

How to Evaluate Additionality

PSI and Additionality

In 2018, the OECD DAC decided to consider PSI (Private Sector Instruments) as ODA to mobilize resources for development. PSI is the amount of public fund provided to the private companies in developing countries in the form of bestowal, loan, quota investments, Mezzanine Financing, and surety. To calculate PSI as ODA, we need to prove the additionality or added value which the public fund creates when it is offered to private companies. There have been active discussions on how to evaluate PSI. Also, additionality is an important factor that proves the mobilization and achievement of private resource in monitoring and evaluating the blended finance.

Additionality is divided into financial additionality, value additionality, and development additionality. The financial additionality means that the regarding project would have not been conducted or there would not have been another private investment without the public fund. If a public institution provided a non-financial support utilizing its status (knowledge, expert, connection to the local resources) that cannot be provided by the private sector, that is value additionality. Development additionality refers to effect of development that would not have been created without the public fund. Without additionality, supporting private companies with public fund is a waste of resources. It also discourages potential private investment and interferes with the market as it strengthens the competitiveness of a specific company by providing subsidy. This is why it is essential to prove additionality before offering public fund to private companies.

How to Evaluate Additionality

Guidelines on CRS statistics report do not provide details on how to evaluate additionality of PSI. Despite the fact that additionality is a criteria to determine the validity of PSI as ODA, there is no objective method for evaluation. This hampers integrity and reliability of all ODA data.

It is not easy to develop a method to evaluate additionality in an objective manner because it is not possible to objectively evaluate something that did not occur. Also, it is hard to prove the exact cause and effect. If the public fund was not offered to the private company, the project would not have been implemented. Also, it is an assumption that the project would not have gotten support from other private investors. This is why it is hard to prove the financial additionality. Also, it is hard to prove the value additionality and development additionality as it is hard to prove that

achievement is due to the regarding development project. Also, evaluation method depends on factors like financial means, type of additionality, and timing of evaluation. This is why it is difficult to develop an objective evaluation method for additionality.

For this reason, donors have evaluated additionality qualitatively rather than quantitatively. As for financial additionality, it compares the conditions for aid by the public fund and private financial institution. Or it explains why it is impossible for the company to get private investment. It also presents evidence that the public fund played a critical role in mobilizing other private investment or the precondition for private investment was the provision of public fund. When it comes to value additionality, it describes how the public fund contributed to mitigating business risk or improving the company's practice, principle, and criteria related to ESG and procurement. It also explains the fund strengthened other factors of the project or the expertise of the public agency helped the company enter other markets. It infers the development effect of the regarding project for development additionality.

Trends in Discussion on Additionality

The Development Finance Institution (DFI) that provides PSI recognizes the limitations in measuring additionality. It argues that we need to embrace the limitations though we need to make an investment decision and find the proof of additionality. It moves the focus of discussion from the existence of additionality to probability of additionality, suggesting that we need to discuss in what circumstances there will be additionality rather than how to measure additionality. For example, Kenny and Moss (2020) suggested three methods of Do No Harm test, utilization of market indicators, and application of transparent criteria. Do No Harm Test is to make sure certain safety measures are taken to prevent negative social, environmental, and external economic effect as a condition to provide the public fund. Secondly, it suggests less attractive conditions for aid than commercial banks or private investors to make sure companies in need will apply for the public fund. This is conducted by adding transparency on top of market price or social and environmental conditions. Thirdly, we can create a transparent system to show how the financial resources are offered per country and area to make sure it will be provided to projects with better additionality. For example, we can compare the number of project in low-income countries and high- and mid-income countries. We can also compare the number of project in agriculture and tourism, where there is a difference in development result and access to financial resources. This is designed to make investment to low-income countries or agricultural projects with a higher additionality.

Carter et al (2018) proposed to focus more on development additionality than financial additionality. In general, we evaluate if there is additionality or not, saying without the public fund, the project would not have been implemented. Rather than that, they suggest that we need to assume the project would have been implemented even without the public fund. They argued that we need to compare the result with and without the public fund. Let's say the DFI offers public fund to a construction project for a highway. Additionality is solving the problem of the habitat of the vulnerable at the target site rather than the fact the project is not implemented. Without the public fund, it would not have been considered how the project would affect the vulnerable. It changes the focus of discussion on additionality to show the clear differences in quality of development between the case where public fund is invested and the case where public fund is not invested.

Future Tasks

PSI is included as ODA to secure additional financial resources from the private sector. However, even if there is only development additionality without financial additionality, we cannot say it is not right to invest the public fund there. This is because the decision will improve the effectiveness of development in the end. In this respect, it is understandable that the discussion is going to a specific direction that I already mentioned. Now is the time to find the objective criteria to measure the probability of additionality and size of the development result. Though these are challenging tasks, there should be continuous efforts to complement how to evaluate additionality to prove the legitimacy of providing public fund to the private sector.