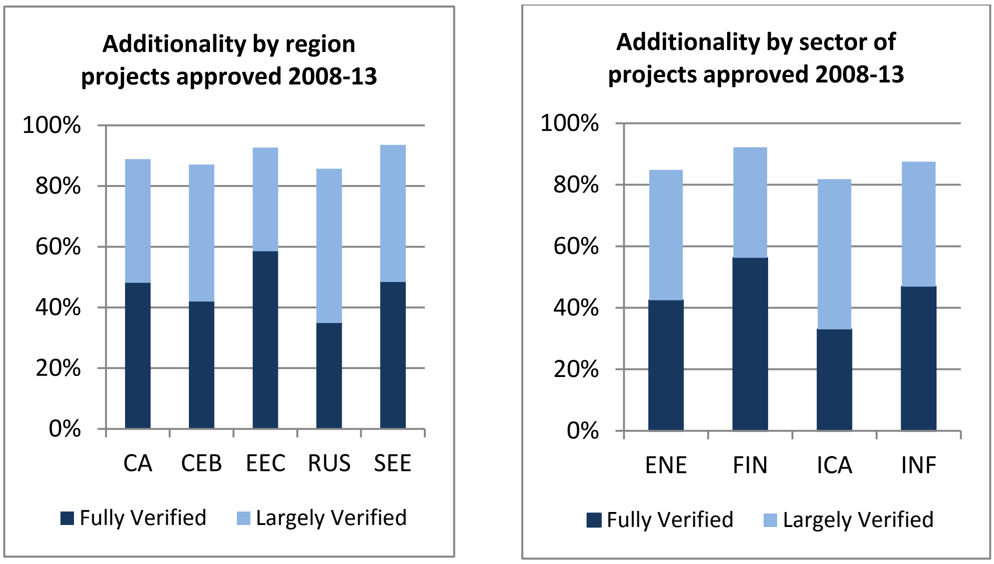
The long term data are usually presented using three-year rolling averages (as above) to smooth out annual fluctuations. However, the same data broken down to annual observations are also pointing to an emerging trend of falling additionality overall. While the sample size for 2013 approvals is still too small, it is noteworthy that Bank projects have been found to have overall below average additionality in five of the seven approval years since 2007, as depicted in Chart 3.

Chart 3: Additionality by approval year (year on year sample)



There is some variance in the verified additionality of projects across regions and sectors, as presented in Chart 4.

Chart 4: Additionality by region and sector (approvals 2008-2013)



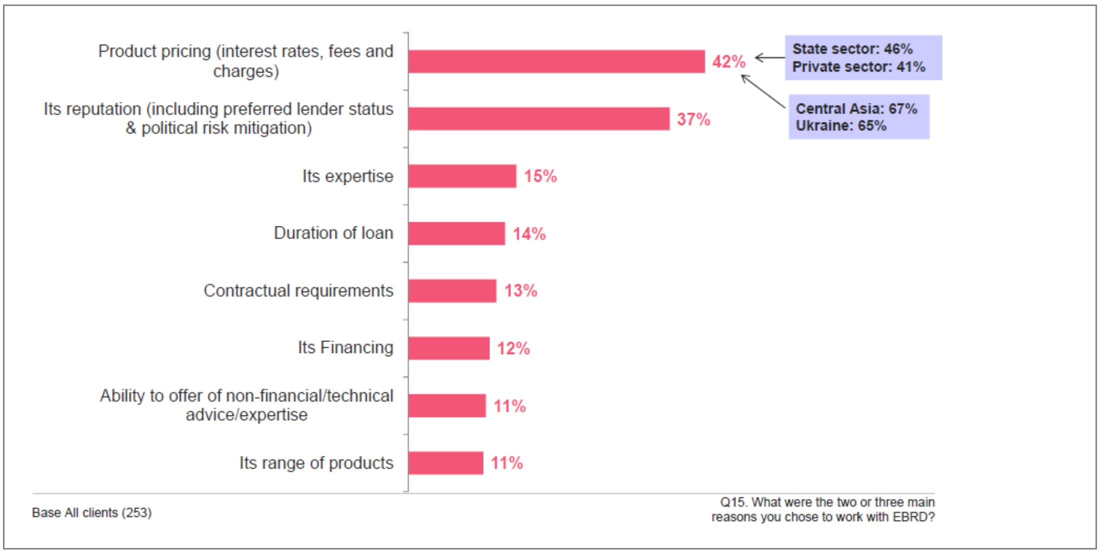
The following sections discuss and present examples of how the Bank's additionality is manifest in different types of operation or circumstance and, conversely, where its additionality is less evident.

4.2 Financial additionality

Financial additionality summarises the concept of providing finance where such finance is not offered by the private sector (at all or in sufficient quantity), or not on reasonable terms. When no private finance is available at all or on reasonable terms financial additionality is broadly self-evident, where a project is bankable within sound banking parameters. In all other cases, the Bank should offer terms that are more stringent than the commercial ones, indicating perceived additional value to the client willing to pay the price, or they may be similar to the market prices but introduce conditions which impose further costs on the client.

The last available client survey found that the most quoted reason among clients for working with EBRD was 'product pricing (interest rates, fees and charges)', indicated by over 40% of the clients, as presented in Chart 5.

Chart 5: Clients' reasons to work with the EBRD



Source: EBRD Client survey[61]

[61] SGS15-051 (Addendum 1): Information Session: Results of the 2014 EBRD Client and Potential Client Survey

At first reading, this finding could raise some concerns about the financial additionality of the Bank, seen as the provider of 'better pricing', contrary to its additionality principle. But at this level of aggregation, this information is actually not very helpful in offering more insights into the financial additionality of the Bank. It could be that some of these clients are finding themselves in non-functional financial markets and select EBRD for its pricing – as other options are not available. For some others, the EBRD offers better pricing than the market, judging the market terms unreasonable based e.g. on tenor length or on other aspects of the structure of the deal. Coming from clients in advanced transition countries, this answer should elicit more questions about the financial additionality of the Bank. Ultimately, the main finding is that additionality could be treated with more nuance in any upcoming client surveys, to be able to gather real insights that would be useful for Management and the Board about the market comparison of the Bank's pricing. It could be complemented by a survey of local financial institutions – is EBRD perceived as a competitor? What are the particular cases they considered for financing but which were financed by EBRD instead; what were the parameters of such transactions?

Cases where no financial additionality is claimed at project level are rare. Despite the fact that in principle the non-financial additionality (improved design and functioning of project) can form the crux of the additionality argument as discussed above, there is a perception that this would not be viewed favourably by the Board. This is validated by the comments such projects receive at the Board – this is true especially for projects with clients who are strong market players in more advanced countries.

- In one example, the client was part of a Group representing one of the world's leading car manufacturing companies for a project in Poland. In terms of additionality the loan (equivalent of €300 million) was argued on a combination of the client's desire to diversify its financial sources and a transition narrative. In the DAQs which sought further information on the additionality of the project, the answers made a positive point of not syndicating the loan, contrary to common practice and understanding of additionality. In the Board discussion Management noted that '*the pricing had been benchmarked with the IFI loan market, which was low*' – contradicting the principle of charging above commercial market for the access to the Bank's attributes where financing alternatives exist. The project registered some eight additionality-related abstentions at the Board.[62]
- Another recent project, a €150 million loan for a car manufacturer in Turkey, also didn't propose any financial additionality dimension. The argument was instead based on the conditions and the client's contribution to the Bank's inclusion strategy. The loan was also not syndicated (unlike the Bank's previous two loans of about the same size), which was explained in the DAQs by the client's reluctance to '*disseminate the unusual covenants to other banks*', so as not to set a broader precedent. Management confirmed this position at the Board discussion stating that, '*whilst financial additionality was recognised as low, there were other additionality attributes, such as the reform conditionality, that made up for this*.'[63]

In some cases the claims of financial additionality are put in doubt by the strong market and financial standing of the clients and their documented ability to access finance, especially where no evidence is provided of above market pricing.

- One evaluation pointed out that at the time of the project approval the Bank's client was already the largest manufacturer and importer of tractors and other agriculture equipment in the country. Its two parent companies had amassed around €45 billion debt, and their capability to provide funding to the client was well established. In addition, 25% of the company shares were listed on the stock exchange, with a market capitalisation of around €1.2 billion, and the company had already managed to obtain €145 million of debt from local and foreign banks. Therefore the financial additionality of the project was seen as weak.[64]

[62] BDS15-148; BDS/M/15-17 (Final): Minutes of the Board Meeting of 22/23 July 2015; The project was approved but later fully cancelled.
[63] BDS17-023; BDS/M/17-07 (Addendum 1)(Final): Minutes of the Board Meeting of 22 March 2017
[64] PEX15-648

- In recent Board discussion of a €180 million loan to a retailer Group a number of Board Directors raised concerns about the financial additionality of the project given that it was with one of the leading European retailers, with wide international presence and a robust turnover. They also questioned the low level pricing/ RAROC, and suggested that pricing could have been more aggressive. Management responded that '*due to the green and sustainability elements of the project, the additionality here was more complex than a pure financial one*.'[65]
- The financial additionality of a working capital loan to the second largest agricultural cooperative in the world with US$25.7 billion annual revenue was questioned by the evaluation. The loan was cancelled after being only marginally used, as the client preferred using its relationship banks, which were able to offer less expensive and more convenient loans. The evaluation also pointed out the direct relationship of the weak additionality to the unsatisfactory transition impact, because elements conducive for transition impact, such as pre-crop financing to farmers, were not covenanted. It concluded that EBRD could have had a more realistic view of its additionality already at the project initiation.[66]

Some projects justify the lack of financial additionality by the expectation of future relationship with the client, to be additional. It should be noted that this practice of 'deferred additionality' is not in line with the current definition and understanding of the concept. If it is considered an acceptable or desirable manifestation of additionality, appropriate provisions should be made in the operational guidance.

- In one instance of a loan to Turkey's largest private intermodal transportation group, no financial additionality was claimed in the project document, which was appropriate given the loan market review in the annex; in fact, there was a competition in Turkey to finance this type of project. The project document however outlined the client's expansion plans and noted that the client's current banks were unlikely to finance future projects in other countries without the Bank's involvement. Therefore, the Bank would use this project to develop a business relationship with the client, and become additional in financing its future plans. In reality EBRD did not participate in any more deals with the client, either in other countries or in Turkey by the time of the evaluation.[67]

References to the Bank's pricing with respect to a market benchmark to justify additionality can be found, but in a small minority of projects. These projects make the argument, as intended in the operational guidance, that clients are willing to pay above market rates for their access to EBRD attributes, which provide them with additional value. In syndicated loans, EBRD commonly aligns its terms to the commercial banks participating in the syndication, whether this is stated in the additionality presentation or not.

- Examples include: 'Sponsor agreed to pay a premium over the cost of funds', 'the client has accepted terms that are less favourable than any other financing', 'margin achieved is substantially higher (approx. 70%) than commercial credit facilities available to [the client] for the Project', or 'satisfactory margin which is higher than [the client's] internal secured financing rate which verifies its valuation of the Bank as a partner.'[68]

In most debt finance projects financial additionality nevertheless rests on the provision of longer tenor than available in the market, thereby making a judgment that any other finance is not available on 'reasonable' terms based on the tenor. If it can be credibly claimed that other finance on reasonable terms is not available, the Bank is relieved from the need to further demonstrate that the client is paying above market for the Bank's attributes or through the implementation of conditions. The possibility to verify these claims suffered somewhat with the disappearance of the capital market review annexes, especially for projects in countries with more developed capital markets. The annexes used to present an overview of the sources and terms of financing available in the market. Typically they summarised the developments of, and financing available from, the local capital markets and the terms and tenors available from international and domestic commercial banks and IFIs. The analysis examined the source of financing, the

[65] BDS/M/17-09 (Addendum 1)(Final): Minutes of the Board Meeting of 26 April 2017
[66] PEX14-553
[67] PEX15-658
[68] BDS11-260, BDS09-103, BDS09-149, BDS07-134

clients, tenor and terms, thus providing some evidence to substantiate the argument of EBRD financial additionality.

- An evaluation of a loan to a Kazakh company noted that the EBRD loan was partly used to refinance a loan provided by a commercial bank only six months prior. The commercial loan had a tenor of 5 years with an interest rate of 8%+6m Libor, while the EBRD loan offered 7-year tenor and 5%+3m Libor. The judgment on the terms available on the market takes into account the particular situation of the client – in this case the project document argued a longer term better suited the investment plan and cash-flow profile of the company, so it was justified to effectively displace the existing commercial relationship.[69]

In some cases evidence can be found demonstrating the extent of financial additionality. The true verification of financial additionality – evidence of what would happen without EBRD finance – is not available for projects that obtain the financing. Without appropriate contextual information and detailed understanding of the client's situation at the point of project initiation, it can be difficult to verify the financial additionality at ex-post evaluation, some four or five years later on average. But in some cases there is some evidence similar to a counterfactual, which sheds more light on the financial additionality of the Bank.

- The Bank employs scale-back mechanism, notably for bond purchases and on some syndications, whereby it reduces its participation in a deal based on the volume of interest of other market players. This is to ensure that the Bank is involved only as much as necessary (and maximum private sector mobilisation takes place), while still providing the benefit of the Bank's attributes (anchor investor, preferred creditor status, political comfort) to facilitate the financing.
- Immediate or early pre-payments can indicate low financial additionality, as can cancellations of significant shares of originally approved/ signed projects. This is discussed in more detail in section 4.7.
- In one instance, the project evaluation found that during delayed disbursement period the client had managed to raise financing worth US$250 million through the issuance of a debt instrument. Therefore, by the time that the Bank made its first disbursement, there were serious questions on the continued additionality of the EBRD project, which in its entirety amounted to 10% of the financing the client had managed to raise on its own during the delay. The evaluation recommended that in cases of delayed projects, the original case for additionality should be revisited. This has not become a common practice.[70]

The approach to discussing the additionality of finance for financial intermediaries could be adjusted to be more suitable to their specificity. This relates in particular to cases where the additionality of the finance does not in fact lie with the direct client (PFI) but with the intended final borrowers (most commonly SMEs or borrowers for energy efficiency investments). In some high liquidity markets the projects face difficulties to demonstrate the need for the finance at the level of the client, and in some cases resort to transition-type arguments. For example at recent Board discussion of a SME credit line in Romania one Director *'noted the high liquidity in the market and asked whether this called the Bank's additionality into question and was preventing higher returns. [...] In response, management confirmed that this was the first loan transaction in Romania since 2014, and that clients were selected based on their commitment to the thematic approaches valued as highly transitional*.'[71] In another example of a women-focused SME credit line in Turkey, the financial analysis of the client noted that it '*has been able to access the international debt market even in periods of extreme economic turbulence*' and its borrowings of €18bn included securitisations, 10-year subordinated fixed-rate notes and syndicated facilities.[72]

As indicated above, incentive payments have been the largest source of subsidies in EBRD operations with the private sector. Incentive payments are commonly an instrument to support operations with PFIs. EvD

[69] PEX16-715
[70] PEX13-502
[71] BDS/M/16-23 (Final): Minutes of the Board Meeting of 30 November 2016
[72] BDS12-21

special study on the EBRD's use of subsidies noted that in most cases the Bank's incorporation of subsidies in operations or facilities is intended to make them sufficiently attractive to clients (and in some cases also sub-borrowers) to be agreed and implemented successfully.[73] There is a case for focusing the additionality discussion on the additionality of the finance for the final market segments where it is intended. This is already to some extent the case, following the guidelines for the use of subsidies, which mandate the facilities to provide an analysis of the market/institutional failures that cause the targeted market to be quantity constrained, and the justification of the size and structure of subsidies.[74] This again is a case for a higher-level, segment approach to additionality for such facilities/ credit lines.

4.3 Commercial mobilisation

Commercial mobilisation, that is the attraction of private capital to the Bank's transactions, is an important component of financial additionality. The ability of the Bank to encourage other capital to support its transactions stems from its special attributes – the preferred creditor status and ability to mitigate political risk, or the knowledge of local markets and context, which provide comfort to potential investors and lower their perception of risk.

The role of private finance in financing the achievement of ambitious international goals, including the SDGs and climate change mitigation, is increasingly significant. As discussed above, the role of IFIs in mobilising private finance for the achievement of development and transitional objectives is increasingly in the centre of attention with respect to additionality. In this context, the OECD DAC has been working to establish an international standard to measure the volume of private finance mobilised by official development finance interventions, in consultations with DFIs. There are a number of methodological challenges in measuring private mobilisation. Appropriate distinction should be made between 'mobilised' finance (which implies a causal link between private finance made available for a specific project and the official flows used to incentivise it) and 'co-financing' (the amount of co-invested resources in parallel with official interventions). On aggregate level, the method of measuring private mobilisation must ensure to avoid double-counting (reporting the same private mobilisation by multiple DFIs present in the project). The results of the most recent survey (including EBRD data) and the overview of the methodological challenges and next steps are presented in the OECD survey report.[75]

Commercial mobilisation is one dimension of additionality on which some aggregate data are available. The EBRD monitors and reports on its Annual Mobilised Investment (AMI). AMI is defined as *the volume of commitments from entities other than the Bank made available to the client due to EBRD's direct involvement in mobilising external financing during a calendar year*.[76] The AMI automatically includes B loans (syndications) and investment cooperation or special funds administered by the Bank or funds that may become available under the Institutional Investment Partnership programme. Provided that eligibility criteria are met, the AMI also includes parallel, grant, equity from private equity funds or other sources, non-EBRD portion of structured and capital market products (bonds), secondary sales or sell-downs of A loans, and risk-sharing via unfunded risk participations.[77]

The AMI includes both private and official sources of finance, and it is therefore not an ideal measure from the additionality perspective on its own. It is important to note that the AMI does not distinguish private sources of mobilised finance specifically. The annual report on AMI recognises 'direct mobilisation' as a sub-category, which includes syndications, parallel loans and unfunded risk participations. Out of total

[73] CS/AU/16-44: Evaluation Department: EBRD's Use of Subsides
[74] See e.g. BDS16-165: Egypt: Southern Mediterranean Sustainable Energy Financing Facility Phase II ("SEMED SEFF II") – EgyptSEFF
[75] Amounts Mobilised from the Private Sector by Official Development Finance Interventions: Guarantees, syndicated loans, shares in collective investment vehicles, direct investment in companies, credit lines; OECD Development Co-operation Working Papers, No. 36, OECD Publishing, Paris 2017
[76] BDS13-144: EBRD Scorecard
[77] Eligibility criteria for the latter sources to qualify as AMI are (i) EBRD's active involvement in bringing in additional risk takers into the transaction for a client, and/or (ii) a compensation in respect to the mobilisation to be paid by the client.

reported AMI of €1.8 billion for 2016, direct mobilisation represented €1.4 billion. The primary instrument for mobilisation is syndication – in 2016 the total volume of B-loans was €991 million.[78]

Table 1: EBRD B loan volumes

	2009	2010	2011	2012	2013	2014	2015	2016
Volume (€ million)	763	1,429	767	1,014	759	865	1,584	991
Number of B loans	18	36	26	21	17	22	16	24

Source: EBRD Loan Syndications Report 2016[79]

While most IFIs do not participate in syndications (they usually participate through parallel loans), the total B loan volume does contain public finance sources, e.g. the FMO is reported as the sixth largest lender in terms of cumulative volume of its B loans. The volume of commercial mobilisation through syndication is not reported separately. However, the data reported for EBRD in the OECD private mobilisation survey show cumulative €2,704 million private finance mobilised through syndications for the years 2012-2015. Compared to the data in Table 1, this is about one third less; i.e. about two thirds of the EBRD syndicated volume appears to originate from private sources.[80] Similarly, the second largest source of AMI, parallel loans, contains combination of public and private sources. In 2016 EBRD mobilised €331 million in parallel loans. In general, from additionality perspective it would be informative if commercial mobilisation was reported separately for each sub-category of AMI, as the data already exists.[81]

At project level, the category of 'commercial mobilisation', should focus only on private finance mobilised to invest in the EBRD transaction. Inclusion of the co-financing of other IFIs to be considered as financial additionality is questionable and lacks backing in the concept as currently operationalised.

- In one example of a financial package to a commercial bank in Romania, the additionality section in the project document read: '*Commercial mobilisation: IFC, DEG and EFSE will all contribute alongside EBRD to supporting [the client's] capital base via the extension of the maturity of the subordinated loan, participating in the convertible bond (IFC) and new subordinated finance (EFSE).*'[82] While the coordination and collaboration with DFIs is important, and in some cases EBRD might be the facilitator or instigator of such parallel finance, this treatment fully misses the point of 'commercial mobilisation'.

EBRD attributes are an important aspect in attracting commercial lenders to lower their risk perception and participate in projects. In syndicated loans EBRD is the lender of record for the entire loan and commercial participants legally sub-participate in EBRD's loan as a B lender. The A/B loan structure has been designed with the objective that the financing provided by the commercial lenders under the structure benefits from the international status, privileges, immunities and exemptions of the EBRD, often referred to as the 'preferred creditor status'.[83] In syndicated loans EBRD is commonly the price-taker, i.e. the pricing is aligned with the commercial banks' demand. In cases of good market interest, EBRD can scale back its initially projected share of participation to allow a larger share to be taken by commercial lenders.

- In one example, the Bank attracted a commercial lender to a public transport operation, creating the first syndicated loan to a municipal transport company without a City guarantee in the Bank's countries of operations.[84]
- In a loan to an automotive component supplier, the evaluation reported that already for the project's approval the size of the B loan was increased from initially expected €35 million to €75

[78] CS/FO/17-07: Loan Syndications Report for the period 1 January - 31 December 2016
[79] Ibid.
[80] http://www.oecd.org/development/stats/mobilisation.htm
[81] The quarterly performance report for 2Q 2017 informs that for the first half of 2017, direct mobilisation from private investors (Private Direct Mobilisation) accounted for all syndicated and 3 out of 4 parallel loan deals for a total of €179 million. (BDS17-126: Quarterly Performance Report for the Second Quarter 2017)
[82] BDS12-149
[83] CS/FO/17-07: Loan Syndications Report for the period 1 January - 31 December 2016
[84] PEX11-426

million, based on indications of interest from potential B loan holders. The management therefore requested an approval for a maximum €125 million loan (initially planned €85 million), retaining €50 for EBRD account. At the Board, some Directors requested that the A loan be decreased in order to increase the Bank's leverage ratio. Consequently, the team agreed to lower the A loan portion to €40 million. This was eventually still almost entirely compensated for by increased syndicated finance, which ultimately reached €82.5 million.[85]

There is no aggregate data for the less tangible aspects of commercial mobilisation. For specific types of projects/ instruments it is common to expect that the Bank's presence attracts other investors – this is especially true for bond issues and private equity funds. This role of the Bank as an 'anchor investor' is more difficult to quantify and is not captured by AMI, but is generally considered as a plausible argument by evaluations based on the Bank's reputation and IFI status and usually some supporting background information.

4.4 Attributes

Attributes represent the Bank's specific characteristics that lower the risk of the transaction enabling the operation to remain in the realm of sound banking, and/or provide value to clients above what other banks can offer. There is no definitive list of what can constitute an 'attribute' but the range of options commonly used in practice is fairly contained. Most often used attributes are the preferred creditor status and anchor investor status, particular experience/ expertise/ knowledge, access to national and local governments and political risk mitigation, reputation and reliability as a long-term partner, ability to provide technical cooperation funded by donors, and contributions to sector reform/ policy dialogue.

The bounds for the use of attributes are not strictly delineated. There is an occasional discussion at the Board as to what extent the Bank should be using its attributes to compensate for institutional failings, especially where the capacity should exist with local institutions to address the issues. There are cases where government decisions create risk or uncertainty at the markets, thus potentially deterring private investment and creating an additionality window for the Bank. Whether and how these opportunities should be used raises questions about the broader impacts of the Bank's activity.

- An operation with an insurance group in Poland was proposed after the announcement of a pension reform in the country created an uncertainty and affected the appetite of pension fund managers for long term investments. A number of Directors expressed some discomfort with the additionality being linked to uncertainty associated with the government's reform of the pension system, describing it as '*policy induced additionality*'. [86]
- One evaluation noted the string of investments into renewable energy generation in Poland, in the context of long-standing uncertainty over the announced changes to the renewable energy support system affecting the availability of sources of long-term finance for such projects. It asked whether the Bank could be seen as complicit in the prolongation of the market uncertainty by investing and encouraging further investment in the sector without the resolution of the situation.[87]
- Finally, in a recent discussion of another project in Poland, the commitment of the government to the privatisation was questioned. One Board Director assessed the situation noting that, "*the rising pattern of activity in Poland had been characterised by three main aspects: first, the Bank had sought to repair the damage inflicted to the financial sector by the pension reform; second, the Bank had put forward a number of projects lending into the policy vacuum created by the renewable legislation, and today, the Bank intended to lend into a delayed privatisation*."[88]

The inclusion of attributes in the presentation of additionality is often characterised by excessive vagueness. The listing of the Bank's attributes should explain how each particular attribute influenced the project's risk profile, its design or how it is expected to affect its implementation – in specific terms. This is

[85] PEX15-665
[86] BDS/M/13-22 (Final) (Addendum 1): Minutes of the Board Meeting of 26 November 2013
[87] PEX14-586
[88] BDS/M/15-06 (Addendum 1) (Final): Minutes of the Board Meeting of 11 March 2015

necessary to allow for the assessment of the importance and quality of the attribute at project approval, as well as for its further monitoring or evaluation. Formulaic expressions re-used over a multiplicity of projects add little value to the project proposal and could be safely omitted. Examples include proclamations such as '*experience in financing private companies in transition countries*', or '*policy dialogue skills*' in projects that otherwise outline no expectation or need for policy dialogue.

- A sector-wide special study, which evaluated 24 separate operations in the Russian railway sector also came to the conclusion that improvements are needed in defining non-financial additionality and transition benchmarks and sharpening the definitions and indicators, and recommended among other "*clarifying what is meant by EBRD's attributes under non-financial additionality*".[89] This recommendation was not implemented/ followed-up.

When claiming the Bank's expertise/ experience as an attribute to the project, specific applications or expectations are rarely provided. The most commonly overused attribute with little specificity is the Bank's particular expertise or experience in the sector/country, without explaining how this attribute was reflected in the project design or other aspects of the project. For this category to be included in any seriousness, the project should be able to point out the specific use or expectations, beyond noting that *'the Bank's experience in Moldova provides important support for the overall success of the Project*'.[90] An example of a good application of this attribute could be: '*EBRD will use its expertise in leasing sector and lending to SMEs to assist [the client] in selecting a provider for development of SME scoring model*',[91] which allows for follow-up verification on the delivery. This is not to say that the Bank does not employ its substantial expertise or experience from certain kinds of operations in its transactions; it is rather the point that generic proclamations do not provide value for the Board to make a decision on the additionality of the project, and likewise they are not helpful for accountability/ evaluation. It is then often the case that these claims are challenged when the projects exhibit obvious lack of expertise inputs or learning from experience, thus providing a counterfactual.

- One project described its attributes as substantial experience in the country from municipal operations, and claimed that this experience has also been applied to this project and would be shared with the client. As the evaluation pointed out more evidence should be provided to show how the Bank used its institutional knowledge to improve the project design and implementation. This is true especially with the view that this type of project repeatedly in its many iterations experienced the same kinds of failures to deliver transition impacts. How was this experience applied to evolve and improve the Bank's approach to tariff reform, institution building, and commercialisation of utilities? The eventual results of the project cast doubt on whether any lessons from experience were actually applied.[92]
- Claims of the Bank's knowledge or experience as an attribute to the projects are also questioned in cases where the client is an experienced operator on their own. In one example, the Bank claimed its '*extensive experience in credit lines for supporting SMEs*' as an attribute in a project with a financial intermediary, which was already specialising in SME finance.[93] Special study of the Russian railway sector concluded that while the Bank's claim of extensive railway sector knowledge is true, '*it is not clear how that was translated into specific additionality for any particular project to benefit the client. This is problematic since [most clients are] companies run by executives with long experience in the sector*.'[94] Similarly another evaluation pointed out that '*Given [the client's] decades of experience as Turkey's leading intermodal transport company and good relationships with local banks it is not plausible to conclude that EBRD's experience working with intermodal transport companies significantly lowered market perception of risks for this Project*.'[95]

[89] CS/AU/15-57: Russian Railway Sector Evaluation
[90] BDS07-237
[91] BDS11-170
[92] PEX13-525
[93] BDS09-260
[94] CS/AU/15-57: Russian Railway Sector Evaluation
[95] PEX15-658

- The equity exit note of a failed privatisation project in Kazakhstan included a lesson learned noting that the '*primacy of sound, country-led reform programmes is important for the ability of EBRD to carry out its mission. In order for the EBRD to be able to 'assist the recipient member countries to implement structural and sectoral economic reforms,' the country must take the appropriate concrete steps in the transition process*.'[96] If this basic insight into the political economy of privatisation had to be learned through the project's failure to achieve its objectives, it is not quite clear what the '*experience in privatisation transactions in other countries and the issues arising*' as an additionality attribute could have referred to.
- A project in support of ESCO market in Ukraine claimed the Bank '*contributes its expertise in ESCOs in Eastern Europe*'. This was a plausible claim given that the Bank had been supporting ESCOs in Ukraine itself since eight years prior. The evaluation nevertheless pointed out that the project still did not recognise and acknowledge the absence of legal and regulatory framework that would be necessary for the success of the project, resulting in the project's transition failure. It took another seven years for the Bank to actively support the Government in addressing the regulatory context.[97]
- The Bank supported one of the leading European agribusiness companies in their further expansion in the countries of Central and South Eastern Europe. It claimed the experience in the CEE/SEE region and understanding the local market as its attribute in the investment. The evaluation pointed out however that the client's strategy was based on their French model, which was not appropriate for the local markets and had to be revised three years later after disappointing results. It concluded that the Bank's knowledge of the sector in its countries of operations did not manifest itself in the design of this project.[98]

The provision of political comfort and risk mitigation is an important advantage at the Bank's disposal to offer its clients and to attract co-investors. The significance of the Bank's presence in transactions from this perspective has been confirmed in many cases through evaluations. For its credibility as an additionality attribute it is however important that it is not used as a generic quality but it is linked to some political risk identified in the project risk analysis or to other plausible needs of the project.

- In one example, the evaluation reports on the fact the Bank's presence in mitigating the risk of political interference was important to the sponsor, who paid a premium over its internal cost of financing for access to this attribute. The additionality was demonstrated already prior to the project's approval by the EBRD representatives having had a meeting with the new Governor of the region together with the Sponsor, and continued over the life of the project when the Bank leveraged its communication channels to support the quick and fair resolution of emerging issues.[99] In another project, the political risk carve-out in the completion guarantee was the sole case for additionality – showing that this instrument was not generally available from commercial banks and that the client required it.[100]
- One evaluation described a case which illustrated the limits of the Bank's political influence and advised some caution: '*EvD fully recognises that if a government chooses to reverse a strategy of privatisation, a Memorandum of Understanding would be unlikely to prevent this. [...] The Bank can often provide useful support to clients or sponsors in their day-to-day relations with the authorities; it can support implementation of policies that have been adopted by the national government; but it cannot make a government change its policy. The Bank is often sought out as a partner for its perceived political influence. Without suggesting that the Bank oversells its influence, it is possible that clients themselves may overestimate it. Such a misunderstanding carries a reputational risk for the EBRD*.'[101]

[96] BDS05-185 (Addendum 1)
[97] BDS05-78; PEX14-581
[98] PEX16-684
[99] PEX16-706
[100] BDS12-174
[101] PEX16-703

- An evaluation of a manufacturing project in Bulgaria noted that the rationale for '*political risk carve out, dialogue with federal and local governments*' attribute was unclear, as the investment itself was very small, was an extension of an existing production, and it was carried out in a stable context of an EU country where political risks to this type of investment would be minimal. Correspondingly, no political risks were identified in the risk analysis of the project document.[102] Similarly in a recent Board discussion of another project, some Directors '*expressed doubt as to whether political comfort was required in the sophisticated Polish market*.'[103] The project document was also not convincing in this respect, provided that EBRD's presence was not discussed as a mitigant for identified political and macroeconomic risks.[104] Another project indicated the Bank's '*willingness and ability to take regulatory and political risk, and policy dialogue with the authorities in the Baltic States*' as its attribute over two separate phases of investment. It however did not recognise the Bank's presence as a mitigant for the regulatory risks in its risk analysis, and the evaluation found no specific actions in relation to the potential role of the Bank with Baltic governments.[105]

4.5 Conditions

Conditions, the requirements of the Bank that exceed what would normally be asked by alternative financiers, represent the Bank's non-financial additionality. The fact that the client is willing to commit to conditions that come at a cost in principle provides evidence of the Bank's additionality. Most commonly these are environmental and social standards, and aspects of corporate governance and business practices; for public sector clients also sector reform and institution building. As discussed above (2.1) some conditions are also linked to transition impact – i.e. if it is expected that their implementation will have broader 'standard setting' or 'demonstration' effects, these effects can from a part of the transition expectations of the project. As was also mentioned, this leads to some confusion and perception of 'overlaps' between conditions and transition impact. This stems from the common use of the same proxy indicators for both categories. As a matter of fact, these output-based, client-level indicators are actually a good approximation for the additionality aspect of the project; they are less suitable to evidence the broader transition impacts of the expected replication beyond the client. Overall, in about half of the reviewed projects there was a link between conditions and transition benchmarks (indicators).

The overlap between conditions and transition benchmarks provides for some additionality monitoring that would otherwise not be present. The inclusion of conditions within transition benchmarks has the benefit of a consistent follow-up monitoring and reporting, which otherwise might not be the case. There is no comprehensive reporting on the delivery of conditions as such.

- For example, one evaluation noted that the project document contained a list of 15 specific measures to be introduced at the client across three dimensions (operational, management and corporate governance). Eight of these planned measures were translated into TIMS benchmarks. Correspondingly, at the time of the evaluation, information on progress was available only for these benchmarks but not the rest of the measures.[106]

It is important for conditions to show that they are truly additional, i.e. that these aspects of the project would not materialise if it was not for the presence of EBRD in the transaction. In many cases there is not enough justification provided as a background for the underlying expectation that the items included under conditions would not be materialising with other sources of finance. Specific scenarios where more information on the incremental value of the conditions would often be useful include a) projects in EU countries, which have well-regulated and EU-harmonised standards of environmental and business conduct; b) projects with clients who themselves already follow established good business practices; or c) projects with repeat clients or clients who had previously dealt with another IFI, and issues of corporate

[102] PEX16-707
[103] BDS/M/17-10 (Addendum 1)(Final): Minutes of the Board Meeting of 3/4 May 2017
[104] BDS17-049
[105] PEX16-670
[106] PEX14-578

governance and environmental standards had likely been addressed previously. This does not mean that there is no scope for introducing meaningful conditions in such cases; it should however be well explained where the additionality stems from. Moreover, better operational guidance should be developed for cases where IFIs are plausibly the only source of finance. In such cases it is also realistic to expect that similar conditions would be required by any given IFI – are EBRD's environmental or procurement standards considered additional above those of other IFIs? In these cases focus on sector reform or commercialisation could often be a better argument to show EBRD's specific conditions that would not necessarily be required by others. Finally, as with attributes, vague proclamations with little commitment and lack of enforcement mechanisms do not add value to the project document and should also not be used.

- In projects with strong and/or internationally reputable clients/ sponsors, the question of what the Bank brings above their established standards should be more carefully explored. For example, the condition of corporate governance standards in the support of Societe Generale's (SG) strategic investment into a local bank in Moldova: the evaluation of the project concluded that the EBRD was unlikely to be able to contribute more than SG to the good corporate governance – SG managed the local bank as a classic subsidiary of a large multi-national bank, leaving scant scope for the EBRD to contribute.[107] In another example, the project document explained that the Bank is supporting a local developer with a strong commitment to transparency and good governance, who adheres to the best international practice. Yet, the same project document still included corporate governance and standards as conditions, without providing further details.[108] On the other hand, even for strong players the Bank can bring value in through its conditions – an example was presented in the expansion of a European discount retailer into Romania, where the Bank pushed for improvements in previously documented questionable labour practices.[109]

- Conditions should not be conflated with the use of proceeds. If investment is being made in energy efficiency improvements (i.e. these are the operational objectives), these improvements can hardly also be considered a condition.[110] For example in support to a shopping centre development, the adherence to energy efficiency standards was included as a condition, despite the fact that the energy saving technology was planned before the Bank's involvement as confirmed in the DAQs.[111] Such financing can still have transition impact in terms of promoting demonstration effect where energy efficient buildings are not the standard, but should not be considered as additionality, i.e. something that the Bank itself brought into the project. Similarly, investments into the management information system are not a condition if they are (a part of) the purpose of the loan, even though they result in improved corporate governance.[112]

- Conditions should be realistic and agree with local context. One evaluation noted that the project envisaged a number of corporate governance improvements, which turned out to be contradictory to local laws and regulations (such as the disclosure of shareholders and consolidation of the financial reporting of a closed joint stock company).[113] Another evaluation found that the client City would be unable to agree to the condition of the long term financial commitments in the Public Service Contracts due to legislative limitations.[114]

- The condition for a long-standing repeat client noted that the '*proposed facility may also give EBRD an opportunity to encourage [the client] to further improve corporate governance*'.[115] This was for a client who had received cumulative business of over US$450 million previously over ten years. That the Bank 'may encourage' improvements does not raise confidence or add value to the project proposal. Similarly, in a project with an energy company the project document conditions

[107] PEX13-550
[108] BDS10-068
[109] BDS09-110
[110] E.g. BDS13-277; or BDS10-157
[111] BDS09-159
[112] E.g. BDS08-172
[113] PEX14-580
[114] PEX16-712
[115] BDS09-036

suggested that the Bank '*will ask*' the client to operate by high standards of corporate governance. According to the evaluation, none of the related corporate governance transition benchmarks was achieved.[116]

It is also essential that the Bank's attributes – i.e. specific value added that the Bank provides to the client – are not confused with conditions. Attributes represent a value that, in the logic of the additionality 'test', the client should be 'willing to pay for', whether this is then in practice required or not. It is therefore internally inconsistent for these attributes to be presented as conditions (i.e. something that is 'imposed' on the client). Where an attribute of the Bank is the reason for the client to work with the EBRD, this attribute is not a condition in the additionality sense, even if it is e.g. covenanted by agreement.

- In one project with a Russian energy holding where questions were raised about additionality, it was clarified in the DAQs that the client "*does not face problems in raising financing [… and its] primary interest in working with the EBRD is in utilizing the Bank's experience and expertise in facilitating corporate governance improvements and preparation for an international listing*." The implementation of the Corporate Development Action Plan was still included as a condition in the project document.[117]

Compliance with environmental and social standards is one of the most common sources of conditions. This is often referred to only in general terms, such as 'ESAP implementation' or 'compliance with the Bank's environmental policy', whereas the specifics of the agreed environmental action plan are explained in the environment section of the project document in more detail. While it is important to note that the Bank made provisions for compliance with all its policies, this should not be a part of additionality justification unless it is made clear that similar provisions would not be in place in any case. This is especially pertinent in EU countries, where operations are bound by EU regulations. Outside of the EU it also cannot be automatically assumed that commercial banks would not apply similar principles of environmental and social due diligence; private investors are becoming more responsible and sustainable operators, if only to manage their own reputational risks. For example, over 90 banks and financial institutions have voluntarily adopted the Equator Principles, which are based on IFC's Performance Standards. According to their website, these institutions cover over 70 percent of international Project Finance debt in emerging markets.[118] For larger projects with expected high visibility, which would conceivably be financed by established internationally operating commercial banks, it is not self-evident that EBRD's environmental and social policies are superior. If this is the case, it is the purpose of the additionality section in the project document to highlight this incremental value.

- There are many cases where the Bank's positive additional value in improving environmental standards is confirmed by evaluations – project documents should use the opportunity to highlight these contributions from the additionality perspective. For example, the evaluation of the Mid-Size Sustainable Energy Financing Facility (MidSEFF) in Turkey found that the Facility was the first SEFF to require that subprojects (not only the participating banks) complied with the performance requirements of the Bank's E&S policy, and to target the environmental and social appraisal criteria of local financial institutions' for medium-sized projects as part of the investment risk mitigation strategy. The evaluation also found that even for stronger sub-borrowers, their ability to self-fund notwithstanding, the long tenors and competitive rates offered by EBRD were sufficiently attractive and unique to convince these companies to accept extra reporting requirements and higher environmental and social standards.[119]

- Compliance with local laws and regulations is considered as given, and does not represent an aspect of additionality. This includes projects in EU countries, for which such references can be omitted (in the additionality section), such as '*compliance with EU environmental, social, health and safety standards*' (Romania).[120]

[116] BDS08-146; PEX13-534
[117] BDS12-140
[118] http://www.equator-principles.com, October 2017
[119] PE14-583: Mid-Size Sustainable Energy Financing Facility
[120] BDS10-329

- In some cases projects attention should be paid not only to what conditions are present, but also to what is missing and could have been expected to be covered. In one example of a power project in Jordan, the conditions section only noted that the '*Bank's participation will improve the community engagement benefits of the Project*.'[121] At the Board discussion however the derogation from the Bank's E&S policy was not received particularly well; among other, one director pointed out that this was '*inconsistent with Jordan's commitment to approximate the EU environmental legislation over the next five years, following from its "advanced status" under the European Neighbourhood Policy*', and also noted that '*this project was rejected by the EIB on environmental grounds, and expressed a broader concern with the Bank being the only IFI to support this project and setting an unfortunate precedent by choosing to derogate from two of its key policies in its first major investment in the SEMED region*.'[122]

An important part of the Bank's conditions is their credibility stemming from the ability and willingness of the Bank to enforce their implementation. Neither the willingness nor the ability of the Bank to enforce can be taken for granted. There are many examples both in private and state sector projects where conditions were not enforced. The review of the delivery on conditions is made more difficult by the fact that there is no reporting, unless they are also translated into transition benchmarks. Where non-financial additionality through conditions forms a crucial part of the additionality argument, proposals could be strengthened by outlining the planned enforcement mechanisms and the leverage on the side of the Bank. In general, accountability mechanisms for conditions could be significantly strengthened. First step for this could be to include a review of the delivery on past conditions for all new projects with a repeat client.

The ability of the Bank to enforce its conditions at least partially stems from its financial additionality – i.e. if the client can obtain the finance elsewhere, the leverage of the Bank to press on the implementation of conditions is limited. It is important to keep this connection in mind – financial and non-financial additionality are not fully independent of each other. If trade-offs between financial and non-financial additionality are encouraged – that is, if low financial additionality can be compensated for by stricter, more demanding and transitional conditions – the ability to enforce these conditions can at the same time be weakened by the low financial additionality. Serious consideration for appropriate enforcement mechanisms in these cases would be necessary.

- An evaluation of an agribusiness project in Russia reported that the '*borrower repaid the loans to escape the demanding terms and conditions that EBRD refused to relax*'; this almost immediate prepayment followed a cancellation of 50 per cent volume of the loan already pre-signing. This raises questions of financial additionality – the extent to which the client really needed EBRD to finance its plans – and the prepayment then curtailed the Bank's leverage over and monitoring of project implementation, including its transition and environmental objectives.[123]
- An evaluation of three municipal water sector projects in Georgia found that the Bank had a limited leverage on its covenants due to the Government's 'donor shopping'. It reported that the '*counterpart in fact found the conditionality to be rather onerous and actively approached other IFIs and bilateral financiers for financing. Georgia was able to find more lenient financing conditions in terms of interest rates, covenants, tenors, etc. from various multilateral and bilateral donors*.' It further concluded that the arrangements to realise the expected transition impact were weak, and the sector reorganisation further diminished the projects' legally binding power for transition impact since the Government did not accept obligations beyond financial.[124]
- In a project with a transport holding in Russia the project document conditions section noted that the Bank '*will covenant best practice undertakings and introduce various transition impact covenants*'. The evaluation nevertheless found that this had not occurred in practice, and '*not all*

[121] BDS12-231
[122] BDS/M/12-18 (Final): Minutes of the Board Meeting of 17 October 2012
[123] PEX12-455
[124] PEX13-518

the important transition covenants were accepted and written into the loan agreement, namely on the target of GHG emissions disclosure'. This project was also largely prepaid.[125]

- An evaluation of a road sector project in Bosnia and Herzegovina found that while there were tools for enforcement the Bank waived several covenants to allow it to declare loan effectiveness. It concluded that '*Waiving so many covenants at such an early stage to allow declaration of loan effectiveness at the very least gives a bad impression in terms of the importance that the Bank attaches to timely covenant compliance*.'[126]
- There is a question as to what extent the Bank can influence changes in the client's practices beyond what the client intends to enact; i.e. the Bank may facilitate those changes where there is a will but not overcome reluctance. An ICT project in Russia included conditions on corporate governance standards, yet the evaluation found that these changes did not materialise, as there was a strong resistance from the owner and some top managers to their implementation.[127] Another evaluation found that conditions only included '*corporate governance assessment report and implementation plan*' but not the actual implementation of the recommendations of the assessment. It asked whether the implementation of the most critical governance changes should occur at pre-signing and/or be linked to future disbursements.[128] Similarly in a project with Kazakh manufacturing client, the evaluation concluded that the driving force behind the reform of corporate governance was the upcoming IPO, and EBRD's equity participation came with no governance levers beyond what was required for listing.[129]
- An evaluation of a pre-privatisation project with a bank in Serbia recommended that EBRD should include a wider range of instruments to keep governments committed to privatisation projects. Apart from financial instruments, such as the put option, the EBRD should also investigate other instruments such as ensuring that corporate documents of the privatisation target effectively reflect the provisions of the shareholders' agreement. The monetary penalty of the put option might not be sufficient to keep the government committed to privatisation plans.[130]
- An evaluation of transport project in Romania found that only three out of nine sector reform transition covenants were met during the project implementation, which required numerous waivers. This reduced the realised transition impact, but also raised concern on the effectiveness of covenanting transition impact benchmarks. The evaluation concluded that some of the covenanted benchmarks were either overly ambitious (such as targeting the national roll out of a new performance-based contracts through this project) or not appropriate and difficult to enforce.[131]
- There are some specific issues related to the Bank's ability to enforce its conditions using different instruments, such as minority equity stakes or bond issues. These are discussed in more detail in 4.12.

4.6 Technical cooperation

Provision of technical cooperation funds (TC) is a form of subsidy to transactions as well as a contribution to additionality. It is most commonly associated with public sector projects, which are often accompanied by very generous TC packages including aspects of policy dialogue (sector reform advisory) and technical support (feasibility studies, engineering support, project implementation unit, institutional and capacity building). As discussed earlier, the ability of the Bank to access these funds and employ them in support of the projects is an attribute that private sector financiers would not be able to provide. It is also something that generally improves the design and functioning of the projects and aims to lead to improved transition

[125] PEX14-605
[126] PEX14-599
[127] PEX16-699
[128] PEX16-697
[129] PEX13-527
[130] PEX13-511
[131] PEX14-602

impacts. In private sector transactions the most common TC packages appear to be those accompanying credit lines to financial intermediaries, often together with non-TC subsidies. In the real sector, TCs are sometimes provided for energy efficiency audits or various advisory services.

- The potential issues of using policy dialogue as an additionality argument at project level were outlined earlier (3.4). For example, a municipal infrastructure project included the dialogue with the regulator as its additionality attribute, and also the envisaged tariff increases as its covenanted condition (and transition benchmark). This aspect was supported by a '*sector-wide TC to develop and introduce a multi-component tariff methodology and an action plan for comprehensive meter-based billing*', with budget of over €200 thousand. The evaluation nevertheless found that the TC was never implemented '*as the regulator did not support the Bank's approach to tariff reform*'.[132]

In private sector operations the provision of TC should be a part of the overall additionality argument. Consideration should be given to the balance of the value that the client receives through the TC (and how that affects the financial additionality of the project), versus the benefits for the design of the project and potential positive externalities or transitional advances that otherwise would not be present. If non-financial additionality is prospectively encouraged to form the only source of additionality in private sector projects, this could potentially incentivise the attachment of loosely related TCs to support that argument.

- A municipal infrastructure project with a private bus company in Bulgaria included a TC as additionality attribute: '*the TC-funded activities on the EU-compliant [Public Service Contracts] and public transport regulation are the other areas where the Bank provides unique value-added input*'. The evaluation nevertheless found that a '*private sector operation like the project could have little leverage on wider transition impact on the sector. The TC operations, albeit being attached to the project, were implemented separately as if they were stand-alone*.'[133]
- An agribusiness project included a TC component of €100 thousand to '*to enter into a policy dialogue with the Turkish government with the purpose of reviewing seasonal financing requirements in the Turkish agri-business sector and identify policy options*'. Its evaluation found that this idea was later abandoned, as private sector project provided no incentive for the government to engage in such a dialogue.[134]

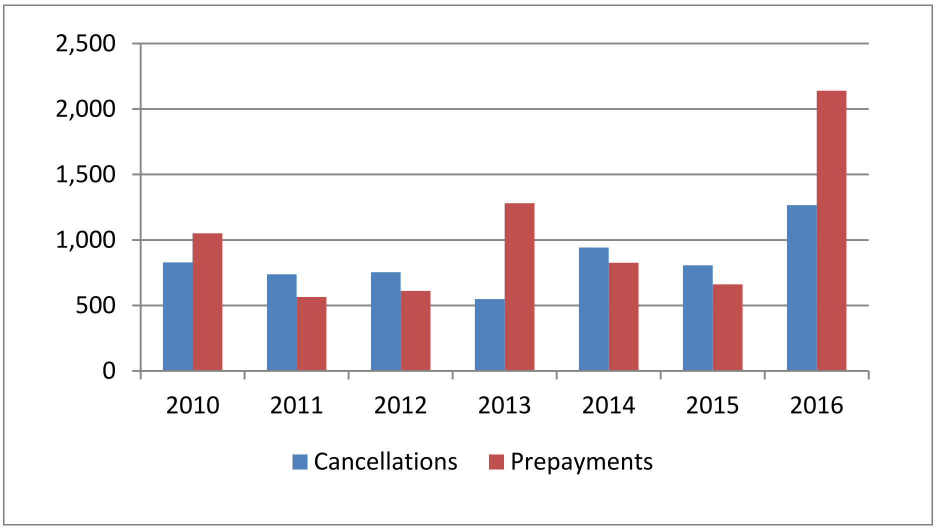
4.7 Prepayments & cancellations

The Bank has registered high levels of prepayments and cancellations. In 2016 there was a record volume of prepayment reflows to the Bank. In early 2017 Management organised an information session to present the trend, sources and outlook for prepayments. This report showed that the annual prepayment volume reached €2.1 billion in 2016, up from €0.6 billion in 2015 and 2011-15 average of €0.8 billion. It provided regional and sectoral disaggregation of the data and discussed different types of prepayments – largest share of prepayments was cashflow related (client using excess liquidity to prepay, 30%), pricing (refinanced with better conditions, 24%) and technical (changes of ownership, debt conversion, etc., 21%). In addition, the falling cost of funds and fast growing liquidity in the FI sector in some markets is leading to a challenge for the EBRD to be able to price profitably and diminishes incentive of local banks to borrow from EBRD. The report concluded that the high prepayment volume of 2016 was caused by the convergence of several factors, including the availability of cheaper finance, increased offer of concessional finance, and high level of 'technical' prepayments.[135] In 2017 the volume of prepayments was already comparatively smaller in the first half of the year – lower by 33% than for the same period of 2016.[136]

---

[132] PEX13-519
[133] PEX14-570
[134] PEX13-548
[135] SGS17-041 (Addendum1): Information Session: Pre-payments
[136] BDS17-126: Quarterly Performance Report for the Second Quarter 2017

Chart 6: Cancellations and prepayments (€ million)



Source: Based on data provided by OSP

Early prepayments and cancellations can be indicative of low financial additionality. The Bank's Investment policies and product guidelines note that "*Both cancellations of loans prior to full disbursement and prepayments of outstanding loans are frequently a result of the borrower's ability to finance at lower rates, or on more relaxed conditions. In this respect, prepayments are generally market-driven. […] The Bank is not solely interested in its financial return, but also in the success or failure of a project, and this may determine whether the Bank agrees to the request to renegotiate the terms.*"[137] This perspective links prepayments to the Bank's ability to influence the 'success' of the project, presumably primarily from transition impact perspective. After prepayment the Bank at the very least loses the ability to monitor the transition impact of the project. But there is a strong link to additionality as well, both financial and non-financial. Immediate or very early prepayment/ cancellation should raise questions whether financial additionality was ever present; prepayment after more progress could mean the loss of financial additionality which at least originally was there. In both cases, the Bank loses its ability to monitor and enforce any conditions. If these conditions were truly additional, they will not be included after the client refinances from other sources. To the extent that the conditions were also linked to expected transition impacts, these will be lost as well.

- A €150 million syndicated facility to a global leader in the design and manufacture of automotive metal components was supposed to finance the expansion of production facilities of target subsidiaries and joint venture operations in Russia, Turkey, Poland and Hungary. The facility was disbursed in February 2013 and prepaid in June 2013. The evaluation rated the additionality of the project 'not verified' and noted that '*the early prepayment also leads to questions about the de facto financial additionality of EBRD's loan in retrospect, reflecting the concerns of the Board discussion where four constituencies explicitly abstained in part due to the perceived lack of additionality of the project. In reality, EvD observes that other comparable financing opportunities were available to [the client] prior to and during the involvement of the Bank*.' The evaluation also raises a question of operational guidance on prepayment fees,[138] which states that strong corporate credits rarely include a prepayment fee. In this case, unusually for similar projects, there was no prepayment fee in line with that guidance. The evaluation concluded that the borrower's strong credit and its access to other facilities contributed into the client's ability and willingness to prepay.[139]
- Prepayments/ cancellations related to enforcement of conditions are discussed in section 4.7, which highlights the link between low financial additionality and diminished enforcement capacity.

[137] BDS91-50 (Rev 9): Investment Policies and Product Guidelines (rev June 2013)
[138] EBRD Lending note 14: how to judge and negotiate loan fee levels
[139] PEX14-607

- Issues with FI credit lines in high liquidity markets are discussed in section 4.2, which suggests that under these conditions an adjusted approach to additionality could be considered, one that focuses on segment level additionality of the finance to the quantity-constrained target markets.

Specific situation arises with prepayments connected to market recovery after crisis/ counter-cyclical lending. In the sample of project evaluations reviewed there was a distinct group of prepaid projects which received EBRD finance in the time of (post-)crisis liquidity squeeze, and were later able to refinance once the situation in the market improved. In these cases the financial additionality at time of approval was not in question. The related implications of the Bank's loss of oversight over conditions and transition impact can still apply, depending on situation. Some other aspects related to additionality of crisis finance are discussed in section 4.10.

- An evaluation of a project with a leasing company in Russia found that as result of the additional contribution of the Bank at a time of overall market distress in the context of the financial crisis the company was able to later secure other sources of financing from commercial banks. This, together with the improvement in the market conditions, led to the cancellation of a substantial part of the second tranche of the loan.[140]
- A 15-year tenor loan to a state-owned Lithuanian electricity producer was prepaid three years after disbursement. The evaluation found that while EBRD's support in the original funding of the project was crucial at the crisis stage, and once the macroeconomic situation in Lithuania improved the company was able to negotiate more attractive financial terms with a private bank.[141]

4.8 Repeat clients

Transactions with repeat clients present an opportunity for a more developed additionality argument. The Bank carries out substantial business with repeat clients; in the sample of evaluations reviewed for this paper, about half of the projects were with repeat clients (whether they became repeat at that time or after the evaluated project). This presents an opportunity to develop the additionality argument accordingly – for financial additionality, but especially for conditions. New projects with a repeat client or sponsor should review the status of previous conditions and outline the incremental value of any new ones. EvD synthesis paper on projects with repeat clients already made this point – '*The Bank should avoid rolling over unmet TI and environmental objectives from one project to the next without addressing the underlying reasons for underachievement. Demonstrated unwillingness of partners to execute required reforms should not result in continuing engagement without stronger tools for delivery*.'[142]

- An evaluation of two projects in food retail pointed out two previous projects with the same sponsor both encountered considerable environmental issues and environmental commitments were ignored by the sponsor. The two evaluated (follow-up) projects were presented to the Board as opportunities to finally achieve important unmet environmental objectives, but the evaluation found that no progress had been made – '*For 8 years [the sponsor] has repeatedly ignored its commitment to the Bank, despite benefiting from combined € 243.1 million of the Bank's financing for four projects*.'[143]
- An integrated approach to urban transport in Almaty consisted of four separate transactions with the same client approved between 2009 and 2012. As the evaluation pointed out, all four projects presented identical additionality arguments. While it is understood that within integrated approach e.g. the conditions are expected to be implemented gradually, this repeat presentation of fairly general proposal ('*go far beyond what commercial sources of funding would require, i.e. procurement procedures, transparency of accounting and sector reform*') provides only little value to the Board; it might have been more interesting to for example for later projects to inform on the

[140] PEX14-563
[141] PEX14-652
[142] CS/AU/15-37: Evaluation Department: Cluster Review of OPAV Findings: Repeat Project Transactions
[143] PE11-522

progress and outline the waivers that had had to be issued on previous conditions and explain how that affects the current approach.[144]

- An evaluation of a project in Kazakhstan noted that at the time of the evaluation Bank's commitments in the Kazakh power sector through this and subsequent operations stood at €344 million. It described the mixed results particularly in the areas of tariff reform and the independence of the regulator – the relationship with the regulator was one of the project's additionality attributes. It found that the project document for a new project to be approved by the Board indicated that *'The Government … has demonstrated clear commitment and consistent approach to the sector regulation which is currently based on long-term tariffs*.' The evaluation concluded that the findings of the evaluation are difficult to reconcile with the statement in the new follow-up proposal.[145]
- An evaluation of an equity investment into a Ukrainian company noted that the company had previously been subject to the Bank's investment through a private equity fund, which should have in principle positively impacted on its corporate governance and management. The Board document nevertheless did not provide any details on the previous engagement and the additionality of the current corporate governance conditions.[146]
- As an example of the additionality of long-term relationships with financial institutions, the evaluation of the Bank's long relationship with a partner bank in Romania, spanning over more than 20 transactions and volume over €280 million, provided an excellent overview of the varying additionality of the Bank's transactions, depending on the specific context of the time of each transaction and the instrument used.[147]

4.9 Advanced transition countries

Diminishing additionality is identified as the main driver of graduation. As discussed earlier (2.1) the interpretation of and operational approach to additionality is based on the Bank's 1996 Graduation policy.[148] While this policy deliberately does not establish specific criteria the fulfilment of which would 'trigger' graduation, it identifies additionality as the main driver of graduation: "*The Bank will have achieved its objective when it is no longer additional. That will be a measure of the success of the transition and of the Bank*." The policy also outlines the expectation that graduation is to some extent a market-driven process; i.e. that as each country progresses through transition, the opportunities for the Bank to be additional in certain segments of the economy will cease. The issue of graduation then became more prominent in the context of CRR3 (2006) following the accession of eight EBRD countries to the EU. As a result of both transition progress and reduced demand for EBRD finance, the process of segment-by-segment graduation in the EU-8 countries was by that point already occurring. However, there was a desire to accelerate country-level graduation rather than wait for the natural process of bottom-up graduation to complete itself. EU countries were expected to graduate in the CRR3 period. Nevertheless, with the onset of the global financial crisis and the severe impact it had on the transition region, the timetable for graduation was delayed.[149] CRR4 then confirmed the commitment to graduation in principle, and expected the graduation to occur *"[o]n the assumption that global market conditions improve, financial flows return thereby reducing the Bank's additionality, the region recovers in a sustainable way and the threat to transition recedes."*[150] The current SCF for the period 2015-2020 reaffirms the principle of graduation, and identifies the respective country strategies as the main instrument for decision-making on graduation. It notes that as "*the transition becomes still more advanced, the level of activity of the Bank in a country*

[144] PE15-591
[145] PEX12-483
[146] PEX14-578
[147] PEX14-562
[148] BDS96-166: A Policy on Graduation of EBRD Operations
[149] SGS10-037: Executive Session: CRR4: Activities in Central Europe
[150] BDS10-020 (Final): Capital Resources Review 4: 2011-2015; p.44

will decrease as a consequence of the fewer market segments in which Bank investments can satisfy its operating principles",[151] thereby reverting rather to the concept of 'natural' (market-driven) graduation.

Projects in advanced transition countries are subject to increased scrutiny and expectations with respect to the Bank's additionality. In the context of the advanced status of these countries the additionality of operations at project level is expected by many Directors to be diligently justified; i.e. to show that the Bank is truly operating in segments and with instruments where other finance is not available, and 'graduating' from segments where it is no longer needed. The review of the minutes of Board discussions in the period of 2011-1H2017 shows that for projects in ATCs additionality is more commonly subject of enquiry, and Directors are often emphasising their expectations for these projects to be exhibit 'high standards' of additionality (as well as transition impact).

- For example, in a discussion of a loan to a Polish energy company, some Directors '*raised concerns about additionality, the opportunity cost of "plain vanilla" public sector infrastructure projects in advanced transition countries*'.[152]; in a discussion of investment into a Polish company '*There was an appeal to the team to try and demonstrate stronger additionality in projects particularly in advanced countries such as Poland*.'[153]; in a discussion of a €100 million refinancing loan '*some Directors raised the issue of the graduation principle and noted that operations in advanced countries should be characterised by the highest standards of additionality and transition impact*'[154]; or in discussion of a loan in Slovakia one Director *'expected such projects to be undertaken in less advanced countries. He commented that in future his authorities may be reluctant to support this type of project in advanced transition countries*.'[155]

This concern about high standard of additionality in ATCs is also reflected in their high proportion of additionality-related abstentions and votes against projects. The review of Board discussion minutes identified a total of 73 projects, which registered any abstentions/votes against fully or partially explicitly based on low perceived additionality. Out of these, 31 (over 40 per cent) were projects in Poland alone.

Table 2: Projects with additionality-related abstentions (2011-1H2017)

Country	Number of projects	%
Poland	31	42%
Turkey	10	14%
Russian Federation	5	7%
Romania	5	7%
Regional	5	7%
Rest (11 countries)	*17*	*23%*
Total	73	100%

4.10 Crisis response

Additionality is a dynamic concept; EBRD can become 'newly' or more additional in the context of financial crises or political/ macroeconomic developments. Such sources of additionality have recently been observed in connection with the global financial crisis, but also in more localised events such as in Ukraine or Greece/ Cyprus.

- The EvD special study on the EBRD response to the 2008-2009 crisis found *that 'the credit crunch in the region gave EBRD an opportunity to fill the financing gap, enjoying high additionality, while it also posed a threat both to the existing portfolio and project pipeline*.', and that the '*crisis response went well beyond EBRD's typical practices. Instead of providing funds for new*

[151] BDS15-013 (Final): Report of the Board of Directors to the Board of Governors: 2015 Annual Meeting – Strategic and Capital Framework 2016-2020; p.24
[152] BDS/M/13-12 (Final): Minutes of the Board Meeting of 11 June 2013
[153] BDS/M/14-12 (Addendum 1) (Final): Minutes of the Board Meeting of 11 June 2014
[154] BDS/M/15-29 (Addendum 1) (Final): Minutes of the Board Meeting of 16 December 2015
[155] BDS/M/16-10 (Addendum 1) (Final): Minutes of the Board Meeting of 25 May 2016

investment, it provided funding to replace money that was no longer available from other sources. In other words the funding was not to expand assets but to prevent assets from declining by replacing other financial sources that were fast disappearing' It also found that the crisis led to return of business to the Central European countries due to the effect of the crisis in the region, and in effect led to delayed graduation: '*Therefore, the allocation of [crisis response] project volume toward CE countries had effects that went beyond responding to the crisis: it laid the foundation of a strategic shift at EBRD*'.[156]

- The evaluation of the Bank's crisis response to Greek bank subsidiaries in Southeast Europe found that the EBRD stamp of approval as a signal to the marketplace in a crisis situation was the most important component of the project: '*The amount of funding disbursed by EBRD, €490 million, although useful was not necessary as the subsidiaries were sufficiently capitalised and national regulators demanded increased liquidity. Yet, the transactions with EBRD were useful and significant since the association with EBRD helped the borrowing banks keep depositors, attracted other IFIs, and bolster the reputation of the Greek owned banks*.'[157]
- Evaluations also highlight the role of IFI coordinated approach and EBRD's complementarity. The evaluation of an SME loan to a subsidiary of Intesa San Paolo (ISP) in Bosnia and Herzegovina, which was part of the crisis response package, found that at Group level, ISP did not have problems raising capital due to its solid performance. However, there was almost no availability of local commercial funding for its subsidiaries in the CEE region. Therefore, EBRD's facility was complementary to ISP's own support to its subsidiaries during the economic crisis, and was intended to help diversify their funding base away from large-scale reliance on the parent. This role was in line with the broad IFI Joint Action Plan and the Vienna Initiative, which expected support from the IFIs to contribute to the financial sector's need for capital and liquidity through complementing financing from parent banks.[158] Similarly the evaluation of support to Greek bank subsidiaries found that '*Although the EBRD played a leading role in the Vienna Initiative, its financial resources were relatively small [...] Nevertheless, EBRD's financing package for the Greek bank subsidiaries, like previous packages for leading banking groups such as UniCredit and Société Générale, was fully aligned with the aims of the Vienna Initiative and the [Joint Action Plan].*'[159]
- For projects with individual clients, financial additionality of crisis lending was rarely in doubt. An evaluation of municipal infrastructure project in Poland found that the existing client faced liquidity crisis when funding from commercial banks dried up, and EBRD provided refinancing and extension, which '*was highly additional in the context of the financial crisis. Combined with the associated restructuring, it allowed the company to extend the average final maturity of its debt from 5.5 years to around 15 years*.'[160] A property project had been suspended in 2008 due to lack of financing. The evaluation highlighted the additionality of the EBRD's long-term financing under an innovative investment debt structure, and its ability to syndicate with commercial banks.[161] Similarly an evaluation of a loan to an agribusiness company in Ukraine fully verified its additionality as such long-term loan would not have been available from commercial banks in the midst of financial crisis.[162]
- Nevertheless, an evaluation of the Mid-Sized Corporate Support Facility – a €250 million framework approved in February 2009, intended to provide a streamlined approval process for loans of up to €20 million to existing Bank clients experiencing difficulties in short-term financing due to the crisis – found that the Facility was under-utilised, and ultimately almost half of its approved volume was cancelled. The evaluation concluded that the type of companies that

[156] CS/AU/10-50: Evaluation Department (EvD): Special Study on the Evaluation of EBRD's Response to the 2008-2009 Crisis
[157] CS/AU/16-29: Evaluation Department: Crisis Response to Greek Bank Subsidiaries in Southeast Europe
[158] PEX13-508
[159] CS/AU/16-29: Evaluation Department: Crisis Response to Greek Bank Subsidiaries in Southeast Europe
[160] PEX13-521
[161] PEX13-538
[162] PEX12-453

represent the Bank's clients (financially sound, high standards) were likely to continue to attract local bank short-term financing even during the crisis. It concluded that the Facility was '*more additional in the case of four loans provided to finance new capital investments (not entirely in line with the stated objective of the Facility) because such financing required longer tenors than working capital loans*'.[163]

4.11 Refinancing

The Retroactive financing Policy was revised in 2013. After the revision private sector projects were no longer covered by the Policy. This was explained by the fact that the Policy was '*designed to safeguard the Bank's objectives regarding the procurement of "public sector" contracts and related issues of design and implementation of public sector projects*.' It nevertheless stated that in analogous operations in the private sector it is important that '*the case for additionality and transition impact is articulated clearly, carefully, and persuasively, given that this project, or any part thereof being refinanced, is already in place*.'[164] This change was not welcome by all, with some Board Directors expressing '*concerns that such operations [in private sector] could multiply and transition impact and additionality could weaken*.'[165] Private sector projects are covered by operational guidelines from 2014, which distinguish between i) Project-related refinancing (retroactive financing), and ii) Refinancing in the context of balance sheet or ownership restructuring. With respect to additionality, the guidelines advise for both cases the argument to be structured in terms of a) why the existing situation is not 'reasonable' – i.e. why the terms and conditions on the existing debt are not optimal, or why the existing financial structure is 'deficient', and b) why the Bank is best suited to address the situation compared to other potential financiers.[166]

The Bank's refinancing/ retroactive financing operations often raise questions about their additionality. This is, broadly speaking, because refinancing existing debt is *prima facie* evidence that other sources of finance are available. In effect, cases of refinancing are not substantially different from most other debt projects, in that their financial additionality argument rests on 'unreasonable' existing terms and conditions rather than on other finance not being available at all. This however has not stopped refinancing projects being subject to increased scrutiny and doubts at the Board with respect to their additionality. This could stem among other things from the perception that apart from financial additionality, in refinancing operations the Bank may have a more limited opportunity to also influence the 'design and functioning' of the project (non-financial additionality) or even to meaningfully contribute to incremental transition impact. Some Board Directors also express concern about the apparent increase in this type of operations in recent years; the aggregate data to confirm this view are not available.

- In discussing a sovereign guaranteed loan of up to €250 million number of Directors shared their concerns about the refinancing aspects and expressed a wish for further reflection on this issue, also with reference to low additionality. One Director suggested that a '*review of the implementation of the Policy, and its impact on additionality would be timely, given concerns about an apparent increase in refinancing operations*.'[167] In another instance, the refinancing nature of a €100 million operation in Poland was questioned with respect to the advanced transition state of the country.[168] While the operation was approved, €90 million was cancelled after signing and the remainder prepaid shortly after disbursement – supporting the concerns of low additionality.
- In 2016 the discussion on an extension of a regional project, several Directors abstained due to the refinancing nature of the extension. This led to a broader discussion on this type of operations, with one Director noting that in the past year almost 40 per cent of large projects over €50 million represented full or partial refinancing or restructuring. In relation to the types of refinancing,

[163] PE13-572: Mid-Sized Corporate Support Facility
[164] BDS13-192 (Final): Operations Policy for Retroactive Financing
[165] BDS/M/13-23 (Final): Minutes of the Board Meeting of 10 December 2013
[166] Retroactive financing policy and guidelines (EBRD intranet)
[167] BDS/M/15-29 (Final): Minutes of the Board Meeting of 16 December 2015
[168] BDS/M/15-29 (Addendum 1) (Final): Minutes of the Board Meeting of 16 December 2016

management noted that the Bank did not differentiate between refinancing and new financing but it does keep track of restructurings as a sub-set of refinancing effectively qualifying as new financing. Management indicated that such refinancing had in recent years averaged between 5-10 per cent of the signed volume, and this proportion was broadly expected to continue.[169] Due to the continued interest of the Board in this issue, Management committed to provide a clarification note on the definitions of the different types of refinancing. The ensuing paper – Refinancing in EBRD transactions – discusses the main types of refinancing from both additionality and transition impact point of view. In all cases it reiterates the perspective that additionality needs to be judged by what EBRD can offer and bring to the project relative to other potential (existing) lenders, and therefore refinancing operations are not inherently less additional by default.[170] Available evaluate ons tend to support this view by judging each operation on its own merits compared to potential alternatives, rather than summarily discounting additionality based on their refinancing nature.

4.12 Instruments

Some considerations and lessons regarding specific instruments with respect to additionality emerge from past evaluations and recent discussions; this concerns foremost the use of equity and to some extent also bond investments.

Direct equity investments are presented as additional based on the low levels of equity investment in EBRD region. The *Transition Report 2015-16: Rebalancing Finance* explored the issue in more detail and presented data and analysis of private equity in the Bank's countries of operations. It showed that these countries attracted lower volumes of equity investment globally, compared to their share of GDP. It also showed that the level of investment in equity is a function of factors such as macroeconomic stability and the quality of the institutional environment. At the level of operations, there is a view that, given the general under-investment in equity, the Bank's operations are additional by the nature of the instrument. For example, when discussing the establishment of the Equity Participation Fund at the Board, '*management explained that the Fund was structured so that it only tracked the Bank's direct equity investments which, by definition, were additional*.'[171]

- Recent EvD thematic special study of the Bank's equity operations reported that in some of the Board documents for equity investments the argument was presented that as the equity is not being provided by the market, EBRD's equity participation is additional. It concluded that *'this view on additionality does not analyse the reasons why equity is not being provided by the market. In many cases, there are sound financial reasons why equity is not available, based on problems such as poor profit potential, lack of voice due to minority participation, or an inability to exit*.' It also found that *'justifications based on additionality have largely occurred independent of an analysis of actual conditions on the ground within a country. This lack of analysis creates risks of large losses in circumstances where EBRD has limited ability to mitigate risks associated with weak institutions coupled with minority shareholdings*.'[172] In the strict sense of the additionality definition, the absence of other equity investors in a particular situation would indeed indicate financial additionality; yet, in a situation where the Bank's attributes do not mitigate the risks that hold other investors back, such investments would not be considered in the realm of sound banking.
- In addition, some equity projects have recently been questioned by the Board with respect to their additionality in cases where the Bank was seen as just replacing another investor. For example in an investment into a Romanian company one Director '*saw the project as a lucrative exit route for an American investment fund*',[173] or in an investment into a Polish retail operator one Director

[169] BDS/M/16-06 (Addendum 1): Minutes of the Board Meeting of 23 March 2016
[170] BDS12-240 (Addendum 2): Refinancing in EBRD Transactions
[171] BDS/M/15-26 (Final): Minutes of the Board Meeting of 25 November 2015
[172] CS/AU/17-41: Evaluation Department: Equity Operations
[173] BDS/M/17-09 (Addendum 1) (Final): Minutes of the Board Meeting of 26 April 2017

noted that *'the Bank was acquiring its stake from another private equity firm rather than from local shareholders and described the Bank's participation in this operation as another cash-out deal'*.[174] In the latter case the project document did not even claim any financial additionality – instead, the case was made (rather unconvincingly) based on the investee's interest in the Bank's attributes.[175] Finally, in discussion of another project in Poland, one Director suggested that '*a discussion be held on the topic of the Bank's strategic approach in relation to equity transactions that were merely 'cashing out' existing investors*.'[176]

The leverage for enforcement of the stated conditions is sometimes questioned by evaluations. This is often connected to the fact that the Bank, as a policy, does not assume majority equity stakes, which can limit its leverage over management and implementation of foreseen actions.

- In an equity investment to a Ukrainian agribusiness, the project document included conditions of 'significant corporate governance changes'. The evaluation found that no Board representative was appointed due to the Bank's minority position and in view of the strong market position of the foreign sponsor, and that it was '*unlikely that any effect in terms of corporate governance was triggered by the Bank over and above the reforms initiated by [the sponsor]*.'[177]
- In a 2006 'pre-privatisation' equity investment into a Serbian bank, the equity instrument was presented as a catalyst for privatisation, and timeline for privatisation was part of its conditions. With privatisation delayed, the Bank followed up with another equity investment three years later, prompting questions in the DAQs on how the extra equity will contribute to the finalisation of the privatisation process. This elicited a confident answer, outlining some enforcement mechanisms: '*government will be obliged to achieve certain privatisation milestones […] There is also a clear budgetary consequence for the government if it fails to implement or delays the privatisation process.*' Nevertheless, as of 2017 the bank has not been privatised, and EBRD remains a shareholder.[178]
- A US$120 million equity investment to a Russian joint stock company for a 3.7 per cent share did not claim any financial additionality but was connected to the EBRD attributes and conditions. At the time of approval several Directors abstained given the limited additionality and transition impact in relation to the size of the investment, and the fact that the company already seemed to have strong corporate and environmental standards in place. According to the evaluation, concerns about EBRD's limited leverage to induce significant changes through a small equity share (with no board representation) in relation to the size of the investment proved well founded.[179]

The leverage for conditions in bond issue participations is limited.

- An evaluation of a participation in a bond issue of a state-owned Kazakh rail company noted that the purchase of Eurobond was a treasury transaction approved as a banking operation, and there was no legal or technical connection between the Eurobond operation and the EBRD's mandate-related covenants, which were included in the additionality justification. Therefore, the evaluation recommended that in such transactions there should be a way to ensure transition potential, such as signing a memorandum before project approval incorporating specific actions for transition impact. Also, as the treasury operation was completed, TIMS monitoring ceased.[180]
- Similar finding was provided in another evaluation of a private bond investment in Russia, for which the project document did not in fact contain any additionality section. The evaluation found that there was a framework agreement in place, which was expected to mitigate the EBRD's limited ability to enforce requirements. Nevertheless, already at approval the Bank planned to sell

[174] BDS/M/17-10 (Addendum 1) (Final): Minutes of the Board Meeting of 3/4 May 2017
[175] BDS17-049
[176] BDS/M/17-06 (Addendum 1) (Final): Minutes of the Board Meeting of 8 March 2017
[177] PEX12-454
[178] BDS06-036; BDS09-197 & related DAQs
[179] PEX12-492
[180] PEX14-603

the bond off within one year – i.e. EBRD was aware that for some key obligations with agreed delivery in a longer timeframe the obligation will lapse with the sale of the bond. In reality, EBRD sold the bond off even earlier, in five months, voiding the provisions of the agreement. The evaluation noted that even with the agreement in place, EBRD had limited leverage on the client's actions, as the client received all of the funds in a single transaction, making it largely independent of EBRD following the bond financing.[181]

- Recent self-evaluation of a bond investment of £130 million contained a similar lesson in that the '*bond instrument may not provide enough leverage for realisation of some Bank attributes such as use of Bank procurement policies and rules in projects with state-controlled enterprises*'. It outlined that only 4% of the Bank's funds were eventually tendered using the Bank's procurement rules, despite the team's efforts to work with the client on the issue, including a TC-funded procurement consultant. It concluded that a '*long-term bond in a non-operational currency is not the best instrument to finance an extensive investment programme for a state-controlled entity if no derogation for use of Bank procurement policies and rules is obtained, or no clear offer to buy-back the instrument after a certain holding period is embodied*.'[182] The same concerns were already voiced at the Board discussion of the project, asking '*whether the structure of the project as a bond issue created the right leverage for the client to pursue transition impact*.'[183]

4.13 Public sector, SOEs

Previous sections already discussed matters relevant to public sector projects, specifically whether there could be a scope for a different approach to additionality for public sector projects, and some issues related to using policy dialogue as a project level additionality attribute (section 3.4). This section adds some particular examples emerging from evaluation findings.

Some public sector projects already make good use of the additionality section to explain EBRD's complementarity in relation to other IFIs, and its institutional value added. This approach appears to be more sensible in cases where the necessary concessionality, large grant components/ blending, and/or generous TC support makes comparisons to private sector finance unrealistic.

- For example, the project document for a sovereign loan provided to the government of Kazakhstan to rehabilitate a section of a road corridor described EBRD's place among other IFIs in the sector in that it '*places greater emphasis on transition in relation to sector reform and institutional development […] The Bank is contributing 'added value' by taking the lead in promoting reform of road maintenance and road sector restructuring. The EBRD is the only IFI who will covenant reform components with clear deadlines into its loan agreement*.'[184] The evaluation later confirmed this aspect of the project, reporting that the Bank insisted on covenanting provisions in the loan agreement to ensure that the TC-funded consultants' recommendations would be followed. This was ultimately successful, as following the consultants' recommendations and policy dialogue with the Bank and IFC, the Kazakh Parliament approved important amendments to the concession law, which improved the "bankability" of future road concession projects.[185]

Correspondingly, in public sector projects the non-financial aspects are often the main argument for the additionality of EBRD's presence. Some evaluations also indicate that due to the emphasis on complex sectoral reforms and institution development (which is not present in private sector projects), building relationships through repeat engagements reinforces additionality and strengthens the Bank's leverage and ability to enforce conditions.

- EvD special study on the Bank's transactions with SOEs found that '*[t]he area of attributes is where EBRD's additionality is most evident. […] Representatives from the companies,*

[181] PEX16-714
[182] Operation Performance Assessment: 41905; April 2017
[183] BDS/M/11-13 (Final): Minutes of the Board Meeting of 14 June 2011
[184] BDS08-203
[185] PEX15-659

governments and EBRD stressed the importance of long- term relationships. [...] The long-term relationship gives EBRD through evidence of commitment, continued policy dialogue, and its arsenal of instruments – procurement, contracts, ESAPs, etc. – the ability to keep the reform efforts moving.'[186]

- The same study also concluded that repeat transactions can be an effective tool to work with SOEs. It noted that in cases of individual transactions, after disbursement, the Bank has little leverage to compel the enterprise to reform. However, if the SOE has a successor project or desires a successor project, the Bank is able to assert more leverage or at least remain active in policy dialogue to advance the public company. With respect to specific enforcement mechanisms, the study found that conditions prior to disbursement are especially important with SOEs since the larger ones may be likely to prepay and/or company management could be changed by the government, subject to government interference, or ineffective bureaucrats. Covenants provided some leverage but their effectiveness is limited when dealing with a sovereign entity.[187]
- Similar findings were reported by project evaluations. For example, a sovereign guaranteed road project in Serbia, which was one of a series of five projects with the same client: its evaluation found that skilful use of covenants and conditions precedent in a series of related operations with the same client can reinforce transition impact priorities. It reported that certain covenants in the project could not be met, such as the ratio of domestic to foreign tolls, but then as subsequently listed a condition precedent in the following loan, there was quick achievement.[188]
- Evaluation of a road project in Macedonia validated that the covenanted reform actions were fulfilled more or less in line with the expected timelines, but concluded that the leverage on the Government and the client was strengthened by the follow-on large projects and therefore the project alone cannot claim a full credit for the realised sector reforms.[189]
- Nevertheless as shown many times before, in public sector projects tied to reforms it is the political will for reform that will be the decisive success factor. For example, in one of a series of project in support of the Montenegrin rail sector, the additionality and transition impact were linked to the sector reforms, including the development of public service obligation contract. Despite TC support for the reform, the evaluation found that the additionality aspect relating to the proposed PSO contract was overly ambitious as the government's commitment to enter into such contract had been overestimated.[190] Similarly an evaluation of a municipal transport project in Albania found that the project was generally in line with all covenants, though two marked deviations are from those concerning formal approval of the Sustainable Transport Strategy and Creditworthiness Enhancement Programme, both of which did not occur. These components of the expected sector reform were also supported by TC funds of about €600 thousand in total.[191]

[186] CS/AU/15-69: Evaluation Department: Thematic Evaluation – Transactions with State-owned Enterprises
[187] Ibid.
[188] PEX14-600
[189] PEX16-719
[190] PEX15-657
[191] PEX14-574

Annex 1 List of people met

The following persons were interviewed in the course of the review, both in approach and implementation phase.

Board constituency	Title	Name	Surname	Position (at time of interview)
Canada/ Morocco/ Jordan/ Tunisia	Mr	David	Hewitt	Adviser
Czech Republic	Ms	Dagmar	Silna	Adviser
EU	Mr	Christopher	Moore	Adviser
France	Mr	Raphael	Bello	Director
	Mr	Gustave	Gauquelin	Alternate Director
Italy	Ms	Raffaella	Di Maro	Director
Netherlands/ Mongolia/ FYR Macedonia/ Armenia/ China	Mr	Jaap	Rooimans	Alternate Director
Portugal/ Greece	Mr	Anthony	Bartzokas	Alternate Director
Slovakia	Mr	Mario	Vircik	Adviser
Sweden/ Iceland/ Estonia	Mr	Jörgen	Frotzler	Director
	Mr	Arnar	Másson	Alternate Director
Switzerland/ Ukraine/ Liechtenstein/ Turkmenistan/ Serbia/ Montenegro/ Moldova	Mr	Heinz	Kaufmann	Director
	Mr	Nicholas	Meyer	Adviser
UK	Mr	Aldo	Schmitt	Adviser
USA	Mr	Sean	Suter	Adviser
Organisational Unit	**Title**	**Name**	**Surname**	**Position (at time of interview)**
Country Strategy Coordination & Results Management	Dr	Christoph	Denk	Director, CSRM
	Ms	Anita	Taci	Associate Director, Deputy Director CSRM
Corporate Strategy	Ms	Mandeep	Bains	Associate Director, Deputy Director, Corporate Strategy
	Ms	Angélique	Botella	Principal, Corporate Strategy
Country and Sector Economics	Ms	Rika	Ishii	Associate Director, Lead Sector Economist
	Ms	Aziza	Zakhidova	Principal Economist (I), Sector
DCF – Operations, Planning and Reporting	Ms	Catherine	Bukhal	Analyst, DCF
Economics, Policy & Governance	Ms	Elisabetta	Falcetti	Director, Sector Economics and Policy
	Mr	Artur	Radziwill	Director, Country Strategy & Policy
	Mr	Alex	Chirmiciu	Associate Director, Lead Economist
	Mr	Bojan	Markovic	Associate Director, Deputy Director
	Mr	Pavel	Dvorak	Principal Economist
Environment & Sustainability Department	Dr	Ebru	Yildiz	Associate Director, Head ESD Operations
Financial Strategy and Business Planning	Mr	Jonathan	Ockenden	Associate Director, Corporate Planning
FVP Front Office	Mr	Gavin	Anderson	Director, Executive Counsellor
Office of the Chief Economist	Mr	Andrew	Kilpatrick	Director, Executive Counsellor to Chief Economist on TI
Operational Strategy and Planning	Mr	Edun	Akinola	Associate, Management Information
	Ms	Ekaterina	Hutton	Analyst, Management Information
Operations Committee Secretariat	Ms	Anelia	Kasterlieva	Director, Head of OpsCom Secretariat
Risk Policy and Analytics	Dr	Zbigniew	Kominek	Director, Risk Policy & Analytics

Annex 2 Approach

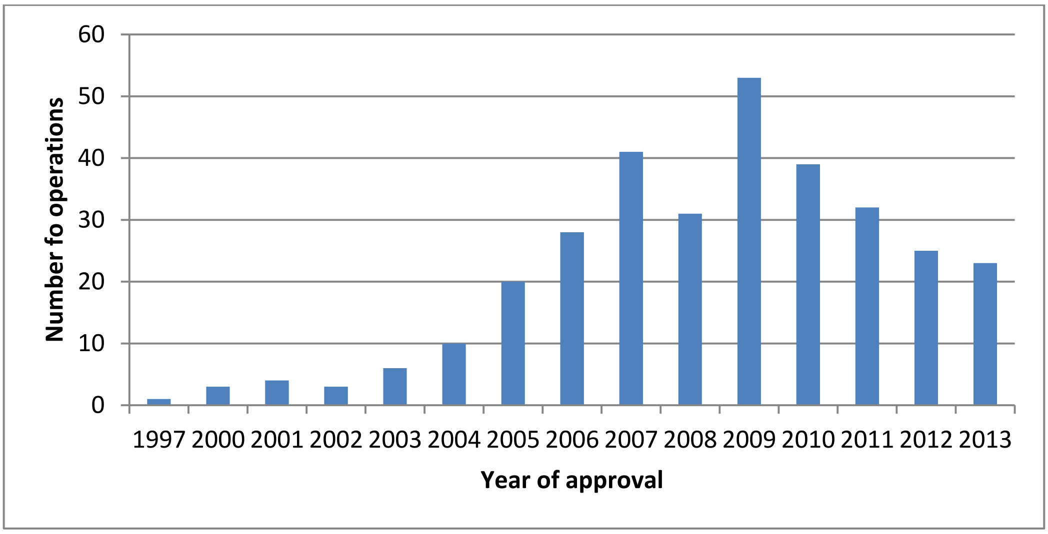
The review of EBRD Additionality concept and its operationalisation was based on a document review to gain understanding about the institutional context, current debates and operational processes, as well as the more strategic dimensions of the additionality concept. The following types of documents were reviewed as relevant:

- Minutes of Board sessions
- EBRD strategic planning documents
- EBRD country strategies
- EBRD policy documents
- EBRD operational guidelines and manuals
- EBRD project documents

Evidence from documentary review was complemented by interviews with EBRD stakeholders – representatives of the Board of Directors, Economics, Policy and Governance department, Banking, and Results Management.

The review of the drivers and constraints of additionality was based on evaluation evidence and analysis systematically collected and reviewed for all operations evaluated in the period 2011-2016. This represented over 300 unique operations. The chart below presents the distribution of these operations based on their year of approval – over three quarters of the operations originated between 2007-2013.

Distribution of projects evaluated in 2011-2016 by approval year



Distribution of projects evaluated in 2011-2016 by region and sector

Region	Number of projects	Sector	Number of projects
CA	35	ENE	47
CEB	40	FIN	78
EEC	51	ICA	122
RUS	86	INF	72
SEE	61		
SEMED	2		
TUR	12		
Regional	32		
TOTAL	319		319

In addition to project level evaluations findings from thematic/special studies of the same period and from other available evaluation products (such as OPAV clusters) were used as relevant. This provided further insights into additionality at the level of sectors, instruments, and countries.

Annex 3 Additionality in EBRD evaluation guidelines

2010

BDS10-024 2010 Evaluation Policy – Appendix 1: EBRD's Operation Performance Rating System at Post-Evaluation

The system included an Overall Performance Matrix, which outlined the process to arrive to the overall rating of a project based on the respective ratings of four main criteria (TI, financial performance, achievement of objectives, and environmental and social performance). It noted that, "*Apart from these four major indicators, of course the remaining indicators, additionality, bank handling and investment performance, also play a role when assigning the overall performance rating, but to a lesser degree define the overall performance outcome of a project*."

Extract from Appendix 1:

The Bank's Additionality

The Bank's additionality in a project is assessed by judging to what extent the client would have been able to secure financing from market financiers on acceptable terms. Another necessary condition is the extent of the Bank's impact on the existence, design or functioning of a project to enhance transition impact. There is a critical level of conditions above which a project becomes and remains additional. In judging additionality at evaluation one tries to verify whether the Bank was additional or not at the time the project was financed by the Bank. Therefore the Bank has introduced the ratings Verified in all respects, Verified at large, Verified only in part and Not verified, as presented in the table below, where the benchmarks for the ratings is given: Benchmarks on rating additionality are presented in Table 8 below.

Table 8: Rating Additionality

Ratings benchmarks

Verified in all respects	No other financial institutions are willing to provide financing at the same or better condition than the Bank. The terms and conditions are not attractive to other banks and the country risk is still high. The client accepts tough conditionality to secure transition impact.
Verified at large	Some competition with market financiers, but the Bank's terms and conditions, although more demanding than competition's, prevail since sponsors/clients or co-financiers appreciate the Bank's political comfort. In such cases, specific project design and structuring may also be significant for enhanced transition impact. The Bank may also have contributed specific country- or sector knowledge or helped enhance corporate governance standards. Repeat financing to a second phase of a project, may fall into this category.
Verified only in part	Competition from commercial financiers is significant and terms and conditions are almost identical, but the Bank's participation (e.g. in a bond issue) may have helped an earlier implementation of the project than would have otherwise been possible. No significant features are added to design and functioning to enhance transition and/or catalyse other financing.
Not verified	Competition fully established for financing and the Bank's terms and conditions fail to provide for any material transition impact enhancement and pricing premium to account for the availability of the Bank's Preferred Creditor Status.

2015

Evaluation Department Guidance Note 6: Evaluation Performance Rating; April 2015

Annex 1: Rating criteria and sub-criteria for investment projects

Criteria and Sub-Criteria	Evidence	Rating Benchmarks	Guidance
1.3 Expected Additionality – were claims made at approval plausible? *Definition:* Describes how the Bank planned to add value by one or more of the following: (i) its financial terms and conditions; (ii) the unique attributes the Bank brought to the project; (iii) inclusion of legal covenants that would not have otherwise been agreed by the client; and (iv) mobilisation of additional commercial finance.	Assess whether, at the time of project approval, the additionality claims in the approval document were plausible. For example, the assessment should consider the availability (if any) of alternative sources of finance other than from EBRD and on what terms.	*Excellent*: All claims justifying additionality were plausible at the time of approval. *Fully satisfactory:* All claims justifying important areas of additionality were plausible at the time of approval. *Partly unsatisfactory:* One or more claims justifying important areas of additionality were not plausible. *Unsatisfactory*: Most or all claims justifying the Bank's additionality were not plausible.	Based on the information and knowledge that would have been available at the time of approval (that is, not using the benefit of hindsight) the evaluator will judge whether the claimed additionality was plausible at approval, or not.
1.4 Demonstrated Additionality – was EBRD additional in fact	At the time of the evaluation, assess the extent to which the operation was additional (whether identified as such at approval or not). In particular, the assessment should look at whether the Bank's attributes, legal covenants and/or the expected additional commercial financing, actually happened.	*Excellent*: All aspects of claimed additionality were borne out and/or there were significant unforeseen ways in which the Bank was additional. *Fully satisfactory:* All important aspects of claimed additionality were borne out and/or there were unforeseen ways in which the Bank was additional. *Partly unsatisfactory:* One or more important aspects of claimed additionality were not borne out. *Unsatisfactory*: Most or all aspects of claimed additionality were not borne out.	This assessment is focusing on whether there is evidence that the additionality statements were in fact borne out during implementation. For example, did the Bank's attributes come out during implementation? Were legal covenants met in full or were some waived? Was supplementary finance actually mobilised and used as intended? The evaluator should also note and take account of ways the Bank was additional in unforeseen ways (for example, capturing an opportunity to engage in policy dialogue that did not exist at approval).

Evaluation Department Guidance Note 6: Evaluation Performance Rating; March 2017

Annex 1: Rating criteria and sub-criteria for investment projects

Criteria and Sub-Criteria	Evidence	Rating Benchmarks	Guidance
1.3 Additionality – was additionality achieved? *Definition:* Describes how the Bank planned to add value by the following: (i) its financial terms and conditions; (ii) the unique attributes the Bank brought to the project; (iii) inclusion of legal covenants that would not have otherwise been agreed by the client; and (iv) mobilisation of additional commercial finance.	Assess whether, at the time of project approval, the additionality claims in the approval document were plausible. For example, the assessment should consider the availability (if any) of alternative sources of finance other than from EBRD and on what terms. At the time of the evaluation, assess the extent to which the operation was additional (whether identified as such at approval or not). In particular, the assessment should look at whether the Bank's attributes, legal covenants and/or the expected additional commercial financing, actually happened.	*Excellent*: All aspects of claimed additionality were borne out and/or there were significant unforeseen ways in which the Bank was additional. *Standard:* All important aspects of claimed additionality were borne out and/or there were unforeseen ways in which the Bank was additional. *Below Standard:* One or more important aspects of claimed additionality were not borne out. *Deficient*: Most or all aspects of claimed additionality were not borne out.	Based on the information and knowledge that would have been available at the time of approval (that is, not using the benefit of hindsight) the evaluator will judge whether the claimed additionality was plausible at approval, or not. This assessment is focusing on whether there is evidence that the additionality statements were in fact borne out during implementation. For example, did the Bank's attributes come out during implementation? Were legal covenants met in full or were some waived? Was supplementary finance actually mobilised and used as intended? The evaluator should also note and take account of ways the Bank was additional in unforeseen ways (for example, capturing an opportunity to engage in policy dialogue that did not exist at approval).