

IDB INVEST UPDATED ADDITIONALITY FRAMEWORK

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Overview: Additionality at IDB Invest

Additionality is central to the mandate of IDB Invest and is embedded in its founding documents and Impact Management Framework.¹ IDB Invest is among the few development banks and impact investors that explicitly and transparently assesses additionality through its impact management tool (the DELTA).

For IDB Invest, additionality refers to the key financial and non-financial inputs it brings to make the project or investment happen, make it happen sooner than it would otherwise, and/or improve its development impact and sustainability. Therefore, the concept of additionality focuses on the value added that IDB Invest brings to make a project feasible and ensure and/or reinforce the development impact of each of its operations in terms of timing, scale, efficiency, and quality. It is also based on a counterfactual approach, considering what would likely happen in the absence of IDB Invest's involvement.

In sum, IDB Invest's approach to additionality responds to two fundamental questions:

- Would IDB Invest participation make the transaction feasible or improve the conditions for its implementation?
- Would IDB Invest participation contribute to enhancing the operation's impact and/or building the client's capacity for long-term sustainability?

IDB Invest has been implementing its current additionality framework since 2016. It is aligned with the Multilateral Development Banks' Harmonized Framework for Additionality in Private Sector Operations, which IDB Invest jointly developed with other MDBs in 2018.² This harmonized framework establishes a standardized definition of the concept of additionality, a taxonomy of the different types of additionality (financial and non-financial), and the type of evidence needed to demonstrate additionality.

Building on this solid foundation and eight years of implementation experience, it is now time to consolidate IDB Invest's approach to additionality into an updated framework for two main reasons. First, to ensure it is fit-for-purpose for the ambitions of IDB Invest's New Vision and Business Model, aiming to deliver greater impact on a larger scale. This means increasing its risk appetite and mobilizing investors, with a special focus on domestic and regional investors, towards impactful investment opportunities in the region, which requires expanding existing financial products (equity and equity-like instruments, local currency solutions), as well as developing new tools for de-risking

¹ The [Agreement Establishing the IIC](#), Article III, Section 3, that established, among other Operating Principles, that the Corporation (c) shall provide financing on term and conditions which it considers appropriate taking into account the requirements of the enterprises, the risks assumed by the Corporation and the terms and conditions normally obtained by the private investors for similar financings; and (g) shall not undertake any financing for which, in its opinion, sufficient capital could be obtained on adequate terms.

² See the [MDB Harmonized Framework for Additionality in Private Sector Operations](#), which builds on the [2012 Principles to Support Sustainable Private Sector Operations](#).

and mobilization, and widening the catalogue of advisory services. In turn, IDB Invest’s additionality framework will include these expanded sources of additionality to strengthen how it responds to country, client, and investor demands and facilitates the prioritization of impactful projects.

Second, to respond to the Office of Evaluation and Oversight’s (OVE) recommendation to “strengthen the institutional focus on the concept of additionality and its analysis at a strategic level, beyond individual operations” in its 2023 evaluation of IDB Invest.³ Specifically, it recommended developing an additionality framework, implementing a systematic analysis of additionality at the portfolio level, and systematically incorporating the concept of additionality and its analysis into the development of country strategies.

Updated Additionality Framework

Objective

The objective of the Updated Additionality Framework⁴ is to promote a shared understanding of the concepts of financial and non-financial additionality and how they are assessed across IDB Invest. This framework will lay the groundwork for how IDB Invest operationalizes these concepts through its tools and processes moving forward, from how additionality is scored in the DELTA impact rating to how it is factored into the preparation of country strategies and upstream work. Taken together, this will foster clearer communication around the additionality aspect of project ratings, portfolio reviews, and country-level assessments.

Scope

The Updated Additionality Framework establishes the core principles guiding additionality at IDB Invest, outlining the sources of both financial and non-financial additionality that IDB Invest may deliver. It also provides guidance on verification methods to demonstrate additionality. The full operationalization of these additionality principles is out of the scope of this document and will be defined in the DELTA+ tool, which will feature comprehensive guidelines and metrics to evaluate and quantify the value added brought by IDB Invest to clients in specific projects to ensure the achievement of development objectives. The definition of the minimum acceptable level of additionality is also beyond the scope of this document as it requires a comprehensive assessment of the interaction between additionality, impact, and financial sustainability.

³ OVE Evaluation of IDB Invest (CII/RE-83-2).

⁴ The Updated Additionality Framework is one element of the ongoing reforms underway to strengthen IDB Invest’s Impact Management Framework, which also include developing an intentional approach to selectivity and upstream work, a sustainable portfolio approach, and the DELTA+.

Guiding Principles

IDB Invest's Updated Additionality Framework is guided by the following **five principles**:

1. **Additionality is embedded in the project's theory of change.** The analysis of additionality should identify the specific barriers in the country and sector that are impeding the investment and how IDB Invest's involvement will address these barriers to unlock private investment (i.e., reducing information asymmetries, technological, regulatory or macroeconomic risk, etc.).
2. **Additionality is based on a deep analysis of country contexts and client profiles.** The assessment should consider the country and sector context (e.g., availability of private sector financing and sector maturity), market conditions, the client's risk profile and level of preparedness to implement the project, and a counterfactual scenario where IDB Invest does not participate in the investment. This allows IDB Invest to pinpoint the essence and scale of its additionality. In other words, some projects would not go ahead without the involvement of a development finance institution whereas others would go ahead but with weaker financing conditions or in a less timely manner.
3. **Additionality is maximized through a long-term approach that leverages IDB Group synergies.** A strategic approach to additionality in countries and sectors in the long-term, leveraging synergies with the IDB Group, increases the chances of achieving higher additionality.
4. **Additionality is assessed based on available evidence and market knowledge.** Demonstrating additionality requires providing a justification and evidence (e.g., financial market information, sector/industry reports, sensitivity analysis, academic research) to the extent possible, which will be complemented by expert judgement from IDB Invest's Development Effectiveness team.
5. **Additionality is assessed throughout the project cycle from origination to supervision and final evaluation.** The ex-ante additionality assessment's main objective is to identify projects where IDB Invest brings the most value to enhance the delivery of impact, leveraging the client's competitive advantages and providing financial solutions not available from commercial sources at adequate terms and/or the technical expertise to foster the long-term sustainability of projects and clients. During the supervision stage, the additionality assessment's main objective is to identify any deviations from the project's expected trajectory and propose corrective actions as needed to ensure the expected results are achieved or identify unmet needs and opportunities for improvement that may bring additional value added. This focus on results during supervision allows IDB Invest to reflect on the structuring process and capture important lessons learned to inform future operations and decision-making and improve its value added for clients. At the final evaluation stage, the additionality assessment analyzes to what extent IDB Invest's contribution proved to be additional to achieve the expected results based on observable and reported data.

Additionality Categories and Definitions

The Updated Additionality Framework is explicitly aligned with the categories outlined in the MDB Harmonized Framework for Additionality in Private Sector Operations. It identifies eight sources of financial and non-financial additionality, as shown in Table 1, and described in more detail below.

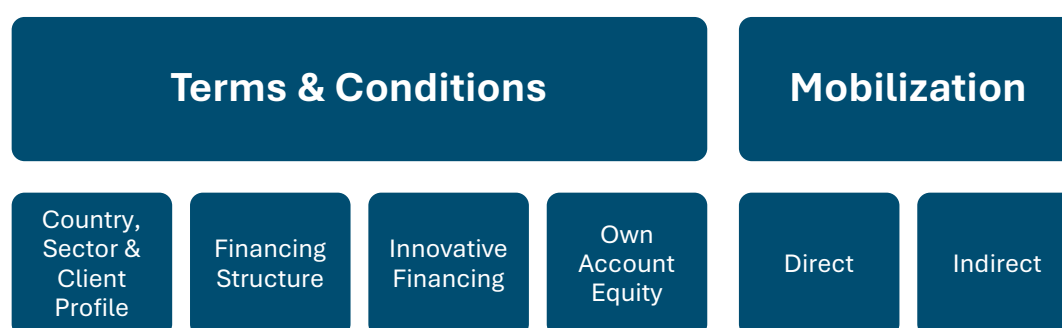
**Table 1. Alignment of Updated Additionality Framework to
MDB Harmonized Additionality Framework**

Category	MDB Harmonized Framework for Additionality in Private Sector Operations	IDB Invest Updated Additionality Framework
Financial Additionality	Financing Structure	Country, Sector, and Client Profile
		Financing Structure
	Innovative Financing Structures and/or Instruments	Innovative Financing
	MDBs' Own Account Equity	Own Account Equity
	Resource Mobilization	Resource Mobilization
Non-Financial Additionality	Risk Mitigation	Enabling Business Environment (Risk
	Policy, Sector, Institutional, or Regulatory Change	Mitigation, Policy, Sector, Institutional or Regulatory Change)
	Standard Setting: Helping Projects and Clients Achieve Higher Standards	Standard Setting & Adoption
	Knowledge, Innovation, and Capacity Building	Knowledge, Innovation, and Capacity Building

Financial Additionality

Financial additionality refers to the terms and conditions offered by IDB Invest and the resources it mobilizes from third parties. The terms and conditions offered, such as the type of innovative financing instrument or structure, vary depending on the client's profile, the economic context, and availability of financing in the country of operations, resulting in different degrees of financial additionality. IDB Invest financing must exhibit a measurable degree of financial additionality by offering terms and conditions that surpass those currently available in the market.

Figure 1. Financial Additionality Components



Terms and Conditions

The "Terms and Conditions" element includes a contextual component (Country, Sector, and Client Profile) and three components⁵ related to financing characteristics (Financing Structure, Innovative Financing Instruments, and Own Account Equity).

- (i) **Country, Sector, and Client Profile:** The level of financial development is uneven across the region, resulting in a broad spectrum of financing needs. Likewise, a country's risk profile, macroeconomic environment, and stability play a key role in the availability of financing for the private sector. On the other hand, clients' access to finance is influenced by their financial strength, their position relative to the market where they operate, and the sector's development stage. For instance, clients in less developed financial markets may require larger financing amounts and longer tenors. For more sophisticated demand in more developed markets, financial additionality may require innovative instruments and higher risk-reward solutions.

⁵ Not all criteria will be applicable to all transactions.

- (ii) **Financing Structure:** Refers to the distinct characteristics of IDB Invest financing, which are not available in the market from commercial sources on reasonable terms and conditions. These characteristics include amount, pricing, tenor, grace period, provision of local currency, subordinated position, improved structures (e.g., debt sculpting), security or collateral requirements, timeliness, and support for project preparation.
- (iii) **Innovative Financing:** Refers to innovative financing structures and instruments that add value by (i) lowering the cost of capital; (ii) better balancing risks among the parties; (iii) leveraging IDB Invest capital to crowd-in additional investors; or (iv) contributing to market development. For example, this includes instruments or structures with innovative features or asset classes new to a specific market, such as impact performance-linked instruments. Innovation is market-specific; a structure or instrument could be considered innovative if it is new to a market even if it already exists in more developed markets. Thus, innovative financing is country-specific. Financial innovation can drive market creation by showcasing demonstration effects and encouraging replication.
- (iv) **Own Account Equity:** Equity and equity-like investments that have a unique contribution to strengthen the financial soundness, creditworthiness, and/or governance of the client and that have the potential to influence the strategic direction of businesses to make them more productive, sustainable, and inclusive, and to achieve transformational impact.

Resource Mobilization

To scale its impact, IDB Invest has developed new products and solutions to boost mobilization for private sector operations and connect international and domestic investors to development projects in the region. This requires building a portfolio of financially and economically sustainable projects with solid impact metrics and creating structures that reduce risk and create incentives for private investors to participate.

For instance, local currency mobilization solutions are instrumental to foster the participation of domestic investors and contribute to local capital market development while helping clients prevent currency mismatches and foreign exchange risk. The participation of domestic investors also has a signaling effect in the market, boosting confidence that may attract international investors. IDB Invest's support for new asset classes and first-of-a-kind projects in the capital markets has proved to be effective in encouraging investor participation through structures such as B-bonds or acting as anchor investor.

Likewise, the use of risk mitigation instruments such as guarantees enables the mobilization of private investment in riskier environments (e.g., non-investment grade countries) or the participation of investors in investments under new regulatory frameworks (e.g., Public-Private Partnerships). Similarly, risk transfer tools such as insurance expand IDB Invest's financing capacity.

The originate-to-share model expands opportunities for mobilization with new instruments such as portfolio mobilization through securitization or the partial sale of assets that optimize the use of capital to further leverage IDB Invest's balance sheet.

Resource mobilization refers to direct mobilization (core mobilization) and indirect mobilization and includes a range of products with distinct features (e.g., different degrees of risk bearing).

Direct Mobilization

Direct financing or risk transfer deployed by a third-party entity, inclusive of resources under management from donors (on a market basis), committed to an IDB Invest operation due to the active and direct involvement (i.e., auditable) of IDB Invest in securing the financing commitment.

It includes instances where IDB Invest acts as mandated lead arranger such as syndicated loans, partial credit guarantees, unfunded risk transfers, A/B loans, B Bonds, liquidity lines or guarantees for capital markets, local currency structures that mobilize other DFIs, partial sale of assets, securitizations, or financing linked to upstream advisory services.

Indirect Mobilization

Financing deployed by a third-party entity in connection with a specific activity for which IDB Invest is providing financing, where there is no validated or auditable evidence of active and direct involvement of IDB Invest in securing the financing and where no MDB is playing an active or direct role that leads to the commitment of the private entity's financing. It includes parallel financing for which IDB Invest did not have an active and direct role in raising that financing, but where its participation had a signaling effect.

Demonstrating Financial Additionality

Providing robust supporting evidence to demonstrate financial additionality can be a complex task due to limited publicly available information to establish benchmarks. Due to this limitation, estimates of additionality have traditionally been based on rigorous qualitative assessments. In addition, additionality assessments should be accompanied by some sort of evidence or means of verification and proper documentation of the baseline situation. Examples of means of verification include:

Terms & Conditions

- Financial statements, financial models, economic reports, letters from the client, communications with commercial banks on financing terms and conditions available in the market.
- IDB Group country and sector diagnostics.

- Analysis of the economic context and external factors that may impact the project. The additionality of improved structures often resides in how well they manage or mitigate some of the project's identified risks that prevent access to finance, such as political instability, market uncertainty, climate or technological risks.

Resource Mobilization

- Evidence of an active and direct involvement may include mandate letters, contracts such as loan syndication agreements and guarantee contracts, memorandums of understanding, fees linked to financial commitment, or other auditable evidence that private investors have made their participation in a project conditional on the participation of IDB Invest.

Non-Financial Additionality

Non-financial additionality refers to non-financial products and services provided by IDB Invest to maximize the impact of projects and reinforce clients' capabilities, including promoting the adoption of high environmental, social and corporate governance (ESG) standards, mitigating non-financial risks, and strengthening markets and business environments through upstream support. It also includes generating knowledge and supporting innovation and capacity building to enhance the scale, quality, timing and/or sustainability of the impact delivered.

Addressing projects' non-financial risks is a core pillar of IDB Invest's value proposition under the new business model. Non-financial risks such as a client's weak corporate governance or capacity to implement improvements/strategies/products or manage environmental and social risks, as well as volatile sociopolitical and regulatory environments, are among the main challenges that may prevent the successful implementation of projects and their full realization of long-term impact.

The use of non-financial de-risking instruments seeks to identify and manage actual or perceived risk that may hinder private investment, to mitigate its impact and help attract private investors and unlock third party financing. Non-financial de-risking may take place at the project, sector or country level through standard setting, enabling the business environment or supporting knowledge, innovation and capacity building.

Figure 2. Non-financial Additionality Components

Standard Setting & Adoption

This involves helping projects and clients achieve higher ESG standards and better integrity and procurement practices to improve the project's impact and performance in cases where clients lack the ability to meet such standards without support, and/or where laws and/or market practice do not reinforce such standards or require lower ones compared to IDB Invest's requirements. This may include changes in policies, providing guidance, establishing standards, offering technical support and training, or introducing international best practices to clients and their stakeholders on ESG and integrity matters. For instance, IDB Invest enhances clients' policies and practices to comply with IDB Invest's Environmental and Social Sustainability Policy and Integrity Framework (e.g., through environmental, social and gender risk assessments, ensuring public consultations with project stakeholders, conducting corporate governance and integrity due diligences or designing robust action plans to mitigate identified risks).

At the sector or country level, IDB Invest involvement may also contribute to set or reinforce standards by introducing and prescribing internationally recognized best practices, promoting adoption through active knowledge dissemination, training and engagement with sector associations, or providing technical guidance for the formulation or improvement of such standards.

Enabling the Business Environment (Risk Mitigation, Policy, Sector, Institutional or Regulatory Change)

Inputs IDB Invest provides to improve the enabling environment such as changes in the policy, sector, institutional or regulatory framework, or enhanced practices at the sector or country level that help mitigate non-financial risks that may affect the project (e.g., country, regulatory, or economic cycle risks), providing assurance to clients and investors.

Enabling the business environment also includes instances where IDB Invest actively engages in upstream activities, jointly with IDB, to create investment opportunities and nurture the development of new markets around priority areas for IDB Invest, by supporting rule of law and creating the conditions for conducive business environments that enable systemic impact. For instance, IDB Invest may help introduce changes or test new policies, regulations or legal frameworks that facilitate private investment and develop local capital markets. Also, it may support the development of public-private partnerships or enhance contractual documents and agreements to enable private sector investment. Likewise, in some cases, the involvement of an MDB like IDB Invest may have a signaling effect on the market by instilling private investor confidence due to its rigorous due diligence process and long-term partnership with governments that can help mitigate anticipated non-financial risks that could affect the project.

Knowledge, Innovation, and Capacity Building

This component refers to how IDB Invest supports clients to build or strengthen their capabilities through advisory services, innovation, and knowledge generation that are material to the timely realization of the project's anticipated development impact. This may include support such as:

- Helping clients manage climate change risks and environmental impact directly related to their operations.
- Guiding clients on integrating gender equality, diversity, and inclusion lenses in their policies and practices across business functions.
- Advising clients on how to develop internal capabilities to measure and manage impact and integrate impact considerations into their strategy and reporting.
- Fostering business innovation and digital transformation.
- Generating and disseminating knowledge and lessons learned to the market.

Demonstrating Non-financial Additionality

The effects of upstream non-financial additionality products and services are typically visible at project approval; however, the effects of downstream non-financial products and services may not be observable until the supervision and evaluation stages of the project. In this sense, a monitoring and evaluation framework for advisory services will be designed and implemented to facilitate results tracking and the generation of lessons learned.⁶ Evidence of non-financial additionality may be justified by providing market information on identified project risks expected to be mitigated by IDB Invest's involvement such as:

- Country rating reports.
- Documented expected changes in sector/market regulation relevant to the project.
- Comparative analysis against local ESG requirements and standards.
- Action plans and agreements for the delivery of advisory services.
- Loan agreement provisions regarding the implementation of non-financial services (e.g., covenants, conditions precedent to disbursement).
- Description of the role of IDB Invest as honest broker between foreign and local sponsors and government to ensure the successful implementation of the project.
- Client testimonials and behavior change (e.g., adoption of or alignment to standards).

⁶ OVE's evaluation of IDB Invest (CII/RE-83-3) states the following recommendation: Develop a strategy and governance for advisory services, which should include a clear definition of the different types of services and their objectives, selection and prioritization criteria, sources of financial resources, client concessionality mechanisms, and a monitoring and evaluation system.