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CONNECTING THE DOTS

EVIDENCE THAT DRIVES CHANGE

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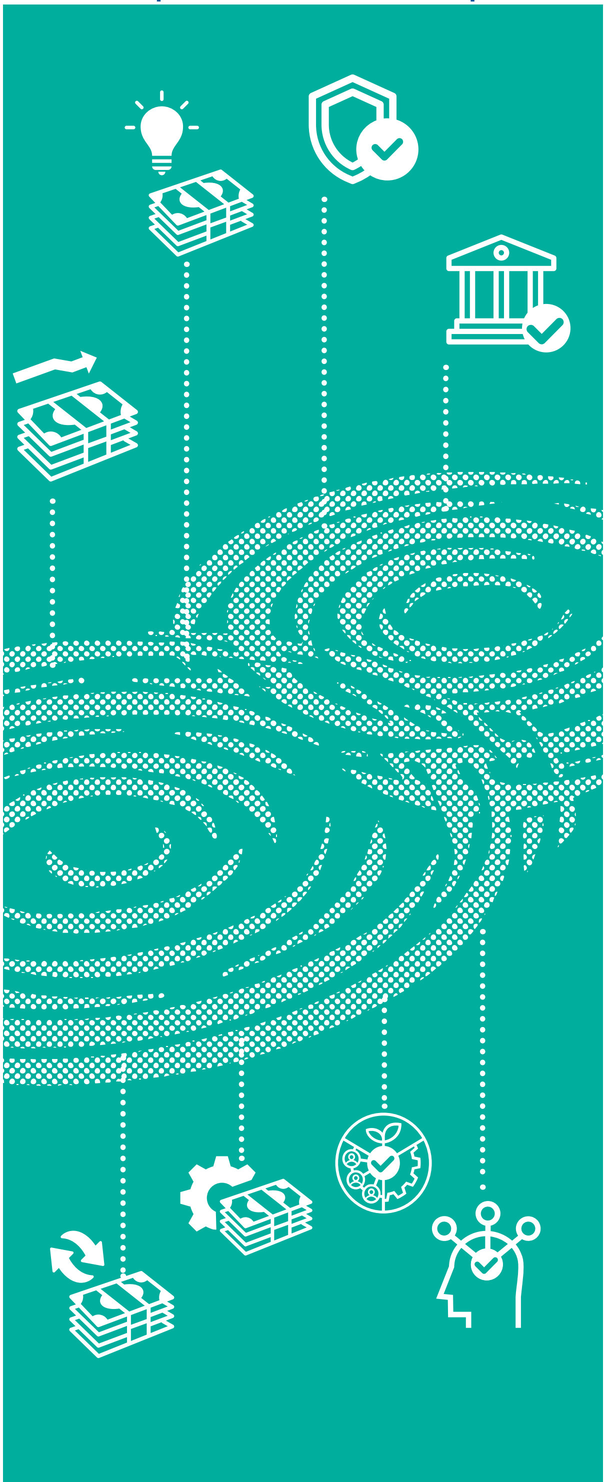

ADDITIONALITY AS A CATALYST FOR CHANGE: INSIGHTS FROM EVALUATION

The Evolving Landscape of Additionality in Development Finance

The concept of additionality lies at the heart of the mandate of Multilateral Development Banks (MDBs), defining the distinct value they bring to development finance in contrast to purely commercial actors. Originally centred on financial interventions—such as filling market gaps or mobilizing private capital—additionality has evolved into a broader, more nuanced construct encompassing institutional, policy, and environmental dimensions. As MDBs scale up their support for sustainable development, additionality continues to serve as a foundational principle, rooted in the idea that their engagement should contribute beyond what the market provides and avoid displacing private sector actors. This paper builds on that foundation, reflecting both the enduring relevance of additionality and the recent conceptual refinements across the MDB system.

Ongoing discussions within the Evaluation Cooperation Group (ECG) are re-examining how additionality is understood and operationalised across MDBs. A key focus is on improving how additionality is evaluated—moving beyond compliance to generate strategic insights that can inform the evolving priorities and institutional directions of MDBs.

Uncovering Dimensions of Additionality

The 2018 Harmonized Framework for Additionality in Private Sector Operations[1], developed by leading MDBs, underscores the dual dimensions of additionality: financial and non-financial.

- Financial additionality pertains to the provision of financing not otherwise accessible on reasonable terms.
- Non-financial additionality encompasses contributions such as policy dialogue, risk mitigation, capacity building, and the promotion of environmental, social, and governance (ESG) standards.

[1] MDBs (2017). Harmonized framework for additionality in private sector operations.

13 Key Evaluation Insights for additionality

This edition of the "Connecting the Dots" (CtDs) series synthesizes evidence from recent evaluations published since 2018 across MDBs, including the European Bank for Reconstruction and Development (EBRD), the Asian Development Bank (ADB), the International Finance Corporation (IFC), African Development Bank (AfDB) and the European Investment Bank (EIB), among others.

Drawing from **86 evaluation reports**, it provides a nuanced understanding of how MDBs experience additionality, and how it manifests across diverse markets and sectors. The following figure maps the **13 evaluation insights** selected in this paper, against the pillars of harmonized framework for additionality.[2]

2. The Harmonized Framework for Additionality in Private Sector Operations is used solely as a structuring tool for grouping insights. The evaluation findings referenced in this paper are drawn from a broad set of reports covering both private and public sector interventions by MDBs. They also include cross-cutting lessons that extend beyond individual operations to sectoral and country-level dynamics.

The following sections distil 13 key insights from these evaluations conducted across IFIs, highlighting strategic and operational lessons that might shed light on and strengthen the effectiveness of additionality.

The referenced reports are listed at the end of the paper for brevity.

FINANCIAL ADDITIONALITY

Financial Structure

1 Financial Additionality Peaks at Inception But Fades as Markets Mature, Requiring Phased Exits, Adaptive Instruments, and Integrated Monitoring To Sustain MDB Relevance

MDB financing is often most additional and effective at the outset of a project, where access to private capital is constrained. This general evolution observation indicates its effectiveness.

The EBRD's Mobilisation Evaluation (2020) found that additionality diminished over time as projects matured and private finance became more available. Similarly, the Evaluation of Transition Impact and Additionality of *the EBRD's MREL*[3] *& Bail-in-able Products (2024)* highlighted the need to dynamically reassess additionality in evolving market contexts. *Asian Development Bank's (ADB) Evaluation of Non-sovereign Operations (2022)* also confirmed that additionality was weaker in advanced financial markets, underscoring the value of phasing out IFI support or shifting toward more innovative instruments.

Evaluations indicate gaps in project-level documentation related to additionality. Enhancing monitoring mechanisms and ensuring robust justification at all project stages are recommended. ADB's and International Finance Cooperation's (IFC) efforts to integrate additionality assessments into project cycles serve as best practices.

2 Local Currency Finance Strengthens Financial Additionality by Enhancing Resilience in Volatile Markets and Enabling Access in Shallow Capital Markets

MDBs fill a critical role in mitigating currency risk by offering local currency (LCY) financing, particularly in markets where currency volatility is a significant risk. EBRD enabled first-time LCY transactions in Uzbekistan, improving access and reducing foreign exchange exposure (*Uzbekistan Country Evaluation, 2023*). In SEMED, EBRD's hard currency loans addressed gaps where local banks lacked hard currency liquidity (*Evaluation of the Agribusiness Strategy, 2023*).

IFC and ADB evaluations further support that local currency operations help clients navigate volatile macroeconomic environments— *the Evaluation of the Additionality in the ADB's Non-sovereign Operations (2022)* identifies LCY finance as a key form of financial additionality in contexts with underdeveloped capital markets, while *the Evaluation of the IFC's Additionality in Middle-Income Countries (MICs) (2022)* highlights the value of bespoke LCY solutions, particularly where swap markets or hedging instruments are not available.

[3] MREL stands for Minimum Requirement for Own Funds and Eligible Liabilities.

3

Extended Tenors and Flexible Structures Drive Additionality in Capital-Intensive and Long-Term Investments

MDBs enable infrastructure and green transition projects by offering long-term loans and flexible financial structures. The Evaluation of Additionality in *the ADB's Non-sovereign Operations (2022)* emphasized the importance of long tenors for clean energy projects in India and Southeast Asia. *EBRD's Transport Evaluation (2024)* noted that the Bank was the only financier willing to fund large upfront Public-Private Partnership concession payments, which no other IFIs were willing to fund, enabled large infrastructure projects such as the Greek and Sofia airports. *IFC's platform evaluation (2025)* highlighted mezzanine and blended structures as additional in capital-intensive projects.

4

Repeat Transactions Can Dilute Additionality Without Clear Justification, but Remain Valid When Driving Reform or Innovation

Repeat financing may indicate declining additionality unless justified by evolving project needs. Evaluation of Transition Impact and Additionality of the *EBRD's MREL & Bail-in-able Products (2024)* urged stronger documentation and justification when engaging repeat clients, especially in sectors with maturing financial ecosystems. *IFC's Additionality in MICs Evaluation (2022)* stressed the importance of reassessing financial and non-financial contributions in follow-on operations. The Evaluation of Additionality in *the ADB's Non-sovereign Operations (2022)* found that repeat transactions were justifiable when enabling sector reform or technology transfer.

Innovative Financing Structures and/or Instruments

5

Innovative Instruments Strengthen Additionality by De-Risking Investment and Unlocking Private Sector Participation in Nascent Markets

Innovative financial structures help develop new markets and mobilize private capital. *EBRD's Green Bonds Evaluation (2024)* showed how acting as an anchor investor catalysed green market growth. Its *Venture Capital Investment Programme Evaluation (2023)* illustrated how Series A/B funding rounds filled gaps left by commercial investors. The Evaluation of the Additionality in *the ADB's Non-sovereign Operations (2022)* and *IFC's Blended Finance Evaluation (2020)* both highlighted the importance of innovation in product structuring to de-risk challenging investments.

MDBs’ Own Account Equity

6

Equity Can Unlock High-Additionality Opportunities by Enabling Risk-Taking, Strengthening Governance, and Crowding in Capital in Frontier Market

MDB equity enhances financial resilience, supports innovation, and improves corporate governance. *The EBRD Private Equity Evaluation (2021)* found equity support critical to strengthening governance practices. *The EBRD’s VCIP[4] Evaluation (2023)* reinforced that MDB equity was pivotal in scaling early-stage companies.

Further evidence from *IFC’s Blended Finance Operations Evaluation (2020)* shows that equity investments in fragile and frontier markets demonstrated strong additionality, particularly where private investors were reluctant to take first-loss positions or where investees required significant institutional strengthening. IFC’s use of equity in blended finance structures was found to crowd in commercial investors while anchoring high-risk ventures

Resource Mobilization

7

Blended Finance and Syndication Enhance Additionality by De-Risking Private Capital and Scaling Mobilisation Through Strategic Partnerships

Blended finance and syndication play a growing role in mobilizing private capital that is additional. *EBRD’s Mobilisation Evaluation (2020)* called for a strategic shift toward an “originate to distribute” model. *EBRD’s Uzbekistan Evaluation (2023)* documented co-financing success with Proparco and Standard Chartered. *IFC’s Blended Finance Evaluation (2020)* emphasized combining concessional and commercial capital to reduce perceived risks.

MDB financing is often most additional and effective at the outset of a project, where access to private capital is constrained.

4. VCIP stands for Venture Capital Investment Programme.

NON-FINANCIAL ADDITIONALITY

Risk Mitigation

8 MDB Involvement Mitigates Political and Regulatory Risk, Unlocking Additionality in Fragile and High-Risk Markets

The EBRD's Evaluation of the VCIP (2023) found that EBRD's involvement significantly lowered perceived political and regulatory risks, helping to attract private co-investors to high-risk, early-stage ventures. *The Evaluation of Additionality in the ADB's Non-sovereign Operations (2022)* showed that ADB's status as a trusted development partner was a key factor in overcoming regulatory barriers and enabling private investment, particularly in energy and infrastructure sectors. The Evaluation of the *IFC's Blended Finance Operations (2020)* highlighted how IFC's participation helped de-risk politically sensitive projects through layered financing and upstream engagement, especially in fragile and frontier markets.

9 Signalling and Convening Power Drive Non-Financial Additionality by Crowding In Private Capital and Building Market Confidence

MDBs play a catalysing role by signalling market confidence. *EBRD's Green Bonds Evaluation (2024)* emphasized how its participation boosted credibility for first-time issuers. IFC and ADB evaluations further showed that MDB involvement often encourages private co-investors to enter unfamiliar markets.

The Evaluation of the *IFC's Blended Finance Operations (2020)* found that IFC's involvement provided strong signalling effects that reassured commercial partners, particularly in transactions involving novel structures or new geographies. IFC's reputation and role as a standard-setter were key in mobilizing private capital in high-risk contexts. The Evaluation of Additionality in the *ADB's Non-sovereign Operations (2022)* similarly emphasized that ADB's presence often served as a confidence signal to other financiers, particularly in infrastructure and renewable energy projects in frontier markets, where regulatory frameworks or implementation capacity were weak.

EBRD's involvement significantly lowered perceived political and regulatory risks, helping to attract private co-investors to high-risk, early-stage ventures.

Policy, Sector, Institutional, or Regulatory Change

10

MDBs Drive Additionality Through Policy Dialogue, Enabling Sector Reform and Institutional Strengthening

Evaluations consistently show that MDBs' upstream engagement and policy dialogue are powerful sources of non-financial additionality, often paving the way for systemic change beyond the boundaries of individual projects. *The Evaluation of the EBRD's Agribusiness Sector Strategy (2023)* documented the Bank's role in strengthening food safety and quality infrastructure in Ukraine—efforts that not only improved agribusiness competitiveness but also aligned national standards with EU regulations.

The Evaluation of EBRD's MREL & Bail-in-able Products (2024) highlighted the Bank's instrumental role in advancing financial sector reform in Jordan, where its engagement contributed to the development of a bank resolution framework and increased market readiness for MREL instruments. These interventions enabled critical legal and regulatory infrastructure necessary for private sector participation.

Similarly, the Evaluation of Additionality in *the ADB's Non-sovereign Operations (2022)* identified cases where project-level engagement was leveraged to influence broader regulatory frameworks—particularly in the energy and financial sectors—by supporting tariff reform, licensing structures, and cross-agency coordination. *The Evaluation of IFC's Additionality in Middle-Income Countries (2022)* provided further evidence that institutional change was often catalysed by IFC's advisory services and upstream policy efforts, particularly in supporting financial inclusion and capital market deepening.

11

Market Context Shapes Additionality, with Stronger Impact in Frontier and Nascent Sectors

Evaluations confirm that additionality is highest in less developed markets and tends to decline as sectors mature. The *EBRD's Sustainable Infrastructure Operations in Advanced Transition Countries (2021)* and *Evaluation of the EBRD's Support to Sustainability and Private Sector Participation in Transport (2024)* found that initial interventions in countries like Poland and Greece were additional, but justification weakened over time as private capital deepened. In contrast, the Evaluation of *the EBRD's Country Strategy in Uzbekistan (2023)* showed persistent high additionality across financial and policy dimensions due to limited market capacity.

The Evaluation of IFC's Additionality in Middle-Income Countries (2022) and *the Evaluation of Additionality in the ADB's Non-sovereign Operations (2022)* echoed this pattern, noting that MDBs must adapt their value proposition in mature markets by focusing on innovation, underserved segments, or upstream reform.

Standard-Setting: Helping Projects and Clients Achieve Higher Standards

12

Environmental, Social, and Governance (ESG) Support is a Key Avenue for Additionality

MDBs help clients adopt higher ESG standards, which proves additional in multiple contexts. *The EBRD Green Bonds Evaluation (2024)* and *GEFF Evaluation (2023)* noted that EBRD's support led to better ESG compliance and increased investor interest. *IFC's Gender Evaluation (2022)* found that MDB-backed ESG reform increased women's participation and improved labour practices.

Knowledge, Innovation, and Capacity Building

13

Advisory and Knowledge Services Anchor Non-Financial Additionality by Building Institutional Capacity and Enabling Reform

MDB evaluations consistently highlight that technical assistance and knowledge transfer are central to long-term impact. *The Evaluation of the IFC's Blended Finance Operations (2020)* found that advisory support was critical in helping clients adopt international standards and strengthen institutional capacity—especially in blended structures.

The Evaluation of EBRD's Green Bonds Evaluation (2024) and *the EBRD's Agribusiness Strategy Evaluation (2023)* showed that technical cooperation and policy dialogue facilitated market development and regulatory reform. *The EBRD's MREL & Bail-in-able Products Evaluation (2024)* noted that informal guidance played a key role in helping banks implement complex financial regulations.

ADB's Evaluation of Additionality in Non-sovereign Operations (2022) confirmed that technical assistance was a primary channel of additionality, contributing to governance, safeguards, and institutional performance improvements across sectors.

Conclusion: Toward a Dynamic Model of Additionality

The synthesis of 86 evaluation reports across major MDBs reveals that additionality is not a static concept—it evolves alongside markets, sectors, and institutional contexts. These reports also highlight the importance of adopting an integrated approach of additionality and of ensuring that outcomes and impact are captured.

This paper shows that while MDBs demonstrate clear financial and non-financial additionality across a wide range of interventions, there remain challenges in how it is consistently defined, operationalised, and evidenced. Project-level documentation is often insufficient to fully capture the strategic value MDBs bring, particularly in follow-on investments or mature markets where traditional justifications weaken.

The findings point to a need for MDBs, including the EBRD, to adopt a more integrated, forward-looking model of additionality. This means strengthening ex-ante articulation, embedding dynamic monitoring frameworks, and tailoring instruments to shifting market realities. It also requires leveraging MDBs' full suite of value-add—such as upstream engagement, market development, signalling effects, and capacity-building—as part of a more systemic approach to development impact.

Importantly, *the ECG Working Paper No. 7: Additionality—A Stocktake and Discussion of MDB Approaches (2020)* urges MDBs to move beyond procedural compliance and instead use additionality as a strategic lens to guide portfolio choices and institutional positioning. This call is timely. As MDBs mobilise private capital at scale and take on more complex development challenges—from climate transition to digital inclusion—additionality must become not only a criterion for investment, but a compass for strategic relevance.

While MDBs demonstrate clear financial and non-financial additionality across a wide range of interventions, there remain challenges in how it is consistently defined, operationalised, and evidenced.

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