

## Management Response to IED's Thematic Evaluation on the Additionality of ADB's Nonsovereign Operations

On 9 March 2022, the Director General, Independent Evaluation Department, received the following response from the Special Senior Advisor to the President on behalf of Management:

1. Management welcomes the Thematic Evaluation on Additionality of ADB's Nonsovereign Operations of the Independent Evaluation Department (IED) and appreciates the insights offered to further sharpen the additionality and development outcomes of nonsovereign operations (NSO).
2. Management offers the following observations on the findings and recommendations of the evaluation report.

### I. Comment on the Findings

3. **Inadequate picture of additionality.** Since 2019, under an umbrella initiative of the "Development Effectiveness Upgrade Program," ADB has undertaken specific and tangible steps to improve the development impact and additionality of its private sector operations. These initiatives and their integration with existing processes were not adequately recognized by the study. As a result, the recommendations covered a number of management-led actions currently underway as well as actions that have been implemented in 2021. Management considers that more effective consultation with the management of the Private Sector Operations Department (PSOD) would have provided a more thorough portrayal of additionality in NSO.

### II. Response to the Recommendations

4. **Recommendation 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.**

**Management agrees** to review and, if necessary, revise OM D10 and the associated staff instructions to ensure that statements made on additionality are sufficient, such that additionality and development effectiveness are core strategic focus of the nonsovereign operations of ADB. In its pursuit of additionality, Management confirms its continued aim to "crowd in" private sector finance in every transaction to maximize development impact.

Additionality is already a pre-condition for project selection and may be either financial and/or nonfinancial in ADB nonsovereign projects. This approach is consistent with the Multilateral Development Banks' Harmonized Framework for Additionality in Private Sector Operations (MDB Harmonized Framework)<sup>1</sup>, which forms the basis of the internal guidance of ADB to staff on additionality. Under the MDB Harmonized Framework—a document which was cited throughout the report for the purposes of defining additionality—it is not necessary for both types of additionality (financial or nonfinancial) to be present in any given transaction.

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<sup>1</sup> [2018 Multilateral Development Banks' Harmonized Framework for Additionality in Private Sector Operations](#)

**Management disagrees** with the pre-condition of financial additionality for all approvals as it would narrow the scope of projects that may benefit from the value addition of ADB nonsovereign operations, thus reducing opportunities for development impact. Management believes that a better approach (as opposed to a pre-condition of financial additionality) is to ask what value or contribution ADB adds to a transaction (i.e., whether this value addition is reflected in a design of a project, financial structure, mobilization of other financiers or nonfinancial features such as sector expertise, knowledge transfer, policy advice, enhanced standards and/or capacity building), and whether this is sufficient. The approach of ADB is consistent with the trend for assessing additionality observed by the Evaluation Cooperation Group in its report on additionality which states, “it is in fact harder to be confident about financial additionality than non-financial additionality whereas the opposite is true of the MDB’s value added”.<sup>2</sup>

Management also considered the ADB Charter, which describes financial additionality as a consideration, but does not require financial additionality, unlike the founding documents of several peer MDBs. The drafting history of the charter shows that a requirement of financial additionality was specifically omitted.

Finally, the report does not provide sufficient justification as to why financial additionality should be a pre-condition for approval. It also does not appreciate that financial additionality can be difficult to assess (footnote 2). Financial additionality should therefore remain a consideration rather than a pre-condition for the approval of nonsovereign projects.

**5. Recommendation 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 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.**

**Management agrees.** This recommendation is aligned with the conclusions of the Review of ADB’s Resident Mission Operations (RM Review)<sup>3</sup> of 2020, which defines specific management actions oriented towards institutionalizing sovereign-nonsovereign cooperation and One ADB approaches, particularly as it applies to CPS development. The RM Review has provided guidance on best practices for developing the multiyear CPS and how this document cascades to the annual Indicative Country Pipeline and Monitoring (ICPM) report—the latter of which provides a common platform to operationalize the CPS across sovereign and nonsovereign operations. Specifically, the RM Review has already reinforced the expectations of the Management for best practices with respect to CPS drafting, through guidelines that specify the deeper country-specific diagnostics and the criticality of meaningful nonsovereign input. On a related point, the CPS template, which was revised in 2019, includes existing, specific instructions to articulate how nonsovereign operations will contribute beyond what is available in the market and what constitutes additionality. Finally, the ICPM operates as the annual guiding platform for deliberative and decision-making processes of ADB related to CPS implementation, such as: (i) changes in the strategic directions to respond to new or evolving country circumstances; (ii) discussion of the portfolio status and assessments on measures to improve performance, and (iii) indications of potential nonsovereign opportunities.

<sup>2</sup> The Evaluation Cooperation Group. 2020. [2020 Report on Additionality](#). The Evaluation Cooperation Group was established in 1996, seeks to promote a more harmonized approach to evaluation methodology, across the MDBs.

<sup>3</sup> ADB. 2020. *Review of ADB’s Resident Mission Operations*. Manila.

6. **Recommendation 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.**

***Management agrees.*** This recommendation is consistent with the objectives of the Development Effectiveness Upgrade Program (DE Upgrade Program), which commenced in 2019 and envisages a comprehensive, end-to-end system that integrates additionality into decision-making, from screening to evaluation stage, with the overall goal of improving project success rates for private sector operations. Under the DE Upgrade Program, management actions, which have already been implemented to date, include the screening for additionality at the concept approval stage and the launch of the pilot Ex-ante Development Impact Framework, which incorporates the concept of ‘additionality’ as one of its five core dimensions for quantitative scoring. Tracking, monitoring, and reporting of additionality claims continues to be undertaken via standard, legally-bound requirements—such as those found in gender action plan reports, annual environmental and social monitoring reports, and development effectiveness monitoring reports—and this will be bolstered by further improvements through the design and integration of post-approval monitoring of ex-ante scoring of projects. Upon project completion, additionality will continue to be included in ex-post summary assessments of private sector projects via the Extended Annual Review Report (XARR)—which will also continue to link additionality to development outcomes, wherever such additionality originates from the investment and is captured by suitable indicators. The actions above form the ‘system’ by which ADB will further integrate additionality into existing systems.

7. **Recommendation 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.**

***Management agrees.*** Enhancing human resources—specifically through training and development of its staff—is a core pillar to deliver the Strategy 2030 of ADB through a stronger, better, and faster organization. Management agrees that staff training is important to improving the capacity of ADB to deliver development effectiveness and additionality. PSOD has established a capacity development and training program in 2021, covering development impacts and additionality, as part of its pilot Ex-Ante Development Impact Framework. During 2022, this program will be expanded to include the theory of change and can be made available to those across ADB, including sovereign operation mission leaders, head of departments, and the Board.

8. **Recommendation 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.**

***Management agrees*** to the concept of strengthened governance and an independent review. Management actions since the start of 2021 have included an interdepartmental

effort to strengthen the governance mechanism for evaluating additionality in the approval process of private sector projects, centered around the pilot Ex-ante Development Impact Framework. The fundamental principle driving this work has been the incorporation of an independent sign-off for the scoring of the various quantitative dimensions of the pilot Ex-ante Development Impact Framework, which specifically includes additionality.

**Management disagrees** with specifying financial additionality as a pre-condition for project approval, as noted above.