Independent Evaluation ADB

Additionality of ADB's Nonsovereign Operations

RECOMMENDATIONS

Strategic

1. ADB's policy and/or guiding documents, such as the Operations Manual section D10 and its associated staff instruction, should be revised to include additionality and development effectiveness as a core strategic focus for ADB nonsovereign operations. ADB should (i) make financial additionality a necessary precondition for the approval of nonsovereign projects, (ii) explain the guiding principles and procedures needed to meet this precondition, and (iii) revise the guidance note with detailed instructions to help staff screen, design, and examine evidence of additionality claims. Performance on additionality should be incentivized, for example by linking it to the yearly staff performance assessment.

2. ADB country partnership strategies (CPSs) should scale up good practice in country teams and more consistently adopt a "One ADB" approach, by reflecting meaningful input from the Private Sector Operations Department (PSOD). They should be based on country-specific private sector diagnostics that identify which sectors and areas have the greatest potential for NSO to deliver additionality in support of targeted Strategy 2030 operational priorities.

Operational

3. ADB should further integrate additionality into its existing systems to ensure better tracking, monitoring and reporting as part of the envisioned end-to-end system. The system should (i) screen projects for additionality at the concept and ex ante approval stages, (ii) monitor claims of additionality during project implementation, (iii) include ex post summary assessments of additionality upon project completion, and (iv) link additionality to development outcomes. ADB should report on how its additionality contributions have supported the realization of project outcomes in the annual PSOD report on development effectiveness.

4. ADB should institute a formal capacity development and training program on additionality for staff as well as for other relevant stakeholders. Attending the training program should be made obligatory for staff and delivered on an ongoing basis to ensure staff have an up-to-date understanding of additionality concepts.

Institutional

5. ADB should strengthen the governance mechanism for approving projects, including consideration of financial additionality as a necessary minimum precondition for PSOD projects to proceed. A quasi-independent entity should be in place to review the different forms of additionality claims and to confirm that the financial additionality precondition has been met.

EVALUATION SCOPE

This evaluation covered the effectiveness of ADB's nonsovereign operations (NSO) in delivering additionality in its projects and the extent to which these contributed to development outcomes during 2008–2020. The evaluation's overarching question was: To what extent is additionality present in ADB's nonsovereign operations and how has this contributed to enhanced development outcomes in Asian Development Bank developing member countries?

During the evaluation period, ADB approved NSO with a total amount of $26.9 billion spread across 350 projects, of which 44, amounting to $3.6 billion, were fully cancelled. Of the remaining 306 projects, $19.9 billion has been committed for 273 projects. Nearly two-thirds of the total committed amount was for infrastructure finance. Financial institutions accounted for 31% of the total committed amount, and private equity funds for 5%. The energy sector had the largest share (42%), followed by finance (34%), and transport (8%). By country, India had the biggest share (26%), followed by the PRC (18%). ADB also approved a total of 141 nonsovereign technical assistance (TA) grants amounting to $143.2 million, of which eleven TA projects, amounting to $4.8 million, were cancelled.

The evaluation team performed: (i) a comparator review of additionality measures with the International Finance Corporation, the European Bank for Reconstruction and Development, the Inter-American Development Bank Group's IDB Invest, the European Investment Bank, and the African Development Bank; and (ii) conducted extensive consultations with ADB staff and stakeholders.

OVERALL ASSESSMENT

ADB's nonsovereign operations have delivered additionality in many of its projects (69% of 154 evaluated projects) although the satisfactory rate has been trending downwards. ADB's corporate strategies have evolved and now capture the concept of additionality, but ADB has not provided sufficiently clear guidance to staff to enable them to operationalize additionality at the country and project level. ADB also lacks an adequate tracking system of additionality, limiting its contributions to development outcomes in the region.

ADB's additionality efforts contributed mostly to the provision of financing that was not being supplied by the market and mobilization of external capital. In some cases, ADB's claims that it was providing capital that was not being supplied by the domestic market did not seem credible when the client had strong market presence and demonstrated access to financing. This was especially the case in more developed markets or when no evidence is provided to substantiate ADB's additionality. This has also been an issue with some projects in frontier economies. With the development of the financial markets in DMCs and the introduction of new products from domestic financiers, projects in which ADB provides financing with a longer tenor than usual for the market, or equity financing that others are not willing to supply, will have to be justified by innovative financing structures and superior nonfinancial additionality.

The quality of ADB's nonfinancial additionality was affected by the absence of a framework for delivery and inadequate monitoring. A system for establishing a proper framework ex ante and for monitoring and tracking the nonfinancial outcomes of ADB NSO will be needed.

KEY ISSUES

External

- **Market evolution may render certain types of additionality ineffective.** The additionality of a development institution may change depending on how market imperfections evolve, clients' needs, the institution's own capabilities, and what other commercial players and MDBs are providing.

- **The lack of well-developed institutions in emerging market economies often constrains the assessment of additionality.** The opaqueness of the information on market terms and available financing, for example, can make the assessment of market imperfections and additionality challenging.

- **Weak monitoring and evaluation systems of private sector clients can hamper the tracking and reporting of additionality.** This is particularly true for nonfinancial additionality, which is delivered over time. Putting in place proper systems and devoting personnel time to tracking and reporting on environmental and social safeguards indicators is an additional cost for clients.

Internal

- **While additionality is a requirement for nonsovereign operations in the Operations Manual section D10, the document and its associated staff instruction are unclear as to whether financial additionality is a necessary precondition for approval of projects.** Meanwhile both Strategy 2030 and the Operational Plan for Private Sector Operations, 2019–2024 mention that ADB will address market failures without distorting or crowding out the private sector markets. The approach described in section D10 is risky as it implies nonfinancial additionality claims alone may be sufficient for project approval. ADB risks crowding out private sector finance and distorting financial markets, which could negatively impact the long term sustainability of attracting much needed private sector finance to meet economic development goals, including addressing climate change and other SDG objectives. The economic costs of disrupting private sector financial markets may not be compensated for by the potential benefits of nonfinancial additionality, which are difficult to quantify and apportion. Moreover, they can only be ascertained several years later.

- **The additionality of nonsovereign operations has not been consistently incorporated in CPSs.** A strategic view of the market imperfections that need to be addressed through nonsovereign operations and ADB's comparative advantage in doing so has rarely been presented at the country level.

- **ADB does not have a fully implemented system for objectively assessing additionality at entry or for monitoring additionality.** During the evaluation period, this has meant the quality of ex ante assessments of additionality and the articulation of additionality in approval documents have both varied. Monitoring systems are geared mainly toward tracking a project's financial performance, credit issues, and development results.

- **Aggregate reporting on additionality has been limited.** There is no annual aggregate ex ante reporting on project additionality. Additionality is only reported ex post, through the individual project self-evaluations and validation reports.

- **The concept of additionality has not been consistently understood within ADB.** While a guidance note on additionality was circulated in 2018, a lack of staff training limited its effectiveness in promoting a consistent approach to additionality in PSOD's business processes.

- **ADB's governance mechanism for project approval is inadequate to screen projects for additionality.** There is no clear advocate with the capacity to review claims of financial additionality on the Investment Committee. ADB is in the process of developing a governance structure for the Concept Review and the Investment Committees.

- **ADB pays less attention to additionality than to financial sustainability and development impact**. While both are important, the unique inputs or contributions needed to achieve financial sustainability and development impact are no less important.