Thematic Evaluation

Additionality of the Asian Development Bank's Nonsovereign Operations

Independent Evaluation ADB

Raising development impact through evaluation

Thematic Evaluation
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NOTE

In this report, “$” refers to United States dollars.

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Abbreviations

ABL	–	Axis Bank Ltd.
ADB	–	Asian Development Bank
ADOA	–	Additionality and Development Outcomes Assessment
AfDB	–	African Development Bank
AIM	–	Additionality and Impact Measurement
BIO	–	Belgium Investment Company for Developing Countries
CDBL	–	Central Depository Bangladesh Ltd.
CDTA	–	capacity development technical assistance
COVID-19	–	coronavirus disease
CPS	–	country partnership strategy
DEG	–	Deutsche Investitions- und Entwicklungsgesellschaft
DELTA	–	Development Effectiveness Learning, Tracking and Assessment
DMC	–	developing member country
DMF	–	design and monitoring framework
EBRD	–	European Bank for Reconstruction and Development
EIB	–	European Investment Bank
ESHS	–	environment, social, health, and safety
ESMS	–	environmental and social management system
FAST	–	Faster Approach to Small Nonsovereign Transactions
FMO	–	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden NV (Netherlands Development Finance Company)
HDFC	–	Housing Development Finance Corporation
IDB	–	Inter-American Development Bank
IED	–	Independent Evaluation Department
IEG	–	Independent Evaluation Group
IFC	–	International Finance Corporation
IIFCL	–	India Infrastructure Finance Company Limited
MDB	–	multilateral development bank
NSO	–	nonsovereign operations
OEB	–	Oesterreichische Entwicklungsbank
ORM	–	Office of Risk Management
PCG	–	partial credit guarantee
PPER	–	project performance evaluation report
PRC	–	People’s Republic of China
PSO	–	private sector operations
PSO OP	–	Operational Plan for Private Sector Operations
PSOD	–	Private Sector Operations Department
PSTS	–	Private Sector Transaction Support Division
RBI	–	Reserve Bank of India
RRP	–	report and recommendation of the President
SDG	–	Sustainable Development Goal
SPV	–	special purpose vehicle
TA	–	technical assistance
TCR	–	technical assistance completion report
TRTA	–	transaction technical assistance
XARR	–	extended annual review report
XVR	–	XARR validation report
YBL	–	YES Bank Ltd.

Contents

Foreword

This report presents the results of an independent evaluation of additionality in the Asian Development Bank (ADB) nonsovereign operations (NSO) during the period 2008–2020. It assesses the extent to which additionality concerns have been successfully integrated into the client engagement, project development, and monitoring processes. It provides insight on how ADB's NSO have evolved and sought to incorporate additionality into both new and existing portfolio projects.

ADB strives to ensure additionality when financing nonsovereign projects. Additionality inputs, conceived as value-adding interventions above and beyond what can be provided by commercially available funding, support and motivate clients to deliver positive, long-term, sustainable development outcomes. Whether classified as financial or nonfinancial in nature, additionality measures are often the means through which both constructive partnerships and broader ADB strategic goals are achieved.

Proper accounting for additionality is important for both the selection and design of potential projects as well as for ensuring the optimization of ADB staffing and resource allocation. Additionality is a key differentiator of ADB as a multilateral development finance institution, setting its contributions apart from the activities of more narrowly focused commercial lenders. Constructive and thoughtful engagement on additionality is both a hallmark of a client-centered approach and an opportunity to demonstrate institutional leadership.

Examining ADB's nonsovereign portfolio in depth and reflecting on engagement with ADB staff, external clients and peer institutions, the evaluation offers a set of evidence-based findings that offer insights on how ADB's focus on additionality can be enhanced. One of the key findings of the evaluation is that, while NSO have delivered additionality in many projects, the satisfactory rate of these operations has been trending downwards. ADB's corporate strategy has evolved and now captures the concept of additionality more accurately. ADB has not provided clear guidance on operationalizing additionality at the country and project level. The report recommends that, to be consistent with current operational plans, financial additionality be a minimum precondition for project approval. ADB also lacks an adequate tracking system of additionality, which limits its contributions to development outcomes. While ADB's NSO additionality interventions have contributed to positive development outcomes, mainly in the energy and finance sectors in Southeast Asia, South Asia, and Central and West Asia, its full potential for value addition can be further enhanced.

In the context of ADB's corporate Strategy 2030, the evaluation calls for ADB to strengthen the NSO focus on additionality by revising ADB policy documents and by making financial additionality a necessary precondition for the approval of NSO projects. The report also calls for the development of guiding principles specifying and evidencing additionality at the project approval and monitoring stages, adjustments to staff training, and project governance. The recommendations presented in this report aim to stimulate action so ADB can improve the ways in which additionality in NSO can better support its overall delivery of Strategy 2030 operational priorities.

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The Independent Evaluation Department remains fully responsible for the contents of this report.

THE EVALUATION IN BRIEF

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.

Executive Summary

Introduction

This paper presents the results of an independent evaluation of the additionality of the Asian Development Bank's (ADB's) nonsovereign operations. ADB's support for the private sector through its nonsovereign operations (NSO) has grown considerably over the past decade and was a key component of both Strategy 2020 and Strategy 2030. Additionality is a fundamental principle that has guided ADB's support for the private sector through its NSO. Focusing on the period 2008–2020, the evaluation examined the effectiveness of ADB's nonsovereign operations in delivering additionality in ADB projects and the extent to which these operations contributed to development outcomes.

Concept of Additionality

Additionality refers to a unique set of inputs or services that multilateral development banks (MDBs) contribute to a project that help lead to anticipated development impact. For these inputs and services to qualify as "additional," they must complement and not substitute for what the private sector can provide. It would be a suboptimal use of resources for MDB financing to substitute for private sector finance as this crowds out the commercial players that governments wish to encourage. Additionality can also be seen as the difference an MDB's input makes to a project or sector compared with what might have happened otherwise.

The concept of additionality evolved and was harmonized among MDBs in 2018 via the Multilateral Development Banks' Harmonized Framework for Additionality in Private Sector Operations (Harmonized Framework, 2018). Additionality can be broadly classified as financial and nonfinancial. Financial additionality refers to (i) provision of financing that is not available from commercial sources on reasonable terms (i.e., longer tenor, larger amounts, or financing in local currency); (ii) introduction of an innovative financing structure that helps reduce risk or lowers the private sector client's cost of capital; (iii) use of an MDB's own equity account; or (iv) mobilization of commercial capital. Nonfinancial additionality refers to the: (i) provision of guidance or technical assistance (TA) to improve project or client standards (i.e., policies pertaining to environmental, social and governance standards); (ii) provision of knowledge and expertise aimed at improving the client's capacity to realize the anticipated developmental impact; (iii) work aimed at changing government policies and regulations in order to enhance practices at the country or sectoral level; or (iv) mitigation of nonfinancial risks (i.e., country, political or project risk) via the MDB's reputation in the market, honest broker role, close relationship with the government or client, or its thorough due diligence process.

Evaluation Approach

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 ADB developing member countries (DMCs)? This question was underpinned by four subsidiary questions:

(i) To what extent is additionality clearly embedded in ADB's strategies, operational guidance, and operational plans in support of private sector development and how well is ADB's overall NSO additionality captured and reported?

(ii) What types of financial and nonfinancial additionality has ADB offered and delivered to its private sector clients over time, differentiated by context, sector, and geography, and what factors explain the quality and intensity of this additionality?

(iii) How effective have ADB's additionality efforts been in delivering intended development outcomes in ADB DMCs?

(iv) To what extent are Private Sector Operations Department (PSOD) systems, processes and ADB-wide coordination well organized to deliver additionality to ADB's clients?

The evaluation used a mixed-methods approach to gather evidence and it applied both quantitative and qualitative methods for data collection and analysis. The evaluation team conducted a desk review of 273 NSO projects and 130 technical assistance (TA) projects approved during 2008–2020 (the evaluation period). The evaluation included six country case missions in Armenia, the People's Republic of China (PRC), India, Papua New Guinea, Samoa, and Thailand, covering 61% of the number of approved NSO projects. The evaluation team also performed: (i) a comparator review with the International Finance Corporation (IFC), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank's IDB Invest, the European Investment Bank (EIB), and the African Development Bank (AfDB), and (ii) conducted extensive consultations with ADB staff and stakeholders.

ADB's Approach to Additionality

The concept of financial additionality is embedded in the ADB Charter. The Charter states that "in considering an application for a loan or guarantee the Bank shall pay due regard to the ability of the borrower to obtain financing or facilities elsewhere on terms and conditions that the Bank considers reasonable for the recipient, taking into account all pertinent factors." For other MDBs, the language on additionality varies a little, but has the same objective of avoiding crowding out alternative finance. While ADB's articulation is simply "pay due regard," some MDBs explicitly rule out the provision of finance in such circumstances and prohibit the provision of finance if alternative finance is available at reasonable terms.

Strategy 2020, the operative corporate strategy at the start of the evaluation period, did not explicitly cite the need for additionality of NSO. However, Strategy 2030 more clearly discussed the need for additionality for NSO. It cited the following additionality elements as reasons why private sector players choose to work with ADB: (i) improvements in environmental, social and governance standards; (ii) the provision of financing that is not available from the market at reasonable terms; (iii) improved project design and development outcomes; and (iv) mitigation of perceived risks. Strategy 2030 also indicated that ADB would "address market failures without distorting those markets."

Additionality, albeit labeled as "development impacts," is a requirement for nonsovereign operations under the Operations Manual section D10. However, the staff instructions associated with this section do not include processes for the assessment, verification, and monitoring of additionality.

The concept of additionality is described in more detail in the Operational Plan for Private Sector Operations, 2019–2024 but additionality is not considered a priority for project selection and approval. The operational plan indicates that development impact and financial sustainability are the priorities for NSO.

The operational plan, despite citing private sector operations "does not crowd out the private sector", does not include financial additionality as a necessary minimum precondition for project selection. [Confidential information deleted.]

There is no clear cascading of ADB's overall strategy on additionality from ADB's corporate strategies to its sector and country strategies. The country partnership strategies (CPSs) covering the evaluation period did not mention the additionality of nonsovereign operations. This is not unique to ADB, with most MDBs opting to approach additionality at the project level.

Given the project level perspective to operationalizing additionality, the emphasis among MDBs has been on developing ex ante systems for assessing additionality in projects. ADB did not have an ex ante additionality framework during the evaluation period. The need to improve the assessment of additionality in projects was expressed in the Operational Plan for Private Sector Operations, 2019–2024.

In January 2021, ADB began piloting an ex ante development impact framework, but this has yet to be applied across the entire project life cycle. The ex-ante development impact framework includes additionality as one of five dimensions that need to be assessed in each project. The framework has been piloted only at the pre-concept review stage of the project cycle. ADB has yet to develop a system for governance, tracking, and aggregated reporting of additionality in its nonsovereign operations.

ADB is developing an updated guidance note to help operations teams to assess financial and nonfinancial additionality when screening and preparing projects. This will provide direction on the evidence needed to support additionality claims and to strengthen additionality narratives in approval documents.

ADB's NSO Portfolio Overview

Over the evaluation period, ADB approved a total of 350 NSO projects totaling $26.9 billion, of which 44 projects amounting to $3.6 billion were fully cancelled and other transactions totaling $0.92 billion were partially cancelled. Of the remaining 306 projects, 273, totaling $19.9 billion, have been committed. More than half of the committed projects, accounting for nearly two-thirds of the total committed amount, were 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 of the total committed amount (42%), followed by finance (34%), and transport (8%). By country, India had the biggest share with 26%, followed by the PRC with 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.

IED evaluated 154 NSO projects during the evaluation period. The country with the most projects was India (16.2%) and the sector with the most projects was the finance sector (62.3%). The projects evaluated included 89 projects approved before 2008 and 65 approved in 2008–2020. By sector, 96 of the 154 evaluated projects (62.3%) were in the finance sector, most of which were financial intermediation loans or equity investments in private equity funds. Another 40 projects (26.0%) were in the energy sector, most of which were renewable energy generation projects. Of the 130 total approved NSO TA projects from 2008 to 2020, PSOD has prepared TA completion reports (TCRs) for 28—19 of these were self-evaluated to be *successful* or better.

Performance of ADB's Additionality in the NSO Portfolio

While 69% of the 154 evaluated projects were rated *satisfactory* or better for ADB additionality, this rate is on a downward trend. Looking at a three-year moving average, ADB's additionality satisfactory rate declined from a high of 91% in 2010–2012 to a low of 54% in 2017–2019. This was driven by a shift in the evaluated portfolio to a higher concentration of financial institution transactions, the lack of evidence to verify financial additionality for financial institution projects with more established borrowers, and the rapid market development of some DMCs. Additionality satisfactory rates for infrastructure projects have also declined over time but have been higher than those for financial institution projects.

The financial additionality satisfactory rate (69%) was higher than that for nonfinancial additionality (19%). Nonfinancial additionality had a 3-year moving average satisfactory rate of 0% in 2008–2010. This rose to a high of 29% in 2015–2017, before falling back to 17% in 2018–2020. The quality of ADB's nonfinancial additionality was affected by the absence of a framework for delivery for most projects and an inability to deliver improved corporate governance and environmental and social management system (ESMS) standards in private equity funds.

By region, operations in Southeast Asia had the highest additionality satisfactory rates (85%) while those in East Asia had the lowest (41%). Southeast Asian countries Thailand (90%) and Indonesia (83%) recorded high satisfactory rates. In Thailand, ADB successfully provided financial additionality through long-term financing, local currency financing, mobilization of capital, and risk reduction. In Indonesia, ADB was able to mobilize capital, provide long-term financing, and improve ESMS standards. In East Asia, the PRC (47%) and Mongolia (20%) had relatively low satisfactory rates. The low rates in the PRC projects arose from lack of counterfactuals, especially when the borrower or investee was an established institution. Some of ADB's interventions in PRC failed to bring in additional participation from foreign and domestic investors, which was envisaged at the approval stage. The low satisfactory rates in Mongolia reflected the challenge of attributing to ADB claims of mobilizing capital and improving ESHS standards when other MDBs were involved.

Eighty-eight percent of evaluated projects were in the energy and finance sectors, with energy (85% satisfactory rate) performing better than finance (65% satisfactory rate). ADB played a significant role in India, the PRC, Samoa, and Thailand in supporting renewable energy projects, especially solar energy projects. The high satisfactory ratings for the energy sector come from the 34 out of 40 evaluated transactions where ADB provided longer-term financing that was badly needed for the timely implementation and completion of projects. ADB's presence helped the projects attract cofinancing from international commercial lenders and other MDBs. The successful energy transactions also benefited from ADB's nonfinancial contributions, which mostly consisted of elevating the client's environmental and social safeguards measures (seven of the 20 renewable projects). ADB's technical expertise in appraising and developing solar power projects was also welcomed by its clients in many countries.

The relatively lower additionality for the finance sector comes from the poor additionality performance of private equity funds, small and medium enterprise financing, and support to banking systems. Fifteen out of the 36 funds evaluated (42%) were rated *unsatisfactory* or *less than satisfactory*. There was no evidence that ADB's funding was necessary for fund closure and ADB funding came late in the game. ADB's involvement provided limited incremental benefits such as attracting other investors to the fund or improving governance and ESMS standards. Eight out of 18 investments to financial institutions for small or medium-sized enterprise (SME) finance and leasing activities were rated *less than satisfactory* (56%). Evaluation documents show that the financial intermediaries catering to the SMEs could actually have obtained financing from other local commercial banks. Claims of mobilizing capital were diminished when multiple MDBs were involved.

Results of ADB's Additionality in the NSO Portfolio

The provision of longer tenor loans not available in the domestic market was the most common financial additionality claimed by ADB, especially in energy projects. This was evident from the country missions to India, the PRC, Samoa, and Thailand. While the reports and recommendations to the President (RRPs) for the reviewed projects did not necessarily provide evidence on the state of the local financing market, arguments for the need for longer tenors were more convincing when the ADB finance formed part of a complex financing structure with major capital expenditure needs where commercial banks were less willing to lend.

In some cases, ADB's claims that it was providing capital that was not supplied by the domestic market were not convincing when the client had strong market presence

and demonstrated access to financing. This was especially true when the client was operating in more developed markets or when no evidence was provided to substantiate ADB's additionality, as in some of the case study projects in the PRC and India.

ADB's financial additionality was mostly effective in projects where there was a clear understanding of the market gap that ADB intended to fill and where ADB had a significant role in the design and innovative financial structuring of the project. [Confidential information deleted.]

The effectiveness of an innovative financing structure can be impacted by a change in government regulations or restrictions. [Confidential information deleted.]

ADB's investments in private equity funds produced mixed results, and sometimes it was unclear whether a fund needed ADB's equity investment at all. Recently, ADB has started supporting fund managers with more established track records. This strategy is understandable from a risk perspective, but such fund managers are more likely to attract investments from limited partners, making financial additionality more difficult to substantiate, especially in markets with liquidity. [Confidential information deleted.]

ADB's financial additionality in mobilizing external capital produced mixed results. This type of financial additionality could more easily be tracked in projects with cofinancing, for example through the results of ADB's efforts to arrange B loans, or in projects with unfunded risk transfer arrangements. [Confidential information deleted.]

Risk mitigation is a natural nonfinancial additionality that ADB has mostly delivered owing to its reputation in the market. ADB has served as an honest broker between relevant parties in a project, its presence signaling a project was sound. It has also utilized its long-term client relationships and close relationships with governments. IED noted two transactions where PSOD had specifically identified and was successful in its risk-mitigating role. [Confidential information deleted.]

References to setting standards via ESMSs or corporate governance activities were made in several projects reviewed as part of the country missions. This was typically in the form of general statements, often connected to ADB's standard loan conditions or safeguard requirements. Assessing the results was hampered by the lack of a framework or a more granular view of what inputs ADB was to supply, and which standards were expected to be advanced.

Knowledge and capacity building type of nonfinancial additionality was mostly delivered through technical assistance (TA). Seven of the eight NSO TA projects attached to projects contributed to a successful NSO additionality rating. On the other hand, when an NSO TA project was underutilized or delayed, the additionality was less than satisfactory.

As FAST projects are relatively recent and have not yet been independently evaluated or validated, the additionality results are inconclusive. Only one out of 49 FAST projects had been self-evaluated. The most common additionality offered by projects approved under the FAST program was guidance to improve the project's or the client's gender equality standards, with 31 out of 49 (63%) FAST projects aiming to offer that additionality.

Financial additionality was not clear in 16 of 49 projects approved (33%) under the FAST framework, which was similar to the overall percentage for non-FAST approved evaluated projects (31%) during the evaluation period. Evidence supporting financial additionality was not presented in 13 projects. In three projects ADB claimed catalytic impact in the sector or developmental impact as ADB's additionality without describing whether the terms of financing were not available elsewhere.

Claims of nonfinancial additionality were credible in 21 out of 41 FAST projects (51%), better than for the overall evaluated portfolio (19%). There were no nonfinancial additionality claims in eight FAST projects. The approval documents for 21 FAST projects included a framework with indicators showing what the intended nonfinancial outcomes are. The remaining FAST projects with nonfinancial additionality claims did not have a framework, making it difficult to monitor their results. It is too early to evaluate the effectiveness of ADB's nonfinancial additionality in these projects.

Trade-Off Among Additionality, Development Results and Investment Profitability

There was likely no trade-off among additionality, development results and investment profitability. Instead, there was a strong association between the additionality and development results of a project. Most projects that were rated *satisfactory* for additionality were also rated *satisfactory* for development results (53% of evaluated projects). Projects with *unsatisfactory* additionality ratings were also rated *unsatisfactory* for development results (25%). Likewise, there was a strong association between additionality and the ADB investment profitability rating. Most projects that were rated *satisfactory* for additionality were also rated *satisfactory* for investment profitability (55% of evaluated projects). Projects that were rated *unsatisfactory* for additionality were also rated *unsatisfactory* for investment profitability (18%).

ADB's Organization for Delivering Additionality

ADB had an informal organizational structure for delivering additionality for most of the evaluation period. It had no explicit unit tasked with ensuring additionality in NSO, relying instead on project team leaders' judgment. ADB began to put a more formal structure in place in 2018, after it participated in the working group that authored the Harmonized Framework, 2018. The Development Impact Team of the Private Sector Transaction Support Division acted as the advocate for additionality within PSOD, and it was tasked with developing an ex ante development impact framework which included additionality as one of the five main dimensions.

Unlike other MDBs, ADB did not have a formal system for assessing additionality at entry or for monitoring the achievement of additionality during the evaluation period. Systems that integrate the different components from inputs to outputs to outcomes, and impacts make good sense, support a theory of change, and can be of value for evaluation and learning if tracked well. [Confidential information deleted.]

ADB lacked a clear guidance note on additionality for most of the evaluation period. The quality of evidence provided and the development of counterfactual scenarios in ADB projects varied considerably. Higher quality evidence tended to be provided by teams with access to strong local knowledge and contacts—often helped by inputs from resident missions—and where financial market intelligence can be improved using databases and via knowledgeable ADB departments, such as the Treasury Department and the Office of Risk Management.

While ADB does consider additionality at all stages of the project cycle, the concept review and final review stages lacked a robust challenge mechanism. This could be provided by a quasi-independent entity who could review ex ante additionality at these stages. [Confidential information deleted.] The governance and challenge function in ADB is still being considered.

Conclusions

ADB NSO delivered additionality in 69% of 154 evaluated projects, although the *satisfactory* rate has been trending downwards. ADB's corporate strategy has evolved to capture the concept of additionality more accurately; however, there is a lack of clear guidance to staff to enable them to operationalize additionality at the country and project levels. The lack of an adequate tracking system limits ADB's contributions to development outcomes in the region. This has led to an uneven understanding of and justification for ADB additionality in project-level approval documents. Additionality was highest in energy projects (85% satisfactory rate), followed by finance (65%). While ADB's NSO additionality interventions have contributed to positive development outcomes, mainly in the energy and finance sectors in Southeast Asia, South Asia, and Central and West Asia, its full potential for value addition has been diluted by an inadequate system for ex ante assessment and monitoring of additionality.

ADB's additionality efforts contributed mostly to the provision of financing not supplied by the market and mobilization of external capital. However, the effectiveness of these efforts has been mixed. In some cases, the claims that ADB provided capital that was not being supplied by the domestic market do not seem credible when the client has strong market presence and demonstrated access to financing. This is particularly the case in more developed markets or when no evidence is provided to substantiate ADB's additionality. This has been an issue as well with some projects in less developed economies. With the development of the financial markets in DMCs and the introduction of new products from domestic financiers, projects in which ADB provided financing relying on the longer term of a loan, or its ability to provide equity, 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 for most projects 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.

ADB is in the process of improving its systems and processes. In January 2021, it began piloting an ex ante development impact framework system that included an ex ante additionality dimension. The pilot has so far only been applied to the pre-concept review stage of the project life cycle. A more comprehensive guidance note on additionality is being developed to help with the implementation of the ex-ante development impact framework.

Issues

External

- Market evolution may render certain types of additionality ineffective.
- The lack of well-developed institutions in emerging market economies often constrains the assessment of additionality.

- Weak monitoring and evaluation systems of private sector clients can hamper the tracking and reporting of additionality.

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. Strategy 2030 is clearer as it states ADB will "address market failures without distorting those markets." The Operational Plan for Private Sector Operations, 2019–2024 mentions ADB private sector operations "does not crowd out the private sector." The approach described in Operations Manual 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 economic development, including attracting much needed resources to combat climate change and meet other sustainable development goals (SDGs). The economic costs of disrupting private sector finance may not be compensated for by the potential benefits of nonfinancial additionality, which are difficult to quantify and apportion. They can also only be ascertained several years later. Moreover, requiring financial additionality as a necessary precondition for projects can be accomplished at approval and would align ADB with its comparator MDBs. It would also be consistent with ADB's own operating principles of not crowding out the private sector.
- The additionality of nonsovereign operations has not been consistently incorporated in CPSs.
- ADB does not have a fully implemented system for objectively assessing additionality at entry or for monitoring additionality.
- Aggregate reporting on additionality has been limited.
- The concept of additionality has not been consistently understood within ADB.
- ADB's governance mechanism for project approval is inadequate to screen projects for additionality.
- ADB pays less attention to additionality than to financial sustainability and development impact.

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.** Approval documents should include: (i) for financial additionality, a clear articulation of evidence supporting the claim, and (ii) for nonfinancial additionality, a theory of change and a framework for tracking the outcome indicators. The updated guidance note from 2021 needs to provide clear instructions and templates on how to: (i) screen and assess NSO projects for both financial and nonfinancial additionality at the early concept review stage, (ii) provide evidence to support each additionality claim, and (iii) design the monitoring framework with appropriate indicators. The revised additionality guidance note needs to be disseminated beyond PSOD to all staff involved in frontline business development across ADB. Performance on additionality could be linked to yearly staff performance assessments using IED validated project success rates as a proxy for performance, as part of staff work plan goals.

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.** These diagnostics should review the additionality of past NSO transactions in the country (including the market failures they were intended to address) and a comparison of the products and services ADB can offer relative to those already accessible from other commercial and development institutions. This will help to determine ADB's unique comparative advantage. While the recent resident mission operations review emphasized the need for private sector diagnostics, these assessments need to specify the sectors or areas where NSO have the greatest potential for additionality, facilitating sovereign operations to work on improving the enabling environment.

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.** The new PSOD ex ante development impact system piloted in 2021 has currently been applied only to the pre-concept review stage of the approval project cycle and does not yet track, monitor, or verify additionality. The system should capture and collate the evidence and counterfactual information in support of each ADB claim to additionality. The ex ante development impact system should also include an ongoing reporting feature that will allow aggregate reporting on ADB's ex ante and ex post additionality, showing a breakdown of scores (for example, by additionality types, by region, and by modality). The monitoring system needs to be able to track the additionality indicators specified in the approval document of each NSO project. In reporting on additionality, ADB should also aim to document how its own contributions have supported the realization of specific project outcomes wherever possible, and this should be reported annually as part of the PSOD development effectiveness report.

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.** ADB should conduct training on the concept of additionality and the systems for assessing and monitoring additionality to staff. ADB should also conduct training of stakeholders where relevant, especially those to whom ADB expects to deliver nonfinancial additionality. Such client training can be funded through reimbursable technical assistance. As markets and additionality are dynamic, training materials will need to be updated regularly. An ongoing certification program could be considered to ensure staff are well informed.

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.** The quasi-independent entity should be able to: (i) confirm whether a project offers financial additionality (i.e., that alternative finance at similar terms and reasonable cost is not available, that the project's innovative financing structure will help to reduce the client's risk or cost, or that commercial capital will be mobilized), and (ii) suggest corrective steps at the concept stage and before approval to strengthen additionality measures.

1

Introduction, Methodology, and Theory of Change

A. Concept of Additionality

B. Recent Evaluations of Additionality in MDBs

C. Evaluation Methodology

D. Theory of Change

Highlights

Additionality is a fundamental principle guiding the Asian Development Bank (ADB) support for the private sector through its nonsovereign operations (NSO). Additionality refers to a multilateral development bank's unique set of inputs and services to a project that will help lead to anticipated development impact. Proper accounting for additionality is important both as a check on value for money and for selecting and designing good projects and leveraging private finance for development.

This evaluation examined the effectiveness of ADB's NSO in delivering additionality in ADB projects and analyzed the relationship between additionality, profitability, and development outcomes.

Based on its assessment of ADB's past nonsovereign operations, the evaluation also sought to define key elements of additionality at various stages of the NSO project life cycle and to compare ADB's NSO additionality with that of other multilateral development banks.

Through its financial and nonfinancial inputs and service offerings, ADB seeks to provide additionality to address market imperfections and to promote positive developmental outcomes in line with its strategic goals.

1. **This paper presents the results of an independent evaluation of additionality in the Asian Development Bank (ADB) nonsovereign operations (NSO).** ADB and other multilateral development banks (MDBs) view the mobilization of private sector finance as an important strategy in achieving the Sustainable Development Goals (SDGs). ADB's support for the private sector through its NSO has grown considerably over the past decade and was a key component of Strategy 2020 and Strategy 2030. ADB has set a target of expanding its private sector operations to reach one-third of its total operations in number by 2024. Additionality is a fundamental principle guiding ADB's support for the private sector through NSO. Focusing on the period 2008–2020, the evaluation examined the effectiveness of ADB's NSO in delivering additionality in its projects and the extent to which these contributed to development outcomes.

A. Concept of Additionality

1. Introduction

2. **Additionality refers to MDBs' inputs or services that lead to unique value addition, ultimately leading to anticipated development impact.** For these inputs and services to qualify as "additional," they must complement and not substitute for what the private sector can provide. Additionality can be seen as the difference an MDB's input makes to a project or sector compared with what might have happened otherwise.

3. **While MDBs and their shareholders have long been aware of additionality as a concept, historically more attention has been paid to achieving development impact.** The pressure to report on development results, in order to justify capital increases and to show progress toward achieving SDGs, has meant ADB shareholders have directed more attention to development impact than to additionality.[1]

4. **In 2012, the MDBs endorsed additionality as one of the five common core principles guiding their support for the private sector as a means of achieving development goals consistent with their mandates.** The MDB Principles to Support Sustainable Private Sector Operations (MDB Principles, 2012) defined additionality as "a contribution that is beyond what is available, or what is otherwise absent from the market, and should not crowd out the private sector."[2] As banks, MDBs provide finance for

[1] Evaluation Cooperation Group (ECG). 2020. *Report on Additionality.*

[2] Authored by a working group chaired by the European Bank for Reconstruction and Development (EBRD). The working group included representatives of the African Development Bank (AfDB); ADB; EBRD (chair); European Investment Bank (EIB), Inter-American Development Bank, Multilateral Investment Fund, and Inter-American Investment Corporation; World Bank (WB) and International Finance Corporation (IFC); CDC; Deutsche Investitions- und Entwicklungsgesellschaft (DEG); the Association of bilateral *European Development Finance Institutions* (EDFI); Islamic Development Bank Group (IsDBG); Norfund; and Oesterreichische Entwicklungsbank (OEB).

development which can fill gaps for which other sources of finance are not available. This insufficiency of finance arises from market and institutional failures, where participants are unable or unwilling to take on certain risks and where fiscal capacity is weak.

5. **The concept of additionality was refined further in 2018 in the Multilateral Development Banks' Harmonized Framework for Additionality in Private Sector Operations (Harmonized Framework, 2018).**[3] Group of 7 (G7) shareholders asked the MDBs to develop a common framework for additionality since differences in their institutional mandates had led to different applications of the concept. The Harmonized Framework, 2018 states:

(i) **The opportunity to be additional is higher when there are market failures or imperfections that "lead to an absence of commercial financiers willing or able to offer the inputs and services offered by MDBs."** [4]

(ii) **Additionality is an input while development impact is an outcome**. Additionality is the unique set of inputs and services that an MDB provides "to make a project or investment happen, make it happen much faster than it would otherwise, or improve its design and/or development impact." [5] The inputs and services provided by MDBs would have to be necessary for the development impact to materialize. If the project or investment would proceed and the development impact would be realized without the MDB's inputs, or if the project would proceed without significant delays, then there is no MDB additionality.

(iii) **It is also important to look at the coherence of additionality as implemented by one MDB vis-à-vis what is implemented by other MDBs and other key market players.** One MDB's additionality should complement those of other MDBs so they can jointly contribute to the project's achievement of the development result.

6. **The inputs and services contributed by MDBs which could not otherwise be obtained at reasonable cost or as quickly make up their financial and nonfinancial additionality.** Financial additionality refers to: (i) provision of financing that is not available from commercial sources on reasonable terms (e.g., financing that has a longer tenor, a grace period, a larger amount, or is in local currency), (ii) introduction of an innovative financing structure that reduces risk or lowers the private sector client's cost of capital, (iii) use of the MDB's own equity account, or (iv) mobilization of commercial capital. Nonfinancial additionality refers to: (i) provision of guidance or technical assistance (TA) to improve project or client standards (e.g., environmental, social and governance standards); (ii) provision of knowledge and expertise to improve the client's capacity to realize the anticipated developmental impact; (iii) support for reform of government policies and regulations that would enhance practices at the country or sectoral level; or (iv) mitigation of nonfinancial risks (e.g., country, political or project risk) via the MDB's reputation in the market, its honest broker role, or its close relationship with the government or client or thorough due diligence process (Table 1).

7. **Proper accounting for additionality is important both as a check on value for money from MDB interventions and as a means of selecting and designing good projects and leveraging private finance for development.** MDBs generally take additionality into account in their private sector operations; however, the development and financial market context of many emerging nations—and therefore the role of MDBs' additionality—has changed over time. It is only recently that these international institutions have begun to take some of the implications of these changes for MDB additionality into account.

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[3] Authored by a task force composed of representatives from AfDB, ADB, Asian Infrastructure Investment Bank (AIIB), EBRD, EIB, the Inter-American Development Bank Group (IDBG), IsDBG, the New Development Bank (NDB), and the World Bank Group (WBG).

[4] AfDB and others. 2018. *Multilateral Development Banks' Harmonized Framework for Additionality in Private Sector Operations*. Washington, DC. p. 6.

[5] AfDB and others. 2018. *Multilateral Development Banks' Harmonized Framework for Additionality in Private Sector Operations*. Washington, DC. p. 7.

Table 1: Categories and Definitions of Additionality

Categories	Types	Definitions
Financial Additionality	**Financing structure**	MDBs provide financing that is not available in the market from commercial sources on reasonable terms and conditions. This includes local currency financing, increased amounts, extended tenor, or grace period.
	Innovative financing structures and/or instruments	MDBs provide clients and partners with innovative financing structures that (i) add value by lowering the cost of capital or by better addressing risks, and (ii) are not available in the market at a reasonable cost. It is understood that innovation is market specific; a structure could be considered innovative if it is new to a market even if may already exist in more developed markets.
	MDBs' own account equity	MDBs provide equity that is not available in the market in a way that strengthens the financial soundness, creditworthiness, and/or governance of the client. Equity is a vehicle for additionality as it often strengthens the client's ability to take risk, leverage resources, and improve corporate governance.
	Resource mobilization	MDBs are involved in mobilization of resources from private sources; that is, there is a verifiable role played by MDBs in mobilizing financing on commercial terms from an institutional or private financier.
Nonfinancial Additionality	**Risk mitigation**	MDBs provide comfort to clients and investors by mitigating nonfinancial risks, such as country, regulatory, project, economic cycle, or political risks. Such comfort is often due to MDBs' reputation in the market, role as honest brokers, trusted and long-term client partnerships, signaling function for sound projects, convening power, close relationships with governments, and rigorous due diligence processes.
	Policy, sector, institutional, or regulatory change	MDBs' involvement in a project is considered additional when it is designed to trigger a change in the policy, sector, institutional or regulatory framework, or enhance practices at the sector or country level.
	Standard setting: helping projects and clients achieve higher standards	MDBs help raise the bar on standards. MDBs promote improved policies (for example, gender equality) and provide expertise in environmental, social, and governance standards (ESG) and on integrity and procurement best practice. Support to clients in meeting these standards is considered a form of additionality when ESG performance is likely to translate into improved impact and performance of the project, 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 MDBs' requirements. In this case, MDBs bring additionality by introducing changes in policies, providing guidance, establishing standards, and/or offering technical support and training, or introducing international best practices to client companies and their stakeholders. These are the kinds of issues that most private financiers would not necessarily prioritize systematically.
	Knowledge, innovation, and capacity building	MDBs provide expertise, innovation, knowledge, and/or capabilities that are material to the timely realization of the project's anticipated development impact, including support to strengthen the capacity of the client. Capacity-building support may be provided either in-house or by external experts.

ESG = environmental, social, and governance standards, MDB = multilateral development bank.
Source: African Development Bank and others. 2018. *Multilateral Development Banks' Harmonized Framework for Additionality in Private Sector Operations*.

2. Mandates and a Changing Development Landscape

8. **MDBs share broadly the same starting point on additionality.** The concept is deeply rooted in their make-up, being embedded from the outset in their articles of agreement. These were formulated at a time when the availability of finance was scarce in developing countries. There was a well-grounded view that if other finance was available at reasonable terms, then the international institutions should

not get in its way or replace it. MDB charters therefore adopted the idea of additionality, in the sense that MDBs should only provide finance that does not "crowd out" other sources of funding.

9. **These mandates originated over 50 years ago and did not fully anticipate the wider role that MDBs would come to play in development.** The prevention of crowding out remains important, but over time MDB financial additionality has become more complex as emerging economies have grown rapidly and their financial markets have become more sophisticated. In particular, the amount and availability of commercial finance for investments in these markets has increased at an exceptionally rapid rate over this period.

10. **For many countries, it is no longer the finance itself that primarily supports MDB additionality but more the types of finance that can be made available.** Characteristics such as long tenors (especially for capital-intensive investments) or innovative financial instruments and structures (e.g., sculpted repayment profiles) often give MDB finance the edge over finance from commercial lenders.

11. **Another factor that has helped MDBs to add value in a competitive financial marketplace has been their role in bringing additional commercial finance and capital to riskier projects that would otherwise be underfunded**. The mobilization of cofinance—via A or B loans for example—and equity support to a nascent private equity fund industry has become an increasingly important role of MDBs, particularly in the quest to engage the private sector in the achievement of the SDGs.

12. **Nonfinancial additionality has grown in importance.** Economic development depends not only on an adequate supply of and demand for finance but also on institutions that function well and policies that govern markets. MDBs can be a major source of assistance to emerging economies in this area. They can offer companies and financial institutions sector expertise and knowledge accumulated from working on similar projects in many contexts elsewhere. The advanced nature of market regulations and standard setting in more developed economies provides MDBs with a model to raise standards and performance in less advanced economies.

13. **While it remains important to ensure there is no crowding out of private finance—especially when there are many large potential financiers—the quality of MDBs' projects and their designs have become increasingly relevant.** MDBs have started to focus on areas where they can truly add value compared with commercial and other market players. The comparative advantages of MDBs are thus highly pertinent to shareholders' understanding of what particular and unique difference MDBs can make to the development landscape, given the far greater number of participants involved now than when these institutions were established.

B. Recent Evaluations of Additionality in MDBs

14. **The Independent Evaluation Group (IEG) of the World Bank Group evaluated the additionality of their International Finance Corporation's (IFC's) private sector operations in 2008.** The evaluation reviewed two separate but related themes: the development results achieved in the field and IFC's contribution to these results.[6] It found that 63% of a representative sample of investment operations with early operating maturity during 2005–2007 achieved results that met or exceeded market, financial, economic, environmental, and social performance benchmarks. The evaluation also showed that IFC profitability had not suffered when development results were pursued; profitability was positively correlated with development results in 85% of IFC projects. The study also found that financial additionality was present in 85% of cases while nonfinancial additionality was present in only 33% of cases.

[6] Independent Evaluation Group. 2008. *Independent Evaluation of IFC's Development Results 2008: IFC's Additionality in Supporting Private Sector Development*. Washington, DC.: International Finance Corporation, World Bank Group.

15. [Confidential information deleted.]

16. **In 2018, the European Bank for Reconstruction and Development (EBRD) evaluated additionality in EBRD.**[7] The EBRD Evaluation Department found that financial additionality was unclear, as it was often claimed without links to broader market benchmarks or additionality gaps. The evaluation noted that EBRD had not provided enough guidance on how to assess nonfinancial additionality. EBRD also did not carry out aggregate monitoring and reporting on additionality. The focus on additionality had suffered as there was no designated custodians or advocates for additionality in EBRD.

C. Evaluation Methodology

1. Objective of the Evaluation

17. The objective of this evaluation is to inform the ADB Board and Management on the extent and nature of ADB's NSO additionality, given ADB's focus on expanding support for the private sector. The evaluation identifies success factors and lessons from experience and makes recommendations designed to enhance the success of ADB's nonsovereign operations.

2. Key Evaluation Questions

18. 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 ADB developing member countries (DMCs)?

19. This question was underpinned by the following subsidiary questions:

(i) To what extent is additionality clearly embedded in ADB's strategies, operational guidance and operational plans in support of private sector development and how well is ADB's overall NSO additionality captured and reported?
(ii) What types of financial and nonfinancial additionality has ADB offered and delivered to its private sector clients over time, differentiated by context, sector, and geography, and what factors explain the quality and intensity of this additionality?
(iii) How effective have ADB's additionality efforts been in delivering intended development outcomes in ADB DMCs?
(iv) To what extent are Private Sector Operations Department (PSOD) systems, processes, and ADB-wide coordination well organized to deliver additionality to ADB's clients?

3. Approach

20. The evaluation reviewed ADB's nonsovereign operations and determined their additionality, profitability, and development outcomes. It investigated the relationship between additionality, profitability, and development outcomes. For NSO and TA operations that had reached operational maturity, their performance was assessed by analyzing the additionality delivered by the projects as perceived by its stakeholders. Outcomes will be assessed in real-time fashion. Based on this assessment, the evaluation sought to define key elements of additionality at various stages of the NSO project life cycle. The evaluation compared ADB's NSO additionality with additionality at other MDBs.

21. The evaluation used a mixed-methods approach that included: (i) a review of the ADB and PSOD strategic and policy framework; (ii) a review of the ADB NSO and TA portfolio; (iii) an assessment of ADB's NSO additionality (performance and outcomes); (iv) six country case studies; (v) an assessment of ADB's organization for delivery; (vi) a comparator review of IFC, EBRD, Inter-American Development Bank (IDB)

[7] Evaluation Department. 2018. *Additionality in the EBRD: Review of Concept and Application*. London: EBRD.

Invest, the European Investment Bank (EIB), and the African Development Bank (AfDB); and (vii) extensive consultations with ADB staff and stakeholders.

a. ADB and Private Sector Operations Strategic and Policy Framework

22. The evaluation team conducted a desk review of existing strategies, guidelines and operational plans governing ADB's additionality in its NSO. The team reviewed applicable policies, guidelines, country partnership strategies and documents relating to ADB's NSO. It also reviewed how ADB's approach had evolved over the period under review and compared it with those of other MDBs.

b. ADB Nonsovereign Operations and Technical Assistance Portfolio Review

23. The evaluation team conducted a desk review of 273 NSO projects and 130 technical assistance projects approved during 2008–2020. This exercise involved: (i) a descriptive analysis of the portfolio by types of operation, modalities, sectors, regions and countries; (ii) a qualitative analysis of additionality promised in all NSO transactions and NSO TA projects that were approved and evaluated during the evaluation period; (iii) a qualitative analysis of products, investment choices, and the underlying factors driving additionality; and (iv) a quantitative analysis of the relationship between additionality, development results and investment profitability. [Confidential information deleted.]

c. Performance of Nonsovereign Operations Additionality

24. During 2008–2020, the Independent Evaluation Department (IED) completed 133 XARR validation reports (XVRs), and 21 project performance evaluation reports (PPERs), including two PPERs for projects that did not have an extended annual review report (XARR). In addition, 28 TA completion reports (TCRs) were prepared although none was validated by IED.

25. The portfolio performance assessment focused on reviews of project-related documents, including approval, monitoring, closing and evaluation documents, for all 154 nonsovereign projects evaluated during 2008–2020 to determine their additionality and development performance.

d. Country Case Assessments

26. The evaluation conducted in-depth reviews of NSO operations in Armenia, the People's Republic of China (PRC), India, Papua New Guinea, Samoa, and Thailand. The review included desktop analysis of project documents and qualitative assessments of feedback collected during interviews of ADB staff and clients. The case country portfolios represented the different sectors and the choice of modality. The PRC and India were chosen for country case assessments because they received the most private sector support. The other countries were selected because they represented the different contexts in which ADB operates (e.g., developed, less developed, and fragile markets). The country case assessments covered 61% of the number of approved NSO projects and 60% of the evaluated projects.

e. Assessment of ADB's Organization for Delivery of Results

27. The evaluation reviewed the institutional arrangements within ADB for ensuring additionality in its NSO, at the concept review, final review, approval, and monitoring stages. This included a review of the coordination and collaboration between PSOD, regional departments, the Office of Risk Management (ORM), and resident missions in identifying additionality gaps and in delivering additionality in NSO. Desk reviews of operations documents were supplemented by extensive consultations with relevant ADB staff and a comparator review of other MDBs.

f. ADB Staff and Other Stakeholder Interviews

28. The evaluation team conducted interviews with ADB staff to solicit their experience in screening and structuring NSO projects for additionality as well as to understand the organizational issues that

affected ADB's delivery of additionality. The findings from these interviews supplemented the portfolio performance and results assessments from the review of project documents and stakeholder feedback collected from virtual field missions in the case study countries.

4. Limitations of the Evaluation

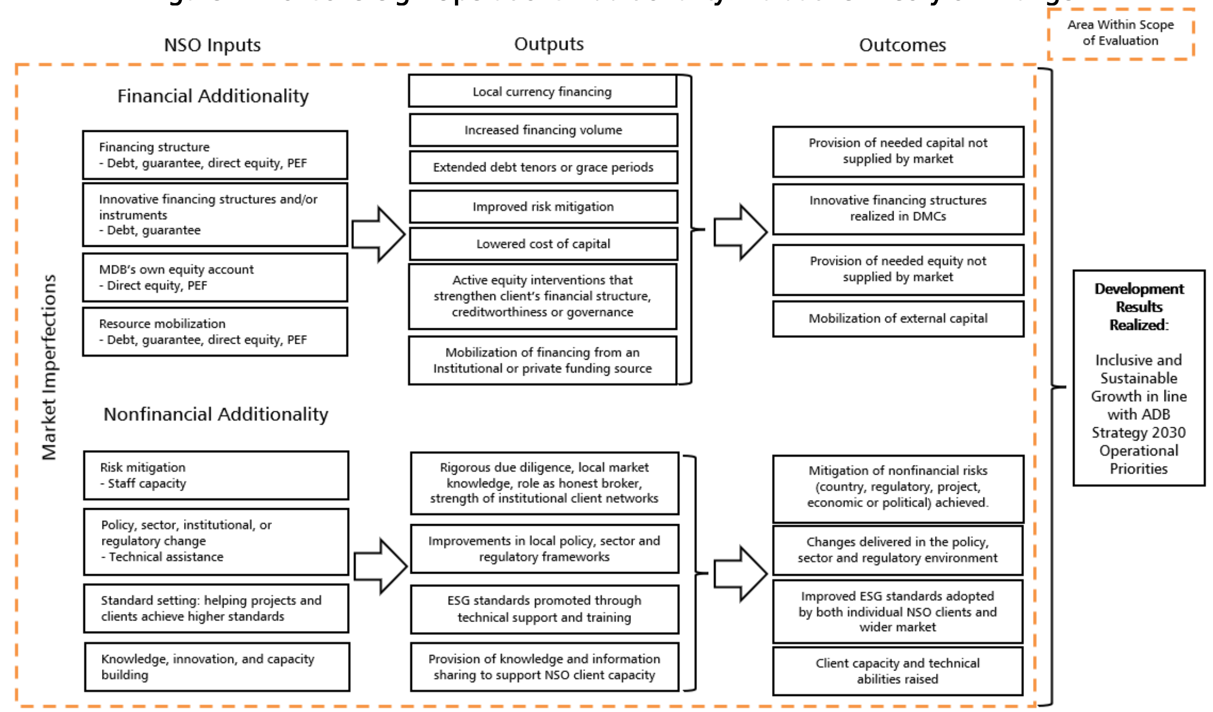
29. Due to the coronavirus disease (COVID-19) pandemic, no country missions were possible. Instead, stakeholder and staff consultations were conducted via video conference calls.

D. Theory of Change

30. **The evaluative theory of change illustrated in Figure 1 highlights the inputs, outputs, and outcomes of NSO additionality in support of ADB's Strategy 2030 operational priorities.** The theory of change uses much of the language of the Harmonized Framework, 2018, a document to which ADB made a significant contribution. The theory of change illustrates the two core categories: financial and nonfinancial additionality. ADB seeks to address market imperfections and promote positive developmental outcomes in line with ADB's strategic goals through structured financial and nonfinancial inputs and service offerings.

31. **Clear identification of ADB additionality inputs at the project design stage may help optimize investment product selection, risk mitigation and associated TA support for private sector clients.** Expected outcomes from ADB financial additionality activities and services include the provision of capital and innovative financing structures in targeted DMCs. The provision of needed equity capital not currently supplied by the market and the mobilization of external capital from institutional investors and other private capital providers are highlighted as desired outcomes of ADB nonsovereign operational interventions. In terms of nonfinancial additionality, the theory of change illustrates ADB's potential through its operations to mitigate nonfinancial risks, including country, regulatory, project-specific or political risks; ADB's ability to deliver changes in the policy, sectoral and regulatory environment; and ADB's potential to support the adoption of improved environmental, social and corporate governance standards and to raise technical and capacity standards both with individual clients and in the wider market.

Figure 1: Nonsovereign Operations Additionality Evaluative Theory of Change



ADB = Asian Development Bank; DMC = developing member country; ESG = environmental, social and corporate governance; MDB = multilateral development bank, NSO = nonsovereign operations, PEF = private equity fund.
Source: ADB (Independent Evaluation Department).

2

ADB's Approach to Additionality

A. Introduction

B. ADB's Strategic Response

C. Assessment of ADB's Strategic Response to Additionality

D. Summary

Highlights

Financial additionality was considered in the ADB Charter and in the articles of agreement of other MDBs. Although the language varies, all these documents had the same objective of avoiding crowding out other sources of finance.

The concept of "value added" or additionality has also been referenced in ADB's corporate strategy and policy documents, but it has not been made a core priority of nonsovereign operations. Strategy 2030 refers to additionality as a reason why private sector players choose to work with financial institutions such as ADB. Additionality is described in more detail in the Operational Plan for Private Sector Operations, 2019–2024, which used the MDB Principles to Support Sustainable Private Sector Operations (MDB Principles, 2012) and the Multilateral Development Banks' Harmonized Framework for Additionality in Private Sector Operations (Harmonized Framework, 2018) to define additionality.

However, additionality was not mentioned in the country partnership strategies (CPSs) covering the evaluation period in the six countries selected as case studies by the evaluation, although some CPSs since the end of the evaluation period have referred to the additionality of nonsovereign operations. There is no clear cascading of its corporate strategy for additionality to its sector and country strategies.

The lack of a strategic approach to operationalizing additionality has meant that ADB has adopted a project-by-project approach to operationalizing additionality, which is common with other MDBs. In general, the emphasis among MDBs has been to develop ex ante systems for assessing additionality in projects. During the evaluation period, ADB did not have an ex ante additionality framework.

A. Introduction

32. **The concept of financial additionality was considered in the ADB Charter.** Article 14 (v) stated that: "In considering an application for a loan or guarantee, the Bank shall pay due regard to the ability of the borrower to obtain financing or facilities elsewhere on terms and conditions that the Bank considers reasonable for the recipient, taking into account all pertinent factors."

33. **The language on additionality enshrined in other MDBs' articles of agreement varies a little, though has the same objective of avoiding crowding out other sources of finance.** Some MDBs, including IFC which was the first to adopt the approach (in 1956), explicitly rule out the provision of finance in such circumstances. The IFC articles of agreement state: "The Corporation shall not undertake any financing for which in its opinion sufficient private capital could be obtained on reasonable terms."[8] The articles of agreement of EBRD, IDB Invest, and AfDB also explicitly prohibit the provision of finance if alternative finance is available at reasonable terms. By contrast, the language in the ADB Charter is simply "pay due regard."

34. [Confidential information deleted.]

B. ADB's Strategic Response

35. **The concept of "value added" or additionality was referenced in versions of ADB's corporate strategy documents in 2000 and 2001,[9] but it was not made a core priority of private sector operations.** Strategy 2020, which was approved in April 2008 (at the start of the evaluation period), cites private sector development and private sector operations as one of five "drivers of change" that ADB will focus on. While additionality is not directly mentioned, the document does indicate that ADB will "act as a catalyst for investments that the private sector might not otherwise be willing to make."[10]

8 IFC. 2020. *IFC Articles of Agreement* (as amended through 16 April 2020). Washington, DC. Article III, Section 3, Operational Principles (i).

9 ADB. 2000. *Private Sector Development Strategy*. Manila. p. 16; and ADB. 2001. *Private Sector Operations Strategic Directions and Review*. Manila. p. 23.

10 ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2020.* Manila. p. 14.

36. **Additionality, albeit labeled as "development impacts," is a requirement for private sector operations in the Operations Manual section D10.** However, procedures for a review, validation and monitoring of additionality are not covered in the associated staff instruction. Section D10 collects bank policies and procedures related to NSO and specifies that NSO "must have clear development impacts and/or demonstration effects" and that "ADB's assistance must: (i) attract other financing partners by leveraging ADB's financial resources; and/or (ii) complement, not substitute for, commercial sources of finance; and/or (iii) add value by influencing project design or structure to make it more environmentally or socially friendly, create more jobs, improve delivery of services, impart better skills or technology, and/or raise standards of corporate governance."[11] The staff instruction[12] associated with section D10 describes in more detail the processes by which NSO are undertaken and administered, but it primarily covers credit-related processes for the approval and monitoring of nonsovereign transactions. It does not include processes to ensure the additionality requirement is met in NSO transactions or describe a specific process on how to assess or validate the additionality claims.

37. **ADB's most recent strategic document, Strategy 2030, describes additionality for private sector operations (PSO).** Launched in 2018, Strategy 2030 focuses on seven development goals (relating to poverty, gender equality, climate change, cities, rural development, governance, and regional integration) and expanding NSO. The document set a target for private sector operations to reach one third of ADB operations in number by 2024. Strategy 2030 cites the following additionality elements as reasons why private sector players choose to work with ADB: (i) improvements in environmental, social and governance standards; (ii) providing financing that is not available from the market at reasonable terms; (iii) improved project design and development outcomes; and (iv) mitigating perceived risks. It also indicates that ADB will "address market failures without distorting those markets."[13]

38. **The concept of additionality is described in more detail in the Operational Plan for Private Sector Operations, 2019–2024 but additionality is not considered to be a priority or a necessary minimum precondition.** The operational plan refers to the MDB Principles, 2012 and the Harmonized Framework, 2018 and describes additionality as "making a contribution beyond what is available in the market, or is otherwise absent from the market, and does not crowd out the private sector."[14] The operational plan makes a distinction between additionality and development impact and further defines additionality as "key financial and nonfinancial inputs brought by ADB to a client and project to make the project or investment happen, make it happen much faster than it would otherwise, or improve its design and/or its development impact." However, the operational plan specifies that ADB will "prioritize development impact" and that the "financial sustainability of ADB's PSO will be emphasized."[15] It does not mention additionality as one of the core priorities of private sector operations.[16] Although the operational plan refers to the development of a guidance note on additionality for operational teams, it does not specify whether this guidance is to be officially operationalized across the department or whether it would make additionality a precondition of private sector operations.

39. **The operational plan mentions the need to mainstream into each CPS "comprehensive market assessments and inputs relevant to private sector development and PSO."**[17] Such assessments are meant to identify bottlenecks, constraints, and opportunities for achieving greater private-sector-led growth. The CPS should articulate what the priority sectors are for ADB support in a particular country. While the operational plan stops short of saying that these priority sectors in the CPS are the sectors where ADB will have most additionality, it does say that ADB must always justify the use of its capital based on "minimal market distortion, strong development impact, additionality and market complementarity, and

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[11] ADB. 2016. Nonsovereign Operations. *Operations Manual.* OM D10. Manila.
[12] ADB. 2019. *Staff Instruction: Credit and Other Processes for Nonsovereign Operations.* Manila.
[13] ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific.* Manila. p. 20.
[14] ADB. 2019. *Operational Plan for Private Sector Operations 2019–2024.* Manila. p. 34.
[15] Footnote 14, p. i.
[16] Earlier versions of ADB operational strategy documents did reference the concept of additionality but did not make additionality a core priority or emphasis of private sector operations (footnote 9).
[17] Footnote 14, p. 31.

strong market mobilization and market deepening."[18] The action plan included in the recently completed review of resident mission operations also indicates the need for deeper diagnostics, including regular private sector development assessments, as part of ADB's country engagement.[19] The action plan was very general though, and did not mention additionality.

40. **The CPSs covering the evaluation period in the six countries selected as country case studies for evaluation did not mention the additionality of nonsovereign operations (Box 1).** ADB does not have a clear approach to cascading its strategy for additionality as it appears in corporate documents to its sector and to country strategies. A strategic view of the market failures in the country that need to be addressed and ADB's comparative advantages in doing so, or the extent to which additionality is being squeezed in some sectors or is being advanced by adopting new activities or financial instruments not widely available, is not presented or discussed. However, some of the new CPSs since the end of the evaluation period are beginning to refer to the additionality of PSO, e.g., the CPS for Thailand (2021–2024). This document had an attachment that reviewed the additionality of ADB's earlier nonsovereign operations and specified the sectors and areas where ADB could continue to be additional in Thailand.

Box 1: Country Partnership Strategies

Apart from a few notable exceptions since the evaluation period, additionality did not feature significantly in the country partnership strategies (CPSs) of the six countries covered in the in-depth review of nonsovereign operations (NSO): Armenia, the People's Republic of China (PRC), India, Papua New Guinea, Samoa, and Thailand. Despite the relatively well-developed financial markets in the PRC and India—the two largest countries where ADB operates—the additionality of ADB's NSO was not discussed in these countries' CPSs. In fact, NSO in general did not feature significantly in the country partnership strategies for the six countries.

Three CPSs spanned the evaluation period for the PRC covering the periods 2008–2010, 2011–2015, and 2016–2020. The bulk of the operations to deliver the Asian Development Bank (ADB) strategic goals in the PRC were in the public sector and the CPSs reflect this. NSO projects were mentioned when the operations were relevant to the strategic themes and sectors.

The case of the CPSs in India is similar. In the first two for India for the periods 2006–2008 and 2009–2012, NSO operations were mentioned with reference to urban infrastructure projects and possible public–private partnership projects. In the third CPS for the period 2013–2017, NSO operations were mentioned for providing support to the infrastructure and finance sectors with stand-alone and public–private partnership projects for physical and social infrastructure. In the latest CPS for the period 2018–2022, NSO were mentioned in the context of climate change mitigation and support for electricity generation through solar photovoltaic and wind power projects.

In Armenia, ADB support for the private sector is important and the three CPSs covering 2006–2009, 2014–2018, and 2019–2023 mentioned the role of ADB in supporting private sector operations in the financial sector and infrastructure, including transport and communications. The latest CPS (2019–2023) referred to a "One ADB" approach, the need for ADB to finance nonsovereign operations, and the high dollarization of the economy, but it did not discuss the implications of this for the additionality of ADB's NSO operations.

In Thailand, the CPS for Thailand for 2021–2025 made an explicit reference to a One ADB approach to the delivery of integrated solutions, noting the benefits of NSO operations in transport and energy. In addition, in a confidential attachment, the CPS contained a private sector assessment that specifically reviewed the additionality of ADB's earlier private sector operations and identified the sectors and areas ADB could continue to be additional in Thailand.

In the Pacific, the Pacific Private Sector PSOD Strategy (2019) identified specific sectors where ADB could provide additional support, despite the limited resources available. In Papua New Guinea, these sectors included financial institutions, renewable energy, agribusiness—especially fisheries, and general infrastructure. In addition, as with the latest CPS for Thailand, the CPS for Papua New Guinea for 2021–2025 made specific mention of NSO, and the areas where ADB support through nonfinancial additionality may be critical for the project to proceed.

ADB = Asian Development Bank, CPS = country partnership strategy, NSO = nonsovereign operations, PRC = People's Republic of China, PSOD = Private Sector Operations Department.
Source: Asian Development Bank.

[18] Footnote 14, p. 32.
[19] ADB. 2020. *Review of ADB's Resident Mission Operations.* Manila.

C. Assessment of ADB's Strategic Response to Additionality

41. **The lack of a strategic approach to operationalizing additionality is due to a bottom-up project-level perspective, where projects can go ahead if there is no obvious crowding out of the private sector.** The ADB approach has been to go straight to the projects and to operationalize additionality at that level. Other MDBs have taken this approach as well and have tended to develop ex ante systems for assessing additionality in projects. [Confidential information deleted.]

42. **An expression of interest by G7 countries in MDBs' additionality and value for money in 2017 prompted efforts to strengthen systems of additionality assessment.** [Confidential information deleted.]

43. **ADB did not have an ex ante additionality framework during the evaluation period, although the need to improve the assessment of additionality in projects was expressed in the Operational Plan for Private Sector Operations, 2019–2024.** The operational plan indicated that: "ADB will improve its ability to objectively evaluate the additionality and anticipated development results of each project."[20] It also pointed out that the objective assessment of additionality in any ADB investment is critical "to enable decision makers to weigh ADB's value addition and the expected development impact against the associated risks and help address issues of market gaps." However, it was unclear whether additionality would be a required precondition for project approval.

44. **In January 2021, ADB began piloting an ex ante development impact framework, which includes additionality as one of five dimensions that need to be assessed in each project.**[21] .[22] [Confidential information deleted.]

45. **To operationalize the ex ante development impact framework, a guidance note on the assessment and rating criteria of each of the five dimensions of the framework was prepared and piloted in 2021.** This draft guidance note includes a section that explains the concept of additionality and explains the different categories of financial and nonfinancial additionality. It aims to help operational teams assess and score financial and nonfinancial additionality when using the ex ante development impact framework to screen and prepare projects.

46. **ADB is also revising a separate guidance note specifically on additionality.**[23] Apart from explaining the concept of additionality, this will also provide direction on the evidence needed to support additionality claims and on strengthening additionality narratives in approval documents. An IED review of the draft guidance note found that the categories and definitions of financial and nonfinancial additionality were consistent with those found in the Harmonized Framework, 2018.

47. **ADB has yet to develop a system for an aggregated reporting of additionality in its nonsovereign operations.** The absence of an ex ante additionality framework or system during the evaluation period meant that ex ante data on additionality in projects were not systematically captured. However, there is a system for reviewing additionality ex post for each project via PSOD's extended annual review reports (XARRs), which are validated by IED through XARR validation reports (XVRs). IED also reviews the additionality for selected projects ex post via PPERs. The XARRs, XVRs, and PPERs are project-level reports, reflecting ADB's bottom-up project-focused approach to additionality.

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[20] Footnote 14, p. 32.
[21] The ex ante development impact framework has only been piloted at the pre-concept review stage of the project approval cycle.
[22] The ex ante development impact framework has only been piloted at the pre-concept review stage of the project approval cycle.
[23] A draft guidance note on additionality was prepared in 2018 after the Harmonized Framework, 2018 was published. The draft guidance note and the Harmonized Framework, 2018 were emailed to staff with no formal training provided. An updated version of the draft guidance note from 2018 was prepared in 2021 but has yet to be shared with operational teams.

48. [Confidential information deleted.]

D. Summary

49. **The concept of financial additionality was included in ADB's Charter, but the Charter did not make additionality a necessary minimum precondition for project approval.** The Charter simply stated that ADB would "*pay due regard* to the ability of the borrower to obtain financing elsewhere on reasonable terms [emphasis added]." By contrast, the language on additionality in other MDBs' articles of agreement specifically states that the institution should avoid crowding out alternative forms of finance. [Confidential information deleted.]

50. **The concept of "value added" or additionality was referenced in ADB corporate strategy documents in 2000 and 2001,[24] but it was not made a core priority of private sector operations.** Additionality is a requirement for nonsovereign operations according to Operations Manual section D10 (although it is described there as "development impacts"), but the associated staff instruction does not include any processes for the assessment, verification and monitoring of additionality. ADB's most recent corporate document, Strategy 2030, describes the need for additionality in private sector operations but not in detail. The concept of additionality and of avoiding crowding out private sector finance is described in more detail in the Operational Plan for Private Sector Operations, 2019–2024, although it is not considered a priority or a necessary precondition for project selection and approval.

51. **The Operational Plan for Private Sector Operations, 2019–2024 also mentions the need for ADB to mainstream "comprehensive market assessments and inputs relevant to private sector development and PSO" into each CPS to identify bottlenecks, constraints, and opportunities for achieving greater private-sector-led growth.** However, additionality was not mentioned in the CPSs for the evaluation's six case study countries during the evaluation period. There was no clear cascading of ADB's strategy for additionality from its corporate strategies to sector and country strategies, although some CPSs since the evaluation period have begun to refer to the additionality of nonsovereign operations; for example, the Thailand CPS, 2021–2024 has an attachment reviewing the additionality of ADB's earlier nonsovereign operations.

52. **ADB's lack of a strategic approach to operationalizing additionality can be attributed to its project-level approach; projects can go ahead as long as there is no obvious crowding out of the private sector.** This approach is common with other MDBs. The emphasis among MDBs has been to develop ex ante systems for assessing additionality in projects. An expression of interest by G7 countries in MDBs' additionality and value for money in 2017 prompted efforts to strengthen systems of additionality assessment, and, by 2020, improvements to additionality processes had been introduced in most MDBs. During the evaluation period, ADB did not have an ex ante additionality framework, although in January 2021 ADB began piloting an ex-ante development impact framework. In this pilot framework, additionality is included as one of five dimensions that need to be assessed in each project, although it is not yet clear how the framework's scoring mechanism will be used to inform Management's decision-making process. A guidance note on additionality is being updated to (i) help operational teams assess financial and nonfinancial additionality when screening and preparing projects, and (ii) provide direction on the evidence needed to support additionality claims and on strengthening additionality narratives in approval documents. Based on an IED review of the draft guidance note, the categories and definitions of financial and nonfinancial additionality are consistent with those in the Harmonized Framework, 2018. However, taken as a whole, ADB has yet to develop a system for monitoring and aggregated reporting of additionality in its nonsovereign operations.

[24] ADB. March 2000. *Private Sector Development Strategy*. Manila. p. 16; and ADB. August 2001. *Private Sector Operations Strategic Directions and Review*. Manila. p. 23.

3

ADB's Nonsovereign Operations Portfolio Overview

Highlights

ADB's nonsovereign operations (NSO) commitments between 1 January 2008 and 31 December 2020 totaled 273 projects with a value of $19.9 billion. In addition, ADB approved a total of 141 nonsovereign technical assistant (TA) grants amounting to $143.2 million during the period. Eleven of these TA grants amounting to $4.8 million were canceled.

During this period, the overall project success rates of the IED evaluated projects peaked at 67% in 2012–2014 and 2014–2016. The success rates declined to 56% in 2015–2017, and to 51% in 2017–2019 before improving slightly to 53% in 2018–2020.

The absence of an ex ante additionality framework and a system for capturing and monitoring additionality claims made it difficult for the evaluation to obtain a portfolio view of the types of additionalities offered by ADB at approval.

The articulation of additionality in the approval documents was inconsistent and reflected confusion in ADB staff's understanding of the additionality concept.

The most common form of financial additionality offered by ADB was financing structure (70%) followed by resource mobilization (34%).

The share of projects offering a financing structure that is not available from commercial sources has been constant, while the share of projects offering innovative financing and use of an MDB's own equity account has decreased.

Within the nonfinancial additionality category, the most common form offered by ADB was improvement in ESMS standards (54%) followed by risk mitigation (35%).

Between 2008 to 2020, the share of committed projects offering nonfinancial additionality has varied in the nature of nonfinancial additionality offered.

53. This chapter gives a brief overview of the trends in ADB's nonsovereign operations (NSO) ordinary capital resources portfolio from 2008 to 2020. It uses this overview as the basis for an analysis of ADB's delivery of additionality. In addition, ADB provided NSO technical assistance (TA) grants, which aimed to contribute to the achievement of country and regional development objectives. These TA grants, which are provided directly to an entity other than to the government, are discussed in this chapter. Finally, this chapter also provides information on the types of financial and nonfinancial additionality ADB offered to its private sector clients during the period.

A. ADB's Nonsovereign Portfolio

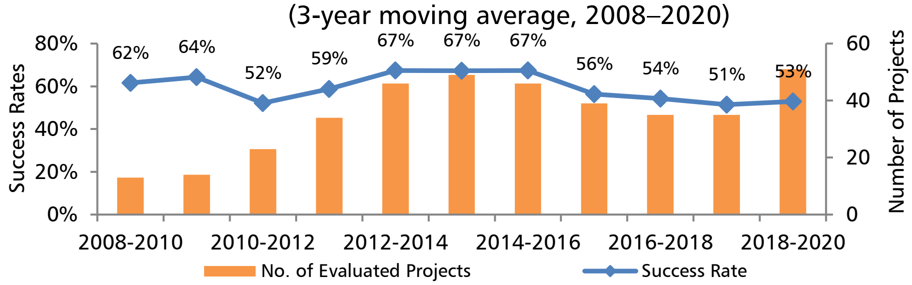
54. **From 1 January 2008 to 31 December 2020, ADB approved a total of 350 NSO projects totaling $26.9 billion, of which 44 projects amounting to $3.6 billion were fully canceled and $0.92 billion partially canceled.** Of the remaining 306 projects, 273 projects totaling $19.9 billion have been committed.[25] Within the same period, ADB also approved a total of 141 nonsovereign technical assistant (TA) grants amounting to $143.2 million. Eleven of these TA projects amounting to $4.8 million were cancelled. The remaining 130 TA grants amounting to $138.4 million are either completed or are still in active status. A more detailed description of the NSO ordinary capital resources and TA portfolios are provided in Appendix 1.

[25] Approval amounts are post-termination of subsequent approvals. Partially canceled amounts may be before signing or after signing. The amount includes both the Microfinance Risk Participation Program, approved in 2010, and the Supply Chain Finance Program, approved in 2012, and their corresponding limit increases during the evaluation period. However, the individual transactions under the program are not counted in the total number of projects and the commitments are counted under "regional." The Trade Finance Program was initially approved in 2003 and has already been covered in IED's evaluation in November 2014.

55. **IED evaluated 154 NSO projects that took place during the evaluation period.**[26] This included 89 projects approved before 2008 and 65 projects approved during 2008–2020. Six countries and regional projects accounted for nearly two-thirds of all evaluated projects—25 in India (16.2%); 22 regional projects (14.3%); 17 in the PRC (11.0%); 10 in Thailand (6.5%); 9 each in the Philippines, Pakistan, and Sri Lanka (5.8% each). By sector, 96 of the 154 evaluated projects (62.3%) were in the finance sector, mostly financial intermediation loans and equity investments in private equity funds. Another 40 evaluations (26.0%) were in the energy sector, most of which were renewable energy generation projects.

56. **On a three-year moving average basis, the success rate of NSO projects has been declining.**[27] **The** success rate peaked at 67% in 2012–2014 and 2014–2016. The rates declined to 56% in 2015–2017 and to 51% in 2017–2019 before improving slightly to 53% in 2018–2020 (Figure 2).

Figure 2: Success Rates of Nonsovereign Operations
(3-year moving average, 2008–2020)



Note: Success rates are based on independent evaluation of extended annual review reports circulated during 2008–2020.
Source: Asian Development Bank (Independent Evaluation Department).

57. **A quarter of the nonsovereign TA projects were self-evaluated and the overall success rate is 68%.** PSOD prepared 28 TA completion reports (TCRs)—five of these were rated as *highly successful* and 14 were rated *successful*. Seven were rated *partly successful,* and the remaining two were split between *less than successful* and *unsuccessful*.[28] These TCRs have not yet been validated by IED, as IED just recently developed the validation process for TCRs.

B. Types of Additionality Offered to Clients of Nonsovereign Operations

58. **The absence of an ex ante additionality framework or a system for capturing and monitoring additionality claims made it difficult for the evaluation team to obtain a portfolio view of the types of additionality offered by ADB at approval.** IED examined two types of nonsovereign approval documents: reports and recommendations of the President (RRPs) and Faster Approach to Small Nonsovereign Transactions (FAST) documents.[29] IED reviewed all the approval documents of the 273 committed projects to identify the additionality claims in each (usually located in the "Value Added" or "Justification for

[26] The reporting years for evaluation are based on the circulation dates of extended annual review reports (XARRs) and not the approval dates of XARR validation reports (XVRs) and project performance evaluation reports (PPERs). A reporting year covers the period 1 July to 30 June. Hence for reporting year 2008, these are XARRs circulated from 1 July 2007 to 30 June 2008.

[27] IED uses a four-point rating scale in evaluating NSO transactions: excellent, satisfactory, less than satisfactory, and unsatisfactory. Excellent and satisfactory ratings indicate a satisfactory performance. Success rate is obtained by dividing the number of transactions with excellent and satisfactory evaluation ratings by the total number of evaluated transactions. IED rates additionality as one of the four criteria contributing to overall project performance. The other criteria are development results, ADB investment profitability, and ADB work quality. See Appendix 3 for more details on the rating criteria for additionality.

[28] Highly successful = the TA outputs and outcome were achieved as planned and the overall performance exceeded expectations, with no cost and time overruns. Successful = The TA outputs and outcome were largely achieved. Less than successful = the envisaged outputs and outcome were not fully met. Unsuccessful = TA incurred substantial time and cost overruns and there was no associated socioeconomic benefit from the TA operation. A few TA projects are rated "partly successful" when the objectives of the TA are partly met.

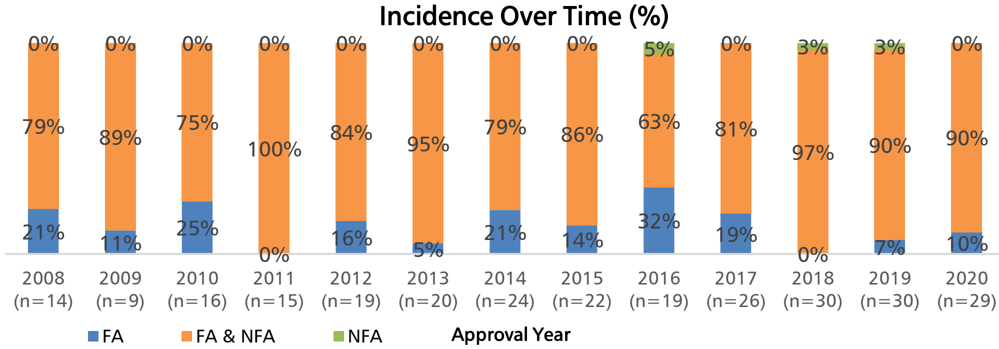
[29] The FAST framework was designed to improve ADB's operational efficiency by shortening the processing time for small private sector transactions that may produce high development impact but come with higher upfront costs. Under this framework, the President approves the transactions.

ADB's Assistance" sections). The claims were classified and tabulated into financial additionality and nonfinancial additionality, as per the Harmonized Framework, 2018 definitions.

59. **The articulation of additionality in the approval documents reflected some confusion in staff's understanding of the concept of additionality, with some projects making incorrect additionality claims.** The approval documents for 46 projects (16.8%) included anticipated developmental impacts as the basis for additionality. Approval documents for 26 projects (9.5%) claimed the transaction's consistencies with country partnership and sectoral strategies represented additionality. Three approval documents did not discuss financial additionality and focused fully on nonfinancial additionality. Two approval documents included the experience and knowledge ADB would gain from the transaction among their additionality arguments.

60. **ADB offered a mixture of financial additionality and nonfinancial additionality in most of its committed projects.** In the 273 committed projects, the share of projects offering financial additionality alone decreased after 2017. Between 2016 to 2019, only three projects offered nonfinancial additionality only (Figure 3).

Figure 3: Types of Additionality Offered to Clients, Incidence Over Time (%)

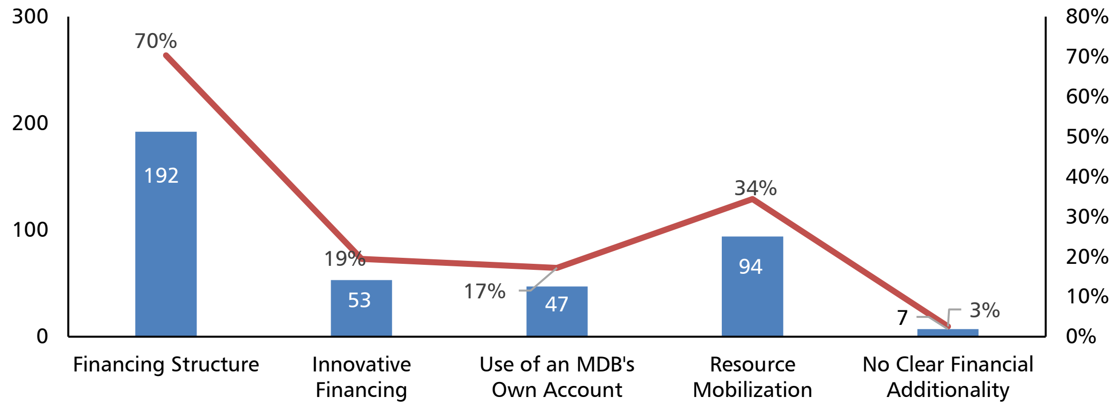


FA = financial additionality only, NFA = nonfinancial additionality only,
FA&NFA = financial and nonfinancial additionality
Source: Asian Development Bank (Independent Evaluation Department).

61. **Within the financial additionality category, the most common form offered by ADB was financing structure (70%) followed by resource mobilization (34%).** In 192 of committed projects (70%), ADB aimed to provide a financing structure that was not available from commercial sources on reasonable terms (i.e., by providing a longer tenor, a grace period, a larger amount, or finance in local currency). By comparison, ADB aimed to provide financial additionality using its own equity account in only 47 of the projects (17%). Seven projects did not include clear financial additionality in their approval documents. Figure 4 shows the complete breakdown of the percentage of committed projects that aimed to deliver a specific financial additionality subtype.

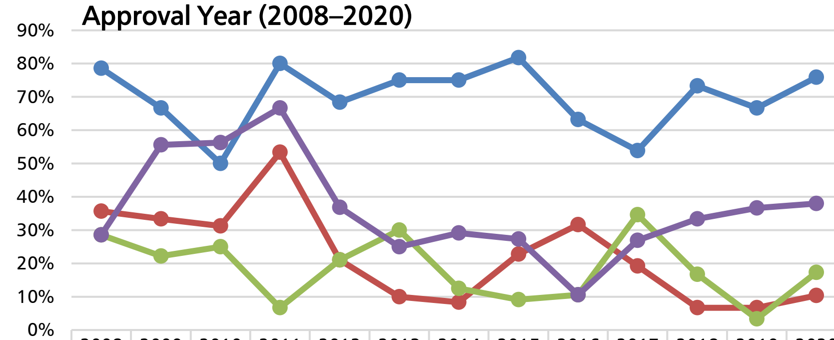
62. **Over time, the share of projects offering a financing structure that is not available from commercial sources has been constant, while the share of projects offering innovative financing and use of an MDB's own equity account has decreased.** The percentage of projects offering resource mobilization declined between 2012 and 2016, but there was a resurgence from 2017 to 2020 (Figure 5).

Figure 4: NSO Projects per Financial Additionality Subtype, 2008–2020



Source: Asian Development Bank (Independent Evaluation Department).

Figure 5: Types of Financial Additionality Offered in Percentage, by Approval Year (2008–2020)



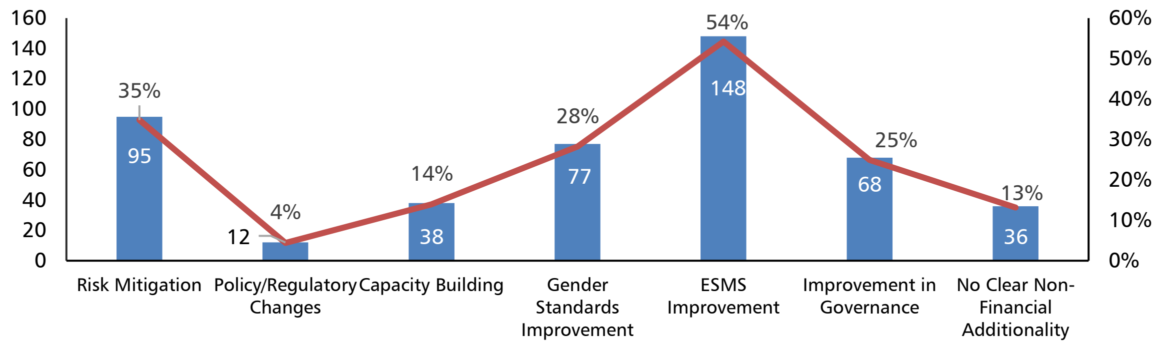
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Financing Structure	79%	67%	50%	80%	68%	75%	75%	82%	63%	54%	73%	67%	76%
Innovative Financing	36%	33%	31%	53%	21%	10%	8%	23%	32%	19%	7%	7%	10%
Use of an MDB's Own Account	29%	22%	25%	7%	21%	30%	13%	9%	11%	35%	17%	3%	17%
Resource Mobilization	29%	56%	56%	67%	37%	25%	29%	27%	11%	27%	33%	37%	38%

MDB = multilateral development bank.
Source: Asian Development Bank (Independent Evaluation Department).

63. **Within the nonfinancial additionality category, the most common form of additionality offered by ADB was standard setting, mainly in the form of improvements to environmental and social management systems (ESMS).** In 148 committed projects (54%), ADB aimed to improve ESMS standards. By comparison, ADB sought to change government policies and regulations in order to enhance practices at the country or sectoral level in only 12 projects (4%). The evaluation found that 36 projects did not state any clear nonfinancial additionality in their approval documents. Figure 6 shows the complete breakdown of the percentage of committed projects that aimed to deliver specific nonfinancial additionality.

64. **There was no major distinction in the distribution of projects with risk mitigation and capacity building nonfinancial additionality in upper middle-income and lower middle-income economies (Table 2).** One would have expected greater use of both in lower middle-income countries.

Figure 6: NSO Projects per Nonfinancial Additionality Subtype,2008–2020



ESMS = environmental and social management system, NSO = nonsovereign operations.
Source: Independent Evaluation Department Desk Study.

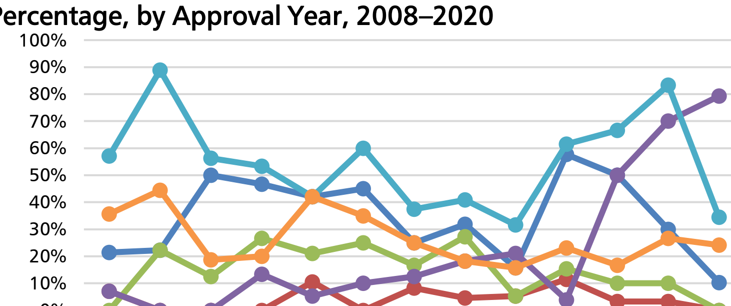
Table 2: Percentage of Committed Projects that offer Risk Mitigation and Capacity Building Additionality by Country Income Classification, 2008–2020

Income Classification	Risk Mitigation (%)	Capacity Building (%)
Upper middle-income economies	38	45
Lower middle-income economies	43	40
Regional	24	10

Upper Middle-Income Economies = Armenia, Azerbaijan, the People's Republic of China, Georgia, Kazakhstan, Thailand
Lower Middle-Income Economies = Bangladesh, Cambodia, Indonesia, Kyrgyz Republic, Myanmar, Pakistan, Papua New Guinea, the Philippines, Sri Lanka, Uzbekistan, Viet Nam
Source: Asian Development Bank (Independent Evaluation Department), World Bank Country Classification.

65. **Between 2008 and 2020, the nature of nonfinancial additionality offered in committed projects offering nonfinancial additionality has varied.** The share of projects providing improvements in gender equality standards increased sharply in 2018 to 50% in line with ADB's push to accelerate gender equality and women's empowerment under Strategy 2030. The share of projects offering improvements in ESMSs declined to 34% and the share of risk mitigation projects dropped to 10% (Figure 7).

Figure 7: Types of Nonfinancial Additionality Offered in Percentage, by Approval Year, 2008–2020



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Risk Mitigation	21%	22%	50%	47%	42%	45%	25%	32%	16%	58%	50%	30%	10%
Policy/Regulatory Changes	7%	0%	0%	0%	11%	0%	8%	5%	5%	12%	3%	3%	0%
Capacity Building	0%	22%	13%	27%	21%	25%	17%	27%	5%	15%	10%	10%	0%
Gender Standards Improvement	7%	0%	0%	13%	5%	10%	13%	18%	21%	4%	50%	70%	79%
ESMS Improvement	57%	89%	56%	53%	42%	60%	38%	41%	32%	62%	67%	83%	34%
Improvement in Governance	36%	44%	19%	20%	42%	35%	25%	18%	16%	23%	17%	27%	24%

ESMS = environmental and social management system.
Source: Asian Development Bank (Independent Evaluation Department).

C. Canceled Projects

66. **Eleven out of the 44 canceled projects within 2008–2020 had additionality issues.** Of these eleven projects, eight were canceled because the client found other sources of financing or was able to fund the project itself. Two projects were canceled because the clients did not find ADB's innovative financing suitable to their needs. In another project, ADB canceled its investment because the legal documentation was not acceptable, and, as a late investor to the project, ADB had little bargaining power to negotiate its position.

67. **A majority of canceled projects (38 out of 44) offered both financial and nonfinancial additionality.** The most common additionality type offered by the canceled projects was the provision of financing that was not available from commercial sources on reasonable terms, with 26 out of 44 projects (59%) aiming to offer that additionality. No canceled project proposed to change government policies and regulations that enhance practices at the country or sectoral level (Table 3).

Table 3: Types of Additionalities Offered to Nonsovereign Operations Clients in ADB's Canceled Projects, 2008–2020

Types	Category	No. of Projects	%
Financing structure	Financial	26	59
Risk mitigation	Nonfinancial	25	57
ESMS improvement	Nonfinancial	24	55
Improvement in governance	Nonfinancial	15	34
Resource mobilization	Financial	14	32
Use of an MDB's own account	Financial	11	25
Innovative financing	Financial	9	20
Capacity building	Nonfinancial	8	18
Gender equality standard improvements	Nonfinancial	6	14
Policy or regulatory changes	Nonfinancial	0	0

ADB = Asian Development Bank, ESMS = environmental and social management system, MDB = multilateral development bank, NSO = nonsovereign operations.
Source: ADB (Independent Evaluation Department).

D. Summary

68. **During the period, IED evaluated 154 projects, with success rates peaking at 67% in 2012–2014 and 2014–2016.** The success rates declined to 56% in 2015–2017 and to 51% in 2017–2019 before improving slightly to 53% in 2018–2020.

69. **The absence of an ex ante additionality framework or a system for capturing and monitoring additionality claims made it difficult for the evaluation team to obtain a portfolio view of the types of additionalities offered by ADB at the approval stage.** IED examined the approval documents of the 273 committed projects during the evaluation period and tabulated the types of additionalities ADB said it was offering to its clients, based on the definition on the Harmonized Framework, 2018. In the approval documents for these projects, ADB stated it was providing the following types of financial additionality: (i) a financing structure that was not available from commercial sources on reasonable terms—192 projects (70%), (ii) resource mobilization—94 projects (34%), (iii) innovative financing structures—52 projects (19%), and (iv) financial additionality by using ADB's own account—47 projects (17%). ADB aimed to provide the following types of nonfinancial additionality: (i) ESMS improvements—148 projects (54%), (ii) risk mitigation—95 projects (35%), (iii) gender equality standard improvements—77 projects (28%), (iv) improvement in governance—69 projects (25%), and (v) capacity building aid—38 projects (14%) and support to policy and regulatory changes—12 projects (4%).

70. **The articulation of additionality in the approval documents was inconsistent and reflected confusion in ADB staff's understanding of the additionality concept.** Several documents made incorrect additionality statements, including (i) referring to the anticipated developmental impacts as the basis for additionality (46 projects), and (ii) claiming that the transaction's consistencies with country partnership and sectoral strategies provided examples of additionality (26 projects). Two project approval documents claimed that the experience and knowledge ADB would gain from the transaction was a form of additionality.

71. **ADB mostly offered a combination of financial and nonfinancial additionality in its projects. Financing** structure and resource mobilization were the most common types of financial additionality, while standard setting in ESMSs was the most prevalent type of nonfinancial additionality. The share of projects offering gender equality standard improvements has increased in recent years, which can be attributed to ADB's greater emphasis on gender equality and women's empowerment under Strategy 2030.

4

Performance and Results of ADB's Additionality in its Nonsovereign Operations Portfolio

Highlights

Overall, 77 of the 154 evaluated projects (50%) were rated satisfactory for ADB additionality while 29 projects (19%) were rated excellent.

ADB additionality satisfactory rate (which includes projects rated either satisfactory or excellent) has been on a downward trend. The three-year moving averages show that the rate declined from a high of 91% in 2010–2012 to a low of 54% in 2017–2019.

The satisfactory rate is significantly higher for financial additionality than for nonfinancial additionality. However, the satisfactory rate for financial additionality decreased from 95% in 2010–2012 to 53% in 2018–2020, while nonfinancial additionality slightly improved from 0% in 2008–2010 to 17% in 2018–2020.

By region, Southeast Asia had the highest additionality satisfactory rates (85%), with Thailand recording a satisfactory rate of 90% and Indonesia 83%. East Asia had the lowest rate (41%), with People's Republic of China recording a rate of 47% and Mongolia 20%.

There was no apparent relationship between market needs and additionality ratings—both less developed and more developed economies could record low additionality ratings. The Pacific had a 50% satisfactory rate (two projects in Papua New Guinea and Samoa), while the PRC, one of the most developed ADB borrowing member countries, had a 47% rate.

By sector, 88% of evaluated projects were in the energy and finance sectors, with energy (85%) performing better than finance (65%). The poor performance from the finance sector comes was due to the poor additionality of private equity funds, support for small and medium-sized enterprise financing, and support for banking systems.

By instrument, loan transactions tended to receive higher satisfactory rates (72%) than those for the other two major modalities—direct equity (64%) and guarantees (57%).

There was a strong association between additionality and development results, and between additionality and investment profitability in the evaluated projects.

72. This chapter describes the types of financial and nonfinancial additionality ADB delivered to its private sector clients in 154 projects evaluated from 2008 to 2020, as differentiated by context, sector, and geography. The chapter also presents the results of the country case assessments for Armenia, the PRC, India, Papua New Guinea, Samoa, and Thailand, and (3) the results of the statistical analysis to measure the performance of additionality vis-à-vis developmental success and financial returns are discussed.

A. ADB Additionality Performance

73. **ADB additionality is one of four main criteria used in evaluating NSO projects—the others are development results, ADB investment profitability, and ADB work quality.**[30] Additionality was evaluated according to (i) the extent to which ADB finance was a necessary condition for the timely realization of the project, through direct mobilization of funds and/or indirectly by improving the risk perception of other financiers; and (ii) ADB's contribution to the design of the project to improve the allocation of risk and responsibilities, and to enhance development impact.[31] Overall, 77 of the 154 evaluated projects (50%) were rated satisfactory for ADB additionality while 29 projects (19%) were rated excellent.

74. **While ADB delivered additionality in most of its projects, satisfactory rates have been dropping.** Three-year moving averages show that the rate trended downwards from a high of 91% in 2010–2012 to a low of 54% in 2017–2019 (Figure 8). This decline was driven by a shift in the evaluated portfolio to a higher concentration in financial institution transactions where the evidence for verifying financial additionality with more established borrowers was thin and rapid market development in some DMCs. Additionality satisfactory rates for infrastructure projects also declined over time although they remained

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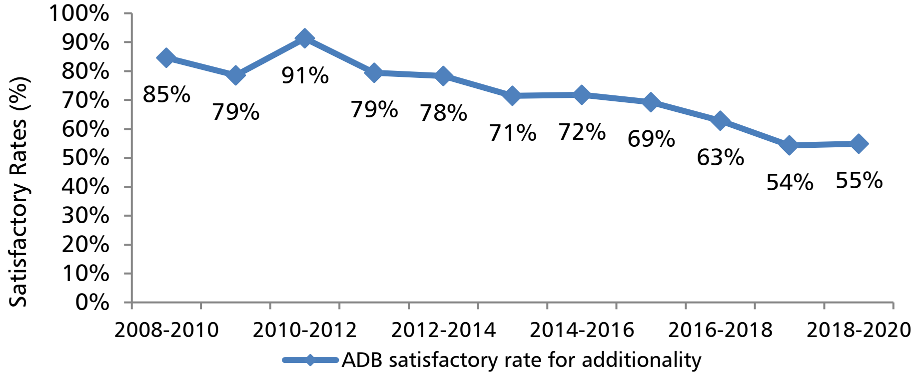
[30] ADB. 2014. *Guidelines for the Preparation of Project Performance Evaluation Reports on Nonsovereign Operations*. Manila.

[31] See Appendix 3 for a more detailed description of ex post rating standards for assessing ADB's additionality.

higher than those for financial institutions. Most of the evaluated projects with less than satisfactory additionality ratings in 2018–2019 were financial institution projects in Georgia, India, Indonesia, Mongolia, PRC, and Sri Lanka, where the borrowers appeared to have access to other funding.

Figure 8: ADB Additionality Satisfactory Rates
(3-year moving average, 2008–2020)



ADB = Asian Development Bank
Note: Satisfactoy rates are based on independent evaluation of extended annual review reports circulated during 2008–2020.
Source: Asian Development Bank (Independent Evaluation Department).

75. **IED's additionality ratings covered financial and/or nonfinancial additionality.**[32] ADB claimed to offer a combination of financial and nonfinancial additionality in a majority of committed projects during the evaluation period (between 63%–100% of approved projects in any given year—Figure 3). The evaluation assigned provisional ratings to each category of additionality to determine the relative performance between the two. The provisional ratings were based on the information presented in each project's approval and evaluation documents.

76. **Financial additionality is often achieved once a transaction's legal documentation is signed.** IED identified the types of additionalities promised at project approval, which included financing structure, innovative financing structure, use of MDB's own account (for equity investments), and resource mobilization. The evaluation examined the "Value Added by ADB Assistance" and "Justification for ADB's Assistance" sections of the approval documents for each of the 154 evaluated projects. The delivery of each item was examined based on the evidence provided in the extended annual review report (XARR), XARR validation report (XVR), or the project performance evaluation report (PPER). An *excellent* rating means that there is a strong indication that, without ADB's financial participation, the project would not have gone ahead. A *satisfactory* rating means that if ADB had not participated, the project would not have gone ahead with financing on appropriate terms, it may have been delayed, the project would have been subject to unfair or inefficient allocation of risks, or the project may have been weak in some areas. A less *than satisfactory* rating means that, without ADB, the project would probably have gone ahead with the required market finance and without material delay. An *unsatisfactory* rating means that the project would clearly have gone ahead without ADB participation.

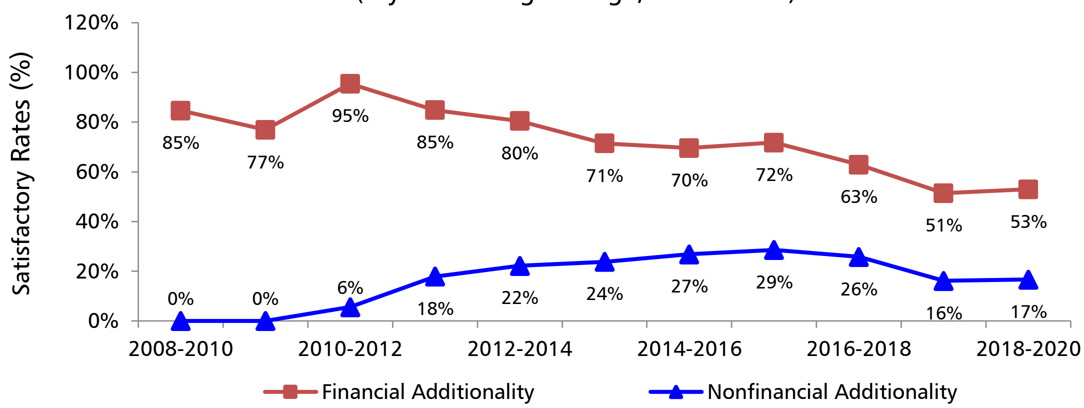
77. **By contrast, the delivery of nonfinancial additionality—risk mitigation; policy, sector, institutional or regulatory change; improvements in environmental, social or governance standards; and knowledge, innovation, and capacity building activities—normally occurs over a longer period of time.** The originating project and/or the associated TA document should provide a framework with target indicators that can be used to assess progress. This framework should be complemented by a robust monitoring system to ensure compliance with the delivery of the ex ante items. As with the provisional financial additionality rating exercise, IED examined each of the 154 evaluated projects and identified the type of ex ante

[32] ADB requires financial additionality and/or nonfinancial additionality in its private sector operations. See para. 36.

nonfinancial additionality promised in the "Value Added" or "Justification for ADB's Assistance" sections of the approval documents. The design and monitoring framework (DMF) were also examined to see if it provided the correct metrics for the type of nonfinancial additionality that was promised. The delivery of each item was examined based on the evidence provided in the XARR, XVR, or PPER. An *excellent* rating meant that the project's DMF provided the correct set of indicators to measure the achievement of the nonfinancial additionality and that there was strong evidence that these were delivered or on its way to being delivered. A *satisfactory* rating meant that the DMF had a set of relevant indicators that could be used to measure the nonfinancial additionality (even with some imperfections), and that there was evidence of progress toward achieving the intended indicators. A *less than satisfactory* rating meant that there were gaps in the DMF but that there was some evidence of progress toward achieving the intended results. An *unsatisfactory* rating meant that there is no monitoring framework and there was no evidence of the intended results being achieved.

78. **The results of the provisional rating exercise conducted by IED showed that the quality of ADB's financial additionality was significantly higher than the quality of its nonfinancial additionality.** This result closely tracked the satisfactory rates for the overall additionality rating. However, nonfinancial additionality has improved from zero satisfactory rates for projects evaluated between 2008–2010 to 2009–2011 to above 20% from 2012–2014 to 2016–2018 (Figure 9). Most of the nonfinancial additionality offered in 2008–2012 specified improvements in ESMS standards, risk mitigation, and improvements in governance. However, most of the transactions evaluated within these periods were approved between the mid-1990s and 2005 when additionality was less of a focus for nonsovereign operations. Most of the approval documents did not have DMFs that would help ensure proper monitoring of the envisaged nonfinancial additionalities. IED's review of the documents showed that most projects approved since 2006 started to provide relevant metrics in their DMFs. PSOD's adoption of the MDB Principles, 2012 led to more attention being paid to nonfinancial additionality, as reflected in PSOD's self-evaluations since 2013. The satisfactory rate of nonfinancial additionality in the evaluated transactions declined in 2017–2019 (16%) and 2018–2020 (17%). Fourteen of the 22 infrastructure transactions did not deliver the envisaged improvements in ESMSs, governance, or risk mitigation. Twenty-three out of 28 financial transactions did not provide the expected standard improvements in ESMS, gender equality, or governance.

Figure 9: Provisional Additionality Satisfactory Rates
(3-year moving average, 2008–2020)



Note: Satisfactoy rates are based on independent evaluation of extended annual review reports circulated during 2008–2020.
Source: Asian Development Bank (Independent Evaluation Department).

79. **In many cases, the quality of ADB's nonfinancial additionality was affected by the insufficient evidence to support the additionality claim.** In such examples, there was usually no adequate monitoring framework to measure ADB's performance. In forty-nine projects examined by IED, the XARR found that

there was not enough evidence to support the nonfinancial additionality claim. Forty-six of the approval documents did not have a design and monitoring framework that could be used to measure ADB's input in raising the specific standards of its clients. [Confidential information deleted.] In 31 projects, ADB was not able to provide nonfinancial additionality, either because the project failed or because ADB did not make enough of a contribution to achieving the envisaged additionality. [Confidential information deleted.]

80. **The provisional assessment of ADB's nonfinancial additionality was low across all the nonsovereign modalities, but especially in ADB's investments in private equity funds (Table 4).** ADB struggled to deliver improvements in corporate governance or ESMS standards in these investments. In some cases, the ADB representative on the advisory committee of the fund was too passive. In others, the delivery of a better standard for an ESMS was hampered by an inadequate monitoring system. This is in line with the observation made by ADB's corporate evaluation of private sector equity investments in 2019, which found that the additionality satisfactory rating of ADB's private equity funds had been on a downward trend since 2012.[33] The evaluation found that in a growing number of evaluated projects ADB additionality was not clear, especially as the gap between ex ante and ex post additionalities widened. In one private equity fund investment, it was evident that the fund would not have progressed to financial closure without ADB's involvement, so in this case ADB provided financial additionality. However, the evaluation also stated that other contributors expected much more from ADB as a shareholder, which included active overseeing of fund operations. This implies that its nonfinancial additionality was *less than satisfactory*.

Table 4: Provisional Nonfinancial Additionality Satisfactory Rates of IED-Evaluated Projects Per Modality, 2008–2020

Modality	Unsatisfactory	Less than Satisfactory	Satisfactory	Excellent	Total	Satisfactory Rate
Direct equity	5	7	1	1	14	**14%**
Guarantee	0	4	1	0	5	**20%**
Loan	19	31	18	1	69	**28%**
Private equity fund	17	18	0	0	35	**0%**
Mixed	4	5	4	0	13	**31%**

IED = Independent Evaluation Department.
Note: This table does not include 10 projects that did not have provisional nonfinancial ratings due to the absence of nonfinancial additionality information in the project's evaluation documents.
Source: Asian Development Bank (Independent Evaluation Department).

1. Additionality by Region

81. **There was a wide variation across ADB regions in their additionality performance.** Southeast Asia had the highest additionality satisfactory rate (85%) while East Asia had the lowest (41%). Southeast Asian countries Thailand (90%) and Indonesia (83%) recorded high satisfactory rates (Table 5). In Thailand, ADB successfully provided financial additionality through six energy projects by providing long-term financing, local currency financing, mobilization of capital, and risk reduction. Investments in two private equity funds in Thailand were also satisfactory. [Confidential information deleted.] By contrast, the satisfactory rate was lower in the East Asian countries the PRC (47%) and Mongolia (20%). In nine of the 17 evaluated PRC projects, there was a lack of counterfactuals especially when the borrower or investee was an established institution. ADB's intervention in some projects failed to bring in additional participation from foreign or domestic investors, which was envisaged at approval stage. [Confidential information deleted.] The satisfactory rates in four Mongolian financial transactions were low as claims of mobilizing capital and improving ESHS standards were put into question by the earlier involvement of other MDBs with more significant loans.

[33] Independent Evaluation Department. 2019. *Evaluation of ADB's Private Sector Equity Investments 2006–2017*. Manila.

Table 5: Percentage of Evaluated Projects with Satisfactory Ratings by Region, 2008–2020

Region	Unsatisfactory	Less than Satisfactory	Satisfactory	Excellent	No. of Evaluated Projects	Satisfactory Rate
Southeast Asia	1	4	18	10	33	85%
South Asia	1	9	23	7	40	75%
Central and West Asia	1	8	19	7	35	74%
Regional	5	5	10	2	22	55%
Pacific	1		1		2	50%
East Asia	2	11	6	3	22	41%
Total	**11**	**37**	**77**	**29**	**154**	**69%**

Source: Asian Development Bank (Independent Evaluation Department).

82. **In some countries, ADB's additionality was hampered by a number of constraints involving government regulations and policies.** Some governments have concerns over the immunities and privileges available to participants in loan syndication programs. Under the syndication program, commercial lenders partner with ADB in its lending operations. ADB remains the lender of record while extending a loan to a borrower funded by commercial participants and ADB. The portion funded by ADB is referred to as the A Loan and the portion funded by commercial lenders as the B Loan. Commercial lenders enter the transaction through a participation agreement, and through this mechanism, each commercial participant may benefit from certain special privileges. The A and B loan approach allows ADB to introduce new financing sources to its clients and to mobilize more funds for development projects and is an important part of the additionality ADB offers to commercial lenders. However, some governments have expressed reservations about extending the special privileges to its participant banks, and as a result, ADB has had no syndication program in those countries.

83. **ADB's additionality performance was not well correlated with market gaps and imperfections.** East Asia includes the PRC, one of the most developed ADB borrowing member countries, yet the PRC had only a 47% satisfactory rate over the evaluation period. The bar is higher for ADB to establish financial additionality in a developed market, and in five out of 17 evaluated projects in the PRC (29%), there was no evidence to support the financial additionality claims. In Mongolia, where the opportunity for ADB to be additional was arguably greater than in the PRC, only one out of five projects (20%) obtained a satisfactory rating. [Confidential information deleted.]

84. **While there is a small sample size for projects in the Pacific, the projects examined reflected the challenges of delivering additionality in less developed economies.** [Confidential information deleted.]

2. Additionality by Sector

85. **Breaking down the portfolio by sector, 88% of evaluated projects were in the energy and finance sectors, with energy (85% satisfactory rate) performing better than finance (65%)—Table 6.** In the energy sector, ADB played a significant role in the PRC, India, Samoa, and Thailand in supporting renewable energy projects, especially solar energy projects. In the PRC, ADB financed a natural gas project, a transmission and distribution project, and a wind power project. In India, it financed six solar and wind power projects, two conventional energy projects and an urban clean fuel pipeline project. In Samoa, ADB supported the country's first solar power project. In Thailand, ADB supported three solar energy projects, two wind power projects, and three conventional gas-fired energy projects. Investments in the finance sector were as follows: in Armenia, ADB supported four commercial banks; in the PRC, a credit guarantee company, three funds and three banks; in India 15 investments (four banks, seven private equity funds, three housing finance corporations and a fund management company for infrastructure funds); and in Thailand, two private equity funds. The high satisfactory ratings for the energy sector came from 34 out of 40 evaluated transactions being rated excellent (15) or satisfactory (19). In these cases, ADB provided much-needed financing for the timely implementation and completion of the projects. ADB's technical expertise in appraising and developing solar power projects was welcomed by its clients. ADB's presence also helped the projects to attract cofinancing from international commercial lenders and other MDBs. ADB's contribution to project designs were critical for the successful implementation of the

projects. The successful energy transactions also benefited from ADB's nonfinancial contributions, which mostly took the form of improving the client's environmental and social safeguard measures in seven of the 20 renewable projects. ADB provided valuable nonfinancial additionality contributions in the form of strengthening corporate governance in two out of the 20 evaluated projects in the conventional energy subsector.

86. **The lower additionality for the finance sector comes from the poor additionality performance of ADB's investments in private equity funds, its support for small and medium-sized enterprise financing, and its support for banking systems**. Fifteen out of 36 funds evaluated were rated *unsatisfactory* or *less than satisfactory* (42%). There was no evidence that ADB's funding was necessary for fund closure in most cases, while in others ADB funding came in late in the fund's fundraising. ADB's involvement provided only limited incremental benefits such as attracting other investors to the fund or improving governance and environment, social, health, and safety (ESHS) standards. Earlier, from 2008 to 2016, ADB had supported emerging funds with new fund managers, where ADB's ability to crowd in more funding from other investors was seen as a measure of its additionality. However, most of these funds had first-time fund managers and did not perform well. Since 2016, ADB has moved its support to fund managers with a successful track record of previous investments and has focused on providing nonfinancial additionality on an ex-ante basis as a measure to justify its support.

Table 6: Percentage of Evaluated Projects with Satisfactory Ratings by Sector, 2008–2020

Sector	Unsatisfactory	Less than Satisfactory	Satisfactory	Excellent	No. of Evaluated Projects	Satisfactory Rates
Energy	3	3	19	15	40	85%
Finance	5	29	53	9	96	65%
Transport and ICT		4	2	3	9	56%
Water and other urban infrastructure and services	2		2	1	5	60%
ANRRD		1	1		2	50%
Education				1	1	100%
Health and social protection	1				1	0%
Total	**11**	**37**	**77**	**29**	**154**	**69%**

ANRRD = agriculture, natural resources and rural development, ICT = information and communication technology.
Source: Asian Development Bank (Independent Evaluation Department).

87. **Eight out of 18 investments to financial institutions for small and medium-sized enterprises (SMEs) and leasing activities were rated less than satisfactory (44%).** Evaluation documents for some projects showed that the financial intermediaries catering to the SMEs could have obtained financing from local or international commercial banks. In other projects, claims of mobilizing funds for the borrower suffered from attribution issues when other MDBs were involved. ADB could have been more additional if it provided technical assistance to help these financial institutions develop their SME business activities or if it had provided capacity development and strengthening of ESMSs. In some cases, the additionality rating was low because of the lack of TA documentation to support the achievement of the additionality claims.

88. **ADB's support for improvements to the banking systems was rated less than satisfactory in seven out of 21 banks (67% satisfactory rate) during the evaluation period.** ADB's role in engaging with banks hinges on two areas of financial inclusion: (i) providing greater access to micro, small, and medium-sized enterprises and (ii) supporting gender equality by increasing financing provided to women. While these are important development objectives, they must also be assessed against the need for banks to have stable sources of long-term financing so they can provide an array of loans of different maturities. In some cases, the need for stable long-term funds means that the banks commit to accepting ADB's conditions to support micro, small, and medium-sized enterprises and women, without it being a core of their overall business strategy. In these situations, the chances of the bank disengaging from its commitments to ADB on the development objectives of the project can lead to a less than satisfactory

development outcome, even though the financial outcomes may be satisfactory. [Confidential information deleted.]

3. Additionality by Instruments

89. **ADB's additionality was stronger in loan transactions (72%) than in the other two major modalities, equity (64%) and guarantees (57%)—Table 7.** ADB's success in its loan transactions was driven by the financing of infrastructure projects, where a combination of financial additionality and nonfinancial additionality yielded an 87% satisfactory rate for 33 projects. These loan infrastructure projects also provided nonfinancial additionality for strengthening ESMSs. ADB was able to provide this in 10 out of these 33 satisfactory transactions. Loans provided to financial institutions yielded a 60% success rate, with ADB's additionality coming from combined support for financing structures and risk mitigation.

Table 7: Satisfactory Rates of IED Evaluated Projects by Modality, 2008–2020

Modality	Unsatisfactory	Less than Satisfactory	Satisfactory	Excellent	Total	Satisfactory Rates
Loan only	2	21	45	15	83	72%
Direct equity only	3	2	5	4	14	64%
Guarantee only	0	3	1	3	7	57%
Mixed	0	2	7	7	16	88%
Private equity fund	6	9	19	2	36	58%
Total	**11**	**37**	**77**	**29**	**154**	**69%**

IED = Independent Evaluation Department.
Source: Asian Development Bank (Independent Evaluation Department).

90. **ADB's additionality in its direct equity investments (64% satisfactory rate) was stronger than its support for private equity funds (58%).** Its status as an MDB, meant that ADB's entry into eight of the 14 direct equity investments helped strengthen the financial soundness, creditworthiness, and governance of the client. This was in addition to providing the initial financing structure which was previously unavailable to its clients. [Confidential information deleted.]

91. **ADB's guarantees had a 57% satisfactory rate.** In this case, clients required a combination of financial additionality and nonfinancial additionality. By their nature, guarantee transactions provided risk mitigation since ADB will assume responsibility for a debt should one of its borrowers become unable to pay its creditor. However, since ADB is a development institution, clients seek more than just financial risk mitigation when they request guarantee support. This was evident in three of ADB's less than satisfactory guarantee undertakings. [Confidential information deleted.]

92. **ADB was highly additional in the 16 projects where it provided mixed forms of support (88% satisfactory rate).** ADB had a 100% satisfactory rate when it combined loans and guarantees in five of its infrastructure projects. ADB's loans were usually necessary for the timely realization of the projects. The inclusion of a guarantee facility provides risk mitigation that may attract other lenders to enter and to mobilize additional capital. The inclusion of other nonfinancial additionality increases the likelihood of success such as contributions to ESMSs, governance, and project design.[Confidential information deleted.] When ADB combined loan and equity, it achieved a 71% satisfactory rate in seven projects. Four of the successful loan and equity transactions benefited from the financial additionality of the loan structure and its mobilization of additional resources. ADB's use of its own equity raised the potential for success through improved corporate governance. [Confidential information deleted.]

B. Supplementing Nonsovereign Operations with Technical Assistance

93. **Supplementing NSO interventions with valuable technical assistance (TA) increases ADB's nonfinancial additionality.** Seven of the TA projects that were attached to NSO which were either completed or successfully implemented had a successful NSO additionality rating. On the other hand,

when an NSO TA was underutilized or delayed, the additionality was *less than satisfactory*. [Confidential information deleted.]

94. [Confidential information deleted.]

95. [Confidential information deleted.]

C. Results of ADB Additionality

96. **The additionality of ADB's interventions comes in many different forms.** Typically, however, because long-term loan funding and equity funding is scarce in most emerging market countries, there is a natural financial additionality that ADB can provide as demonstrated by its support for infrastructure projects and for financial institutions. Based on project documents and interviews with ADB staff and clients, it appears that ADB's ex post additionality in the projects varied, ranging from relatively weak to strong. ADB was more effective in delivering financial than nonfinancial additionality.

1. Financial Additionality: Provision of Needed Capital not Supplied by Market

97. **The provision of longer tenor loans that were not available in the domestic market was the most common financial additionality claimed by ADB and was most effective in energy projects.** This was evident from the country missions to the PRC, India, Samoa, and Thailand. Arguments based on the need for loans with a longer tenor were more convincing when the loans formed part of a complex financing structure with major capital expenditure needs where commercial banks were less willing to lend. [Confidential information deleted.]

98. **There were cases when ADB's financial additionality was hampered by an inability to disburse the long-term local currency loan needed by the client.** [Confidential information deleted.]

99. **In some cases, ADB's claims that it was providing capital that could not be supplied by the domestic market was called into question when the client had a strong market presence and demonstrated access to financing, especially when it was operating in more developed markets or when no evidence was provided to substantiate ADB's additionality.** This was noted in some of the case study projects in the PRC and in India. [Confidential information deleted.]

2. Financial Additionality: Innovative Financing Structures Realized in DMCs

100. **ADB's financial additionality was mostly effective in projects where there was a clear understanding of the market gap that ADB intended to fill and where ADB had a significant role in the design and innovative financial structuring of the project.** [Confidential information deleted.]

101. **The effectiveness of an innovative financing structure can be limited by a change in government regulations or restrictions.** For example, the Reserve Bank of India (RBI) has capped the guarantee fees payable to foreign financial institutions at 200 basis points per annum. [Confidential information deleted.]

3. Financial Additionality: Provision of Needed Equity not Supplied by the Market

102. **Investing in private equity funds produced mixed results, and sometimes it was unclear whether a fund really needed ADB's equity.** Funds look to ADB as a long-term partner, but the value that ADB adds to private equity funds needs to be delineated more clearly. ADB recently started supporting fund managers with more established track records, an understandable strategy from a risk perspective. However, such fund managers are more likely to attract investments from limited partners, making ADB's financial additionality more difficult to substantiate, especially in markets with liquidity.

4. Financial Additionality: Mobilization of External Capital

103. **ADB's financial additionality in mobilizing external capital also led to mixed results.** The ability to confirm this type of financial additionality, or its subsequent absence, was more clear-cut in projects with cofinancing through the results of ADB's efforts to arrange B loans or in projects with unfunded risk transfer arrangements. Mobilization of commercial cofinance was highly successful in two case study projects in PRC. [Confidential information deleted.]

5. Nonfinancial Additionality: Risk Mitigation

104. **Risk mitigation, the provision of comfort to clients by mitigating country, regulatory, economic cycle or political risk, was the second most common form of nonfinancial additionality offered by ADB.** This is a natural nonfinancial additionality that ADB can deliver owing to its reputation in the market. ADB can serve as an honest broker between relevant parties in a project. Its presence in a project is interpreted as indicating that a project is sound. ADB can also use its long-term client relationships and close relationships with governments to support a project. IED identified two transactions where PSOD had successfully identified that it could mitigate risk. [Confidential information deleted.]

6. Nonfinancial Additionality: Policy, Sector, Institutional or Regulatory Changes

105. **NSO rarely engaged in policy, institutional and regulatory changes as this upstream work is typically conducted under sovereign operations.** In the few times where such support was provided, the engagement was done through a TA project, with mixed results. This type of nonfinancial additionality is harder to deliver. [Confidential information deleted.]

7. Nonfinancial Additionality: Setting Standards

106. **ADB has referred to its strong role in improving the ESMS and the governance of the companies or funds in which it invests.** References to setting standards via improvements to ESMSs or corporate governance activities were made in several of the projects that were reviewed as part of the country missions. This was typically in the form of general statements, often connected to ADB's standard loan conditions or safeguard requirements. A more granular view of what inputs the ADB was to supply and where standards were expected to be advanced was largely missing or of minor consequence, although more detail was forthcoming when a TA project was the vehicle for delivery. The delivery of improved standards in ESMS and gender equality was hampered by an inadequate monitoring system.

107. **There was little clarity on the existing state of the relevant sector standards—against which progress and potential signaling effects might be measured—nor on regulatory and other aspects, such as pollution control, that were standard requirements or the norm in the countries**. Without some analysis of the status quo ante it is difficult to judge the value added by the ADB's efforts. Furthermore, ADB rarely specified how its efforts could catalyze change beyond the client, e.g., through demonstration effects or via parallel work to effect regulatory change. In some cases, there was a lack of coordination with other MDBs that were also involved in the transaction. [Confidential information deleted.] There are attribution issues when multiple MDBs are involved.

8. Nonfinancial Additionality: Knowledge, Innovation and Capacity

108. **ADB attempted to provide expertise, innovation, knowledge, and capabilities to help with the timely realization of its projects, mostly through technical assistance grants.** Attainment of the intended results from capacity building is dependent on the ability or the commitment of the client or the engaged third party consultants to deliver. [Confidential information deleted.]

9. Repeat Clients

109. **Investments with repeat clients pose a challenge for assessing additionality.** ADB must demonstrate that for a new project(s) with a repeat client, ADB is delivering some incremental value, in addition to the value provided earlier. As was seen in repeat client transactions in the PRC, India, and Thailand, although the quality of the justifications for pursuing a second or third transaction was adequate, they were not especially focused on additionality, i.e., on the unique value ADB might provide through its new intervention. Nor did the documents for the first operation explain how the sector was expected to evolve and what further investments might be needed.

110. **Nonetheless, a repeat client indicates that a solid client relationship has been built, allowing further investments to be made and sector needs to be tackled**. In some cases, a fuller market analysis would have made extensions easier to justify by pointing to the scale of the challenges to be addressed, the continuing need for private sector participation, and the remaining financing barriers to be overcome. This would provide reassurance that ADB's additionality continued to apply.

111. **ADB had some success with repeat investments with a client in the energy sector in India**. [Confidential information deleted.]

10. Faster Approach to Small Nonsovereign Transactions (FAST)

112. **ADB piloted the FAST framework in 2015 to enhance its ability to finance small and potentially highly developmental NSO transactions, mainly in frontier economies[34] and inclusive sectors.** Under this framework, the President, as delegated by the Board, approves transactions according to the following criteria: (i) the aggregate framework limit is $200 million; (ii) individual transactions are limited to $20 million, with a $10 million limit on equity; (iii) no more than 50% of the aggregate framework limit will be committed as equity, to any single country or to any single sector; (iv) tenor or hold period is 15 years for project finance, 10 years for all others; (v) risk rating at entry should not be worse than NSO9/B1/B+ rating; (vi) no category A safeguard rating; and (vii) this excludes any co-financing, B-loans and funds under ADB administration.[35] Approval documents for these transactions are circulated to the Board. In January 2020 the Board approved raising the FAST aggregate limit to $400 million. In April 2020 the Board approved a separate FAST envelope for COVID-19 response of $300 million. In November 2021, the Board approved a further increase of the non-COVID-19 aggregate limit to $500 million.

113. **FAST was designed to reduce the processing time of smaller transactions by 6–7 weeks without any loss of transaction quality.[36]** This shortening of processing time was to be achieved by: (i) a simpler concept clearance by a subcommittee[37] instead of the full investment committee, and (ii) elimination of time and resources required for Board approvals. The due diligence, risk assessment and monitoring processes are the same as for non-FAST transactions. PSOD was unable to provide data on concept clearance dates, but data on approval, signing and disbursement dates for transactions approved from 2015–2020 show that the approval time for FAST transactions has been approximately eight weeks less than for non-FAST transactions.

114. **Forty-nine transactions (18% of the total number of committed private sector projects) totaling $579 million were approved via the FAST process in 2015–2020.** Thirty-seven of these projects were committed, two were signed but eventually canceled, two were terminated (8% cancellation ratio) and

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[34] Frontier economies in ADB are defined as DMCs with less developed economies that qualify for some form of concessional assistance (Group A and Group B DMCs). See footnote 38 for the list of DMCs.

[35] ADB. 2015. *Faster Approach to Small Nonsovereign Transactions.* Manila. Under the Office of Risk Management's Nonsovereign Operation's Rating Scale, projects rated as NSO9 are classified as having significant credit risks. This rating is prior to the application of country ceiling.

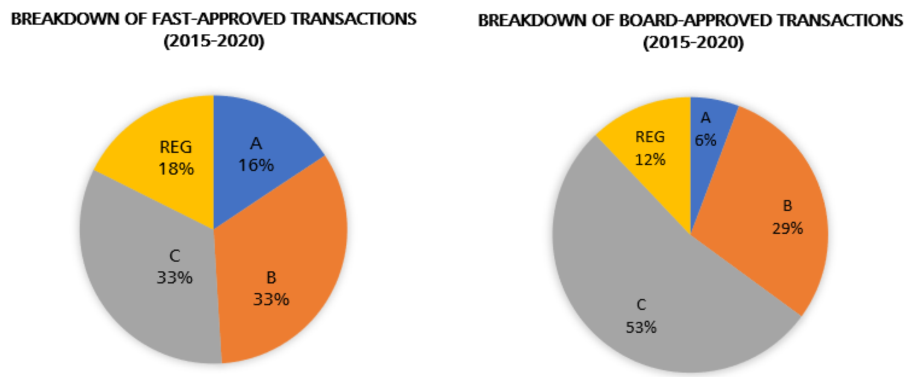
[36] ADB. 2018. *Faster Approach to Small Nonsovereign Transactions: Review of Implementation and Proposed Increase of Aggregate Approval Limit.* Manila. p.1

[37] Footnote 36. The subcommittee consists of the director general of the operations department and the head of the Office of Risk Management.

eight remained unsigned. Among the four canceled projects, only one can be partly attributed to ADB's inability to provide the required financing structure—a Kyrgyz bank opted for local currency financing which ADB could not provide so the loan was canceled. The other three were canceled due to factors that were beyond the control of ADB: (i) a Pakistani bank requested to cancel its approved loan given the foreign exchange volatility and swap cost concerns in Pakistan; (ii) a Cambodian bank's shareholder decided not to pursue the transaction because it did not want to reduce the group's exposure in Cambodia following the sale of its stake in another Cambodian bank; and (iii) ADB, along with the other MDB investors, decided to cancel an approved equity investment to a finance company in India.

115. **ADB approved more transactions in frontier economies under the FAST framework.** Of the 49 FAST-approved transactions from 2015–2020, 49% were in DMCs classified as A and B, whereas only 35% of 174 non-FAST transactions were in countries with these classifications (Figure 10).[38]

Figure 10: Distribution of FAST and Non-FAST Transactions by DMC Classification



Source: ADB (Independent Evaluation Department).

116. **The articulation of additionality in FAST-approved projects was inconsistent.** Thirty-four out of the 49 FAST projects (69%) presented the appropriate envisaged financial additionality and nonfinancial additionality in their approval documents. However, eight FAST projects (16%) incorrectly used developmental impact as a basis for additionality, similar to the evaluated projects during the evaluation period (16.5%). One FAST project described the transaction's consistencies with country partnership and sectoral strategies as basis for value addition. Two project approval documents disregarded financial additionality and focused only on the nonfinancial additionality.

117. **The most common additionality offered by projects approved under the FAST framework was the provision of guidance to improve the project's or client's gender equality standards, with 31 out of 49 (63%) FAST projects aiming to offer that additionality.** This was followed by offering a financing structure that was not available in the market in 27 projects (55%) and ESMS improvements in 23 projects (47%). The least common additionality offered was ADB's work aimed at changing government policies and regulations, which was offered in only three projects (6%)—Table 8. Offering a financing structure which is not available in the market was the most common non-FAST additionality ADB offered in 170 of its 263 committed projects (72%), followed by ESMS improvements in 129 projects (55%), and risk mitigation in 85 projects (36%). Support for changing government policies and regulations was offered in only 10 non-FAST projects (4%).

[38] DMCs classified as A are Afghanistan (ADB placed on hold its assistance in Afghanistan effective 15 August 2021. https://www.adb.org/news/adb-statement-afghanistan), Bhutan, Cambodia, Kiribati, Kyrgyz Republic, Federated States of Micronesia, Lao People's Democratic Republic, Maldives, Marshall Islands, Myanmar, Nauru, Nepal, Samoa, Solomon Islands, Tajikistan, Tonga, Tuvalu, Vanuatu. DMCs classified as B are Bangladesh, India, Mongolia, Pakistan, Palau, Papua New Guinea, Timor-Leste, Uzbekistan.

Table 8: Types of Additionality Offered by FAST Projects, 2015–2020

Types	Category	No. of Projects	%
Gender equality standard improvements	Nonfinancial	31	63
Financing structure	Financial	27	55
ESMS improvement	Nonfinancial	23	47
Risk mitigation	Nonfinancial	13	27
Resource mobilization	Financial	13	27
Use of MDB's own account	Financial	10	20
Improvement in governance	Nonfinancial	8	16
Capacity building	Nonfinancial	6	12
Innovative financing	Financial	4	8
Policy and regulatory changes	Nonfinancial	3	6

ESMS = environmental and social management system, FAST = Faster Approach to Small Nonsovereign Transactions.
Source: Asian Development Bank (Independent Evaluation Department).

118. **Financial additionality was not clear in 16 of 49 FAST projects (33%), about the same as for the evaluation portfolio as a whole (31%).**[39] Evidence supporting financial additionality was not presented in 13 projects. [Confidential information deleted.] In three projects, ADB claims that ADB support would have a catalytic impact on the sector or a catalytic developmental impact and argued that this would be ADB's additionality. [Confidential information deleted.]

119. **Claims of nonfinancial additionality were credible in 21 out of 41 FAST projects (51%), better than for the evaluated portfolio as a whole (19%).** There were no nonfinancial additionality claims in eight FAST projects. The approval documents for 21 FAST projects included a framework with indicators showing what the intended nonfinancial outcomes were. The other 20 FAST projects with nonfinancial additionality claims did not have a framework, making it difficult to monitor progress. It is too early to evaluate the effectiveness of ADB's nonfinancial additionality in these projects.

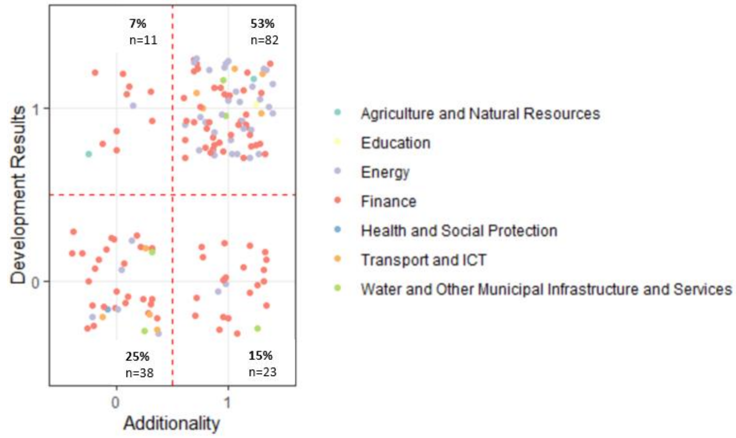
120. **As the FAST projects are relatively new and have not yet reached operating maturity, none has been independently evaluated.** Of the 49 FAST projects in the portfolio, only one has been self-evaluated.

11. Additionality versus Development Results and Investment Profitability

121. **There was a strong relationship between additionality and development results in the evaluated projects.** Based on the frequency distribution, most projects that were rated satisfactory for additionality were also rated as having satisfactory ratings for development results—53% of evaluated projects (Figure 11). [Confidential information deleted.] Likewise, projects with *unsatisfactory* ratings for additionality were also rated unsatisfactory for development results in the remaining 25% of evaluated projects.

[39] All the evaluated projects during the evaluation period were non-FAST projects.

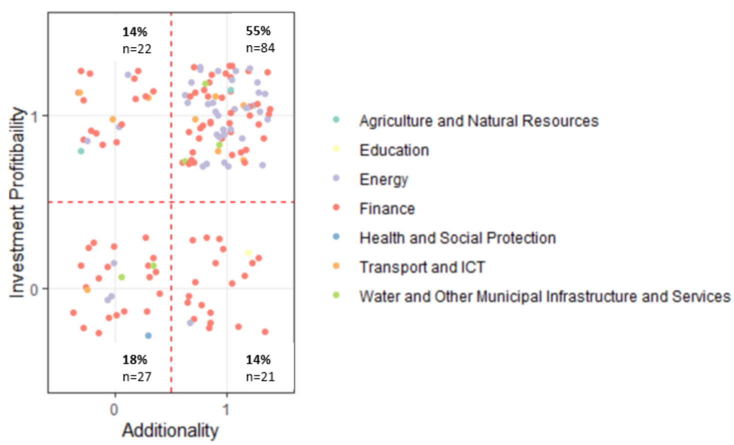
Figure 11: ADB Additionality and Development Results



ADB = Asian Development Bank, ICT = information and communication technology.
Note: 0 = less than satisfactory and unsatisfactory rating; 1= satisfactory or excellent rating.
Source: ADB (Independent Evaluation Department).

122. **The additionality rating is also likely to be associated with the ADB investment profitability rating.** Most projects that were rated *satisfactory* for additionality were also rated satisfactory for investment profitability—55% of evaluated projects (Figure 12). Similarly, projects that were rated unsatisfactory for additionality were also rated unsatisfactory for investment profitability (18%). Appendix 3 provides more detail on the statistical analysis performed.

Figure 12: Additionality and Investment Profitability



ICT = information and communication technology.
Note: 0 = less than satisfactory and unsatisfactory rating; 1= satisfactory or excellent rating.
Source: ADB (Independent Evaluation Department).

123. **While high additionality and good development results are usually associated (especially in innovative projects), the projects may not achieve their objective.** [Confidential information deleted.]

D. Summary

124. **The diminishing additionality of ADB's operations may be a signal that the business environment in the client country has improved.** Given the development of financial markets and the introduction of

new products from domestic financiers, projects in which ADB had provided financing that was attractive because of the longer term of a loan, or because ADB was the only source of equity finance, will have to be justified by innovative financing structures and superior nonfinancial additionality. In these cases, ADB's TA programs can improve ADB's additionality, but ADB needs to demonstrate a clear need for the value ADB will add. More sophisticated markets are likely to restrict continued ADB engagement.

125. **The NSO environment is dynamic and evolving and ADB's capacity to provide additionality will need to evolve with the times, particularly in larger markets with more well-developed financial sectors.** Financing is not the only requirement for companies. In a globally competitive market, standards, processes, high standards for issues relating to the environment and social matters, and high-quality corporate governance are all elements that raise the profile and competitiveness of a client company. ADB, by virtue of its adherence to international standards and its leadership in these areas is perceived as a market leader and its detailed due diligence process is regarded highly by the market. Companies still look to ADB's stamp of approval as a validation of their mission and development objectives.

5

ADB's Organization for Delivering Additionality

Highlights

ADB had an informal organizational structure for delivering additionality for most of the evaluation period. Additionality was operationalized directly at the project level, with the Private Sector Operations Department (PSOD) relying on project team leaders' judgments and inherent understanding of additionality.

ADB began to put a more formal structure in place in 2018, after it participated in the working group that authored the Multilateral Development Banks' Harmonized Framework for Additionality in Private Sector Operations (Harmonized Framework, 2018). A Development Impact Team within the Private Sector Transaction Support Division was formed to act as the advocate for additionality within PSOD, and in 2021, the team began piloting an ex ante development impact framework to incorporate additionality as one of the dimensions to be assessed in projects.

All multilateral development banks (MDBs) present additionality arguments in project approval documents for their Boards, although the quality of these arguments varies. In ADB, the articulation of additionality in reports and recommendations of the President (RRPs) has been inconsistent. ADB has rarely provided evidence to support its additionality claims and has sometimes stated that the anticipated development impact of the project would constitute additionality.

ADB did not have a clear guidance note on additionality in place for most of the evaluation period. As a result, the quality of the additionality arguments in approval documents continued to be weak and lacked an overall consistency in approach. PSOD is now revising a guidance note on additionality.

While additionality is considered at the various stages of the project cycle, ADB's governance mechanism for approving projects at concept review and final review lacks a sufficient challenge mechanism to ensure the robustness of ex ante additionality claims. [Confidential information deleted.]

126. This chapter examines ADB's organizational readiness for delivering additionality. It reviews some of ADB's internal processes in carrying out these activities, drawing on extensive consultations with ADB staff involved in nonsovereign operations (NSO), interviews with stakeholders during the preparation of country case assessments, and comparisons with other MDBs.

A. Organizational Structure of ADB Private Sector Operations Department

127. **ADB had an informal organizational structure for delivering additionality for most of the evaluation period.** PSOD, the department responsible for NSO transactions, did not have an explicit unit or formal systems or processes in place to ensure additionality in NSO transactions for most of the evaluation period. ADB operationalized additionality directly at the project level, with PSOD relying heavily on project team leaders' judgments and inherent understanding of additionality.

128. **ADB began to put a more formal structure in place in 2018, after it participated in the MDB working group that authored the Harmonized Framework, 2018.** Initially a team of one person, it focused on documenting and producing PSOD and ADB-wide development effectiveness review reports as well as responding to IED reports. This team's responsibilities were expanded in 2019 to include the development of an ex ante development impact framework and system, which incorporates additionality as one of the dimensions that will be assessed in projects. In 2021, the team was named the "Development Impact Team." The team currently consists of only two staff members, so it is significantly smaller than similar teams at comparable institutions. [Confidential information deleted.]

129. **The Development Impact Team of PSTS acts as the advocate for additionality within PSOD.** It conducted informal training and briefings to PSOD staff as part of the ex ante development impact framework pilot in 2021. A network of divisional champions within PSOD was established to act as focal points for their divisions during the pilot. As part of the ongoing pilot, the Development Impact Team reviews, advises project teams, and provides PSOD management with a preliminary assessment of additionality during the pre-concept review stage.

B. Tracking Systems and Links to Corporate Targets

130. **ADB did not have a formal system for assessing additionality at entry or for monitoring the achievement of additionality during the evaluation period.** Ex ante assessment of additionality was dependent on the innate understanding of additionality by staff, which led to additionality being inconsistently and sometimes incorrectly articulated in approval documents. Monitoring systems focused on financial performance, credit issues, and development results; achievement of additionality was not tracked, except for environmental and safeguards issues and gender equality action plan outcomes in certain projects.

131. **Systems which integrate the different components from inputs to outputs to outcomes and impacts make good sense, support a theory of change and can be of value to evaluation and learning if tracked well.** [Confidential information deleted.] The ex ante development impact framework piloted by ADB since 2021 is also a fully integrated system, although it has covered only the project selection component of the project cycle (i.e., ex ante additionality and anticipated development impact before the concept review stage) for projects that started in 2021. The processes for approval, monitoring, and reporting are still under development.

132. **A characteristic of these systems is that they use project scoring mechanisms for additionality.** [Confidential information deleted.]

133. **Both the IFC and the EBRD have strengthened their ex ante additionality systems in recent years but have not integrated them fully.** [Confidential information deleted.]

134. **At EBRD, which sees additionality as one of its key operating principles, a slightly different approach is taken.** [Confidential information deleted.]

135. [Confidential information deleted.]

136. **In all these cases, financial additionality is treated as a necessary minimum precondition.** However, increasing reliance on nonfinancial additionality, where inputs are usually delivered over time and beyond the project approval decision, has raised questions over treating additionality as a binary choice. Although the strength of additionality is not formally considered, it plays a role, especially in more risky projects where the financial prospects or development outcomes are less certain. The influence of the institution in shaping a project and supporting a client through a development phase in practice can often weigh in the balance over relative project choices.

C. Specification and Evidence

137. **The adoption of the Harmonized Framework for Additionality in Private Sector Operations[40] in 2018 has been reflected in the practices of most MDBs (Box 2).** The IFC and the EBRD have chosen to match the categorizations for financial and nonfinancial additionality within the Harmonized Framework, 2018 in their own processes. IDB Invest uses very similar categories. The ADB Operational Plan for Private Sector Operations, 2019–2024 uses the financial and nonfinancial additionality categories, although the articulation of additionality in the approval documents reviewed since 2018 do not show these categorizations.

[40] AfDB and others. 2018. *Multilateral Development Banks' Harmonized Framework for Additionality in Private Sector Operations*. Washington, DC.

Box 2: Typology for Additionality

The standard route to additionality among multilateral development banks, including the Asian Development Bank since 2021, distinguishes between financial and nonfinancial additionality. The following subcategories should also be noted.

Financial additionality:

(i) financing structure;
(ii) innovative financing structure and/or instruments;
(iii) resource mobilization; and
(iv) own account equity.

Nonfinancial additionality

(i) risk mitigation (noncommercial) and catalytic partnerships;
(ii) policy, sector, institutional or regulatory change;
(iii) standard setting; and
(iv) knowledge, innovation, and capacity building.

Source: IFC and others. 2017. *Multilateral Development Banks' Harmonized Framework for Additionality in Private Sector Operations*. Washington, DC.

138. **During the evaluation period, the quality of the evidence provided and the development of counterfactual scenarios in ADB projects varied considerably.** Evidence of, for example, how much longer ADB's tenors were than markets norms or whether local banks had reached the country's client obligor limits were rarely presented. This may have been due to limited market knowledge, especially where details of alternative financial options are sparse (as in frontier economies). However, it may also have been because ADB did not provide 44ufficeent incentives to project teams to conduct the necessary market due diligence. There was no formal guidance provided to project leaders on evidence requirements. Often it was individuals' specific market knowledge and experience that made a difference to the quality of the evidence provided. Ideally, approval documents would provide a description of the status quo and its expected evolution and how the ADB intervention would improve upon it.

139. **In principle, supportive evidence in favour of the ADB's additionality should be supplied against each category cited**. The use of evidence enhances the additionality claim which typically rests on the project team's judgment. This might include the size of the reduction in the cost of capital resulting from an innovative financial instrument, the advantages to be gained from a policy intervention or regulatory change connected with a project, or the environmental standards expected to be achieved. [Confidential information deleted.]

140. **Higher quality evidence is usually provided by teams with access to strong local knowledge and contacts—often helped by inputs from resident offices—and where financial market intelligence can be improved using databases and supported by treasury and risk departments.** Dedicated resources to support evidence-gathering are needed, [Confidential information deleted.] Consultants and in-house experts, such as environmental or legal specialists with a good understanding of local standards, can also provide clear information on expected improvements.

141. **The ex ante development impact framework piloted by ADB in 2021 promotes the use of evidence to support the additionality claims.** The template for additionality in the framework breaks down financial and nonfinancial additionality into subcategories, for which project teams are supposed to provide evidence (Figure 13). PSOD is revising its guidance note on assessing additionality that specifies the kind of evidence that is needed for each category and subcategory. The framework has only been piloted at the pre-concept review stage and no formal mechanism or entity has been established to independently verify or validate the additionality claims. A comprehensive end-to-end system for tracking, monitoring, and reporting on additionality (including links to development outcomes) has not been developed.

Figure 13: Additionality Section of the ADB Ex Ante Development Impact Framework Template


D. Additionality | Evidence / Comments

Input

4 = excellent (the project will not go ahead without ADB participation; or ADB contribution is significant or material to the success of the project); 3 = satisfactory (without ADB participation, the project will still go ahead but with less than optimal financing or with undue delays; or the project will be materially weaker in some key areas such as business or ESHS performance); 2 = less than satisfactory (the project will go ahead with required market finance and without undue delay with or without ADB participation; ADB participation will not materially improve project or company performance)

D.1. Financial Additionality | Evidence / Comments

Input

Assess accordingly:

ADB provides financing that is not available in the market from commercial sources on reasonable terms
ADB provides clients and partners with innovative financing structures
ADB provides equity not available in the market in a way that strengthens the financial soundness, creditworthiness and/or governance of the company
ADB plays a verifiable role in mobilizing financing on commercial terms from an institutional or private financier

D.2. Nonfinancial Additionality | Evidence / Comments

Input

Assess accordingly:

ADB provides comfort to clients and investors by mitigating nonfinancial risks such as country, regulatory, project, economic cycle or political
ADB's involvement in the project is designed to trigger a change in policy, sector, institutional or regulatory framework, or enhance practices at the sector or country level
ADB helps raise the bar on standards, promotes improved policies (e.g., gender) and provides expertise in environmental, social, and governance standards and on integrity and procurement best practice
ADB provides expertise, innovation, knowledge and/or capabilities that are material to the timely realization of the project's anticipated development impact

ADB = Asian Development Bank; ESHS = environment, social, health, and safety.
Source: ADB (Private Sector Operations Department).

D. Presentation of Additionality in Board and Other Documents

142. **All MDBs present additionality arguments in project approval documents for their Boards.** These vary considerably in quality and in coherence and consistency. Commentary on additionality ranges from a few pages, as in IFC documents, to a few paragraphs, as in ADB reports and recommendations of the President (RRPs).

143. **The articulation of ADB's additionality in RRPs has been inconsistent.** ADB's additionality is typically described under "Value Added by ADB Assistance." Ideally, project approval documents should explain what the market imperfection is and how ADB would add value through its intervention. Two examples of the RRPs that did this are described below:

(i) [Confidential information deleted.]
(ii) [Confidential information deleted.]

144. However, other approval documents incorrectly refer to ADB's developmental impact as the basis for the transaction's additionality claim. [Confidential information deleted.]

E. Guidance to Investment Teams

145. **ADB did not have a clear guidance note on additionality in place for most of the evaluation period.** ADB did develop a guidance note on additionality in 2018 which sought to define the concept of additionality; however, PSOD staff did not receive formal training on how to apply it. Advice on additionality was limited or based on inherited practices. More experienced investment specialists have been able to provide advice to newer staff, but this approach is less than ideal as a guidance mechanism since it depends on individuals' understandings of additionality (which varies) and their commitment to spending time advising and training colleagues. The absence of formal guidance eroded the quality of the additionality arguments and resulted in an overall inconsistency in approach.

146. **At AfDB, EIB, IDB Invest and IFC, by contrast, internal additionality frameworks clarify the significance and role of additionality, which is especially valuable to new investment officers.** [Confidential information deleted.]

147. **IFC, which also uses the Harmonized Framework, 2018 typology, provides a comprehensive guidance note and a “tip sheet” for investment teams based on its additionality framework (revised in 2018).** [Confidential information deleted.]

148. **The draft guidance note on additionality that ADB is revising draws heavily on the IFC equivalent.** It describes financial and nonfinancial additionality in a way that is consistent with the Harmonized Framework, 2018 and explains the kind of evidence needed to support each additionality claim. It provides examples of additionality from ADB’s portfolio as well as from the Harmonized Framework, 2018. It also provides advice on improving the additionality narrative in project documents. Guidance on the monitoring and reporting of the achievement of additionality is not yet covered.

F. Project Cycle and Governance

149. **MDBs typically begin considering additionality at the initial stage of the project cycle, i.e., when the idea of a particular project begins to come to fruition.** It is here that the first opportunity arises to influence the design of the operation, and thus add value that may be difficult for the client to obtain elsewhere, whether through the project’s financial structure or via nonfinancial support. The strength of the process involved depends on several factors, the most important of which are the degree of attention paid to additionality by senior management (and boards) and whether a rigorous challenge function is present to exert discipline over the arguments presented by investment teams.

150. **At ADB, attention is paid to additionality, but this is less than the effort devoted to development impact and financial sustainability.** The Operational Plan for Private Sector Operations, 2019–2024 indicates that financial sustainability and development impact will be emphasized. Integrated systems such as an ex ante development impact framework ensure that additionality is not ignored, but such systems will be strengthened when scoring is involved, especially if it counts toward corporate targets or if it is likely to come under scrutiny by Board directors. Where additionality is treated as a necessary minimum precondition, this will sharpen the focus on additionality and its justification.

151. **While ADB does consider additionality at all stages of the project cycle (i.e., from the pre-concept review[41] and concept review stages to final review), the governance mechanism for project approval at concept and final review lacks a robust challenge function.** Ex ante additionality claims are not reviewed by a party external to PSOD. Transaction teams may consult with the relevant regional department and the Sustainable Development and Climate Change Department at pre-concept review stage, although this is in relation to “expected development impact, client and borrower history, transaction rationale and country specific considerations.”[42] ADB’s Concept Review Committee consists of the director general of PSOD, who represents the business aspects of the project, and the head of the Office of Risk Management (ORM), who assess its risk. ADB’s Investment Committee, which approves transactions at the final review stage (and are responsible for ensuring projects comply with ADB policies and requirements) consists of the vice president for private sector and public–private partnership, the vice president responsible for the geographical region where the transaction is located, the vice president for finance and risk, the general counsel, the director general of PSOD, the director general of the Sustainable Development and Climate Change Department, the director general of the relevant regional department, and the head of ORM. Both committees lack an advocate for additionality. [Confidential information deleted.] The governance and challenge function in ADB is still being considered. However, a balance needs to be struck between the impartiality of an independent “outside” view and the knowledge and understanding of the project context and local market conditions that comes from familiarity with PSOD operations.

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[41] PSOD has drafted preliminary terms of reference for the Pre-Concept Review Committee which are still to be finalized. The terms of reference define Core Committee Principles which include alignment with Strategy 2030, the PSOD Operational Plan, additionality, and credit rating, among others.

[42] Staff Instruction on OM D10.

152. **Among the leading MDBs, the processes involving additionality are most well-organized during the first stage of the project cycle, i.e., up to and including Board approval.** Specification of the delivery of additionality components that may be expected to develop over time is generally weak, with few institutions listing benchmarks or targets (sometimes these appear under development impact metrics).

153. **Regular reporting of additionality can be improved at ADB.** Currently, there is no aggregate reporting on ex ante additionality. Reporting is done ex post on a per project basis via the self-evaluation and validation process. Often this is not helped by being performed by a team that was not involved in originating the project. Given the poor prior specification of additionality, this risks leaving the portfolio and evaluation teams in the dark about what was envisaged. Finally, when financial additionality falls away because of prepayments or changes in scope, this is not always registered against the additionality ledger until much later at the evaluation stage.

G. Summary

154. **ADB had an informal organizational structure for delivering additionality for most of the evaluation period.** It did not have a formal system for assessing additionality at entry or for monitoring the achievement of additionality. Additionality was operationalized directly at the project level, with PSOD relying on project team leaders' judgments and inherent understanding of additionality. This arrangement has led to an inconsistent articulation and delivery of additionality in projects. ADB began putting more emphasis in place in 2018.

155. **The Development Impact Team within PSOD's Private Sector Transaction Support Division was revamped so it could act as the advocate for additionality within PSOD, and in 2021 the team began piloting an ex ante development impact framework to incorporate additionality as one of the dimensions to be assessed in projects.** In this pilot phase, the framework has only covered the pre-concept review stage of the project cycle; processes for approval, monitoring, and reporting are still being developed. [Confidential information deleted.]

156. **As a result of the Harmonized Framework, 2018, most MDBs have adopted its typology for additionality.** ADB adopted the typology in the Operational Plan for Private Sector Operations, 2019–2024, but this was not reflected in the approval documents since 2018 that were reviewed during the evaluation. During the evaluation period, the quality of the evidence provided and the development of counterfactual scenarios in ADB projects varied considerably. In some cases, this was probably a result of limitations in market knowledge, especially where details of alternative financial options were sparse (as in frontier economies). However, the inconsistent justifications for additionality may also have been due to the weak incentives offered to project teams to conduct the necessary market due diligence. No formal guidance was provided to project leaders on evidence requirements. What made a difference to the quality of evidence provided was often an individual staff member's specific market knowledge and experience; higher quality evidence was provided by teams with access to strong local knowledge and contacts. In principle, evidence in favor of ADB's additionality should be supplied against each cited category.

157. **ADB did not have a clear guidance note on additionality in place for most of the evaluation period.** A guidance note on additionality was drafted in 2018, but ADB did not provide PSOD staff with formal training on how to implement it, and as a result the quality of additionality arguments continued to be weak. There was an overall inconsistency in approach. [Confidential information deleted.] ADB is revising its guidance note on additionality which appears to draw heavily from IFC's guidance note.

158. **Typically, MDBs begin considering additionality at the initial stage of the project cycle, and the strength of the process depends heavily on the degree of attention paid to additionality by senior management (and Boards).** ADB staff do pay attention to additionality, but not as much as to development impact and financial sustainability. While ADB considers additionality at all stages of the

project cycle, it does not have an advocate for additionality on the Concept Review Committee or Investment Committee [Confidential information deleted.]

6 Conclusions, Issues, and Recommendations

A. Conclusions

159. **Additionality refers to a unique set of inputs or services that multilateral development banks (MDBs) contribute to a project that help lead to anticipated development impact.** MDBs provide finance for development that can fill gaps for which other sources of finance are not available because of market and institutional failures. As a result, other participants are unable or unwilling to take on certain risks. MDBs also provide important services to commercial entities and policy-makers in emerging economies through their knowledge, supranational status, and ability to offer impartial advice. They can offer expertise on a variety of issues that can improve the business environment and foster growth, strengthen governance, and produce better environmental outcomes to the benefit of all. Contributions made by MDBs which could not otherwise be obtained at reasonable cost or as quickly make up their financial and nonfinancial additionality. Additionality in nonsovereign operations is important as it provides a check on value for money for MDB shareholders. It also offers a way for ADB to screen and design good projects for better development impact. ADB is a bank funded with public money, so it is important that its nonsovereign operations have financial additionality and do not crowd out the private sector market that ADB is supposed to help develop.

160. **In answer to the evaluation's overarching question—To what extent is additionality present in ADB's nonsovereign operations and how has this contributed to enhanced development outcomes in ADB developing member countries?—the evaluation team found that ADB NSO had delivered additionality in 69% of 154 evaluated projects, although the rate of *satisfactory* projects has been trending downwards (from a high of 95% in 2010–2012 to a low of 53% in 2018–2020). ADB's corporate strategies have evolved to better capture the concept of additionality, but ADB has not provided enough clear guidance to operationalize additionality at country and project levels. ADB does not have an adequate system for tracking additionality and is limited to monitoring its contributions to development outcomes in the region.** This has led to an uneven understanding and justification for ADB additionality in project-level approval documents. While ADB's NSO additionality interventions have contributed to positive development outcomes, mainly in the energy and finance sectors in Southeast Asia, South Asia, and Central and West Asia, its full potential for value addition has been diluted by an inadequate system for ex ante assessment and monitoring of additionality.

161. **In answer to the first subsidiary evaluation question, ADB's strategies and operational plans evolved during the evaluation period, enabling it to capture the concept of additionality more accurately; however, key strategic gaps remain. ADB lacked an ex ante additionality assessment system for most of the evaluation period**. The concept of financial additionality—that ADB should pay due regard to a borrower's ability to obtain financing on reasonable terms elsewhere—is embedded in the ADB Charter, but as a consideration as opposed to a requirement. The two corporate strategy documents at the start of the evaluation period (Strategy 2020 and Private Sector Development Strategy) did not explicitly mention financial additionality, although they did indicate the importance of ADB acting as a catalyst for investments that the private sector might not be willing to make as well as the importance of cofinancing from third parties in private sector development activities. Operations Manual section D10 requires additionality (although it is labeled as "development impacts") in nonsovereign operations by crowding in other financing partners, complementing and not substituting for commercial sources of finance, and/or adding value by raising environmental, social or governance standards. However, the associated staff instruction does not include procedures for the assessment, verification, and monitoring of additionality.

162. **More attention has been paid to additionality in ADB's strategic documents since 2018, but a strategic approach is still lacking.** Additionality was explicitly referred to in Strategy 2030, and the concept of financial and nonfinancial additionality, consistent with the definitions under the Harmonized Framework, 2018, was embedded in the Operational Plan for Private Sector Operations, 2019–2024. The operational plan also indicated the need to improve PSOD's ability to evaluate additionality in an objective way and to assess the anticipated development results for each project. However, neither Strategy 2030 nor the operational plan specifies that financial additionality must be a necessary minimum precondition

for project approval. [Confidential information deleted.] ADB has not managed to cascade its strategic approach to additionality from its corporate documents to its sector and country documents. Most CPSs during the evaluation period did not mention sectors where nonsovereign operations could be additional, necessitating the need for high-quality private sector diagnostic assessments for each CPS. The lack of a strategic approach to additionality can be attributed to a bottom-up project-level perspective in operationalizing additionality, which is also common at other MDBs.

163. **ADB lacked both an ex ante additionality assessment system and a guidance note on assessing additionality for most of the evaluation period, hampering the delivery and consistency of the approach to additionality in projects.** This also meant that data on additionality at entry and during the implementation of the project were not well captured and reported. Reporting on additionality was done ex post on a project-by-project basis by the portfolio management team in PSOD and by IED. While a guidance note on additionality was drafted in 2018, staff did not receive formal training on how to apply it. Approval documents since 2018 still demonstrated an inconsistent understanding of the concept of additionality. In 2021, ADB began pilot-testing a new ex ante development impact framework that included additionality as one of the five main dimensions to be assessed in projects. The pilot has so far been applied only to the pre-concept review stage of the project life cycle. ADB is also revising the guidance note on additionality to clarify and improve the understanding of additionality among staff and to mainstream it in operations.

164. **In answering the second subsidiary evaluation question, ADB has offered and delivered a broad range of financial and nonfinancial additionality across regions and sectors, although rates of satisfactory projects have been trending downwards in the last decade.** The absence of an ex ante additionality database meant that IED had to review the articulation of additionality in approval documents to determine the type of additionality that was supposed to be delivered to clients by each project. The most common financial additionality offered by ADB was long-term financing that was not available from commercial sources on reasonable terms and mobilization of finance. The most common nonfinancial additionality offered by ADB since 2017 has been the provision of guidance to improve project or client standards, mainly in environmental, governance, and gender equality standards. Of the 154 NSO projects evaluated in 2008–2020, 106 (69%) had *satisfactory* additionality ratings. The evaluation assessed the satisfactory rate based on a 3-year moving average and it found that the rate had been declining from a high of 91% in 2010–2012 to a low of 54% in 2017–2019. This decline was driven by a shift in the evaluated portfolio toward financial institution transactions, issues with evidence for verifying financial additionality for financial institution projects with more established borrowers, and rapid market development in some DMCs. Additionality satisfactory rates for infrastructure projects also declined over time but they remained higher than for financial institution projects. The satisfactory rate for financial additionality (69%) was higher than for nonfinancial additionality, which improved from 0% in 2008–2010 to a high of 29% in 2015–2017, and back to 17% in 2018–2020. The quality of ADB's nonfinancial additionality was affected by the absence of a framework for delivery for most projects and an inability to deliver improved corporate governance and ESMS standards in private equity funds.

165. **ADB was most successful in delivering additionality in Southeast Asia (85% satisfactory rate) and least successful in East Asia (41%).** Most of the projects with satisfactory ratings in Southeast Asia were renewable energy projects where ADB provided long-term financing or helped mobilize the cofinancing necessary for the timely completion of the projects. ADB was less successful in delivering additionality in East Asia, where the less successful projects were finance sector projects with established sponsors who appeared to have access to commercial capital. It is difficult for ADB to be additional in a more developed country with greater liquidity such as the PRC. However, ADB's additionality in the Pacific region, where the opportunity to be additional is greater, was not much better (50% satisfactory rate).

166. **By sector, ADB was most successful in delivering additionality in energy (85% satisfactory rate) followed by finance (65%).** Most (88%) of the evaluated projects were in these sectors. Additionality in the finance sector projects was lower because of investments in private equity funds and loans to financial institutions where the need for ADB's financing was not well established. Many of these projects could

have proceeded without ADB, and the ex-ante data and evidence supporting financial additionality was not robust.

167. **ADB's additionality was strongest when there was a clear understanding of market gaps and significant involvement in financial structuring.** This was seen in water projects in the PRC and energy projects in India and Thailand. Strategic use of technical assistance for capacity building helped with the delivery of nonfinancial additionality. Additionality was weakest when ADB did not provide evidence to support the case for financial additionality in projects with an established sponsor. Lack of coordination with other MDBs involved in the transaction also led to lower nonfinancial additionality as this increased the likelihood of duplication of efforts (e.g., in improving ESMS standards).

168. **In answer to the third subsidiary evaluation question, ADB's additionality efforts contributed mostly by providing financing that was not being supplied by the market and by mobilizing external capital. However, ADB's additionality was mixed in terms of its contributions to intended development outcomes.** In some cases, ADB's claim that it was providing capital that was not being supplied by the domestic market was hard to justify when the client had strong market presence and demonstrated access to financing, when the client was operating in more developed markets, or when no evidence was provided to substantiate ADB's additionality. With the development of the financial markets in DMCs and the introduction of new products from domestic financiers, projects in which ADB provided financing because it could offer loans with a longer term or equity, will have to be justified by superior nonfinancial additionality. ADB's additionality in its investments in private equity funds needs to be articulated more clearly, as ADB pursue fund managers with more established track records. Several projects reviewed as part of the country missions made reference to ADB's support for standard setting via ESMS or corporate governance; however, these efforts were hampered by the absence of a more granular view of what inputs the ADB was to supply and where standards were expected to be advanced and by inadequate monitoring systems.

169. **The evaluation showed there was likely no trade-off between additionality, development results, and investment profitability**. ADB's additionality contributed to satisfactory development outcomes in 53% of evaluated projects, mostly in energy and finance projects in Southeast Asia, South Asia and Central and West Asia. Projects rated *unsatisfactory* for additionality were also rated *unsatisfactory* for development results. Similarly, there was a strong association between ADB's additionality and ADB's investment profitability.

170. **In answering the fourth subsidiary evaluation question, ADB's systems, processes and ADB-wide coordination were inadequate to deliver additionality consistently.** ADB did not have a system to enable it to assess additionality in an objective way in prospective projects during the evaluation period, relying instead on staff judgments and inherent understandings of the concept of additionality. Evidence to support ex ante additionality claims were not systematically captured, which made it difficult for the portfolio and evaluation teams to assess whether the claims were justified. Monitoring and tracking of additionality were inadequate, with the monitoring process targeted more at credit and development outcomes. Although a guidance note on additionality was introduced in 2018, the lack of formal training for staff limited its effectiveness in promoting a consistent and evidence-based approach to additionality in NSO projects. PSOD is in the process of improving its systems and processes. It set up a Development Impact Team in its Private Sector Transaction Support Division (PSTS) division that acts as the advocate for additionality in the department. In 2021, PSOD also began piloting an ex ante development impact framework. A more comprehensive guidance note on additionality is being developed to help with the implementation of the ex-ante development impact framework.

B. Issues

1. External

171. **Market evolution may render certain types of additionality ineffective.** Some economies grew rapidly, and their financial markets became more sophisticated during the evaluation period. As a result, the amount and availability of commercial and development finance for investments increased in some markets. Additionality is not static; the ability of a development institution to provide additionality may change depending on how market imperfections evolve, clients' needs, the institution's own capabilities, and what other commercial players and MDBs are providing.

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

173. **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.

2. Internal

174. **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.** Operations Manual Section D10 erroneously refers to additionality as "development impacts" and the staff instruction does not include any procedures for the assessment, verification, and monitoring of additionality. Strategy 2030 cites ADB will "address market failures without distorting those markets." The Operational Plan for Private Sector Operations, 2019–2024 states that private sector operations "does not crowd out the private sector" and "must always justify the use of ADB capital based on … minimum market distortion, strong development impact, additionality and market complementarity…". The revised draft guidance note on additionality does not specify whether financial additionality is a necessary precondition for the approval of projects. This 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 economic development, including attracting much needed resources to combat climate change and meet other sustainable development goals (SDGs). The economic costs of disrupting private sector finance may not be compensated for by the potential benefits of nonfinancial additionality, which are difficult to quantify and apportion. They can also only be ascertained several years later. Moreover, requiring financial additionality as a necessary precondition for projects can be accomplished at approval and would align ADB with its comparator MDBs. It would also be consistent with ADB's own operating principles of not crowding out the private sector.

175. **The additionality of nonsovereign operations has not been consistently incorporated in CPSs.** Additionality has mainly been a project-based exercise. A strategic view of 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. Exceptions to this include the recent CPSs for Papua New Guinea and Thailand covering 2021–2025. The CPS for Thailand mentioned which sectors would benefit from NSO, and provided a confidential attachment that examined the additionality of ADB's earlier NSO projects as well as which sectors and areas ADB could continue to be additional in.

176. **ADB does not have a fully implemented system for objectively assessing additionality at entry or for monitoring additionality.** During the evaluation period, this meant that the quality of ex ante assessments of additionality and the articulation of additionality in approval documents have both varied. Evidence supporting additionality claims at entry was also not captured, which made ex post assessment

of financial additionality difficult, especially for projects with established sponsors. Monitoring systems are geared mainly toward tracking a project's financial performance, credit issues, and development results. Aspects of additionality, especially nonfinancial additionality, are not well tracked.

177. **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.

178. **The concept of additionality has not been consistently understood within ADB.** Approval documents for 16% of committed projects presented a project's anticipated development impact as ADB's additionality or value addition, suggesting some confusion between additionality and development impact. About 10% of approval documents for committed projects indicated that consistency with country partnership and sectoral strategies represented additionality. While a guidance note on additionality was circulated in 2018, the lack of staff training limited its effectiveness in promoting a consistent approach to additionality in PSOD's business processes.

179. **ADB's governance mechanism for project approval is inadequate to screen projects for additionality.** Evidence supporting claims of financial additionality are not reviewed by a quasi-independent team of economists. There is no clear advocate with the capacity to review claims of financial additionality on the Investment Committee.

180. **ADB pays less attention to additionality than to financial sustainability and development impact.** The Operational Plan for Private Sector Operations, 2019–2024 emphasizes 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.

C. Recommendations

1. Strategic

181. **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.** Approval documents should include: (i) for financial additionality, a clear articulation of evidence supporting the claim; and (ii) for nonfinancial additionality, a theory of change and a framework for tracking the outcome indicators. The updated guidance note from 2021 needs to provide clear instructions and templates on how to: (i) screen and assess NSO projects for both financial and nonfinancial additionality at the early concept review stage, (ii) provide evidence to support each additionality claim, and (iii) design the monitoring framework with appropriate indicators. Additionality considerations are integral to how ADB differentiates its offerings to its external clients. NSO investment decisions should therefore be directly informed by an assessment of both the client's needs and ADB's capacity to deliver substantive additionality in targeted transactions. The revised additionality guidance note needs to be disseminated beyond PSOD to all staff involved in frontline business development across ADB. Performance on additionality could be linked to yearly staff performance assessments using IED validated project success rates as a proxy for performance, as part of staff work plan goals.

182. **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. These assessments should include a review of the additionality of past NSO transactions in the country (including the market failures they were intended to address) and a comparison of the products and services ADB can offer with those already accessible from other commercial and development institutions. This will help to determine ADB's unique comparative advantage. While the recent resident mission operations review emphasized the need for private sector diagnostics, these assessments need to specify the sectors or areas where NSO have the greatest potential for additionality, facilitating sovereign operations to work on improving the enabling environment.

2. Operational

183. **Recommendation 3: ADB should further integrate additionality into 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.** The new PSOD ex ante development impact system piloted in 2021 has currently been applied only to the pre-concept review stage of the approval project cycle and does not yet track, monitor, or verify additionality. The system should capture and collate the evidence and counterfactual information in support of each ADB claim to additionality. The ex ante development impact system should also include an ongoing reporting feature that will allow aggregate reporting on ADB's ex ante and ex post additionality, showing a breakdown of scores (for example, by additionality types, by region, and by modality). The monitoring system needs to be able to track the additionality indicators specified in the approval document of each NSO project. In reporting on additionality, ADB should also aim to document how its own contributions have supported the realization of specific project outcomes wherever possible, and this should be reported annually as part of the PSOD development effectiveness report.

184. **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.** ADB should conduct training on the concept of additionality and the systems for assessing and monitoring additionality for staff. ADB should also conduct training of stakeholders where relevant, especially those to whom ADB expects to deliver nonfinancial additionality. Such client training can be funded through reimbursable technical assistance. As markets and additionality are dynamic, training materials will need to be updated regularly and an ongoing certification program should be considered to ensure staff are well informed.

3. Institutional

185. **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.** The quasi-independent entity should be able to (i) confirm whether a project offers financial additionality (i.e., that alternative finance at similar terms and reasonable cost is not available, that the project's innovative financing structure will help to reduce the client's risk or cost, or that commercial capital will be mobilized), and (ii) suggest corrective steps at the concept stage and before approval to strengthen additionality measures.

Linkage Between Findings and Recommendations

Findings and Issues	Recommendations
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. Less attention is paid to additionality than to financial sustainability and development impact. ADB lacked a guidance note on additionality for most of the evaluation period to aid operational teams.	**1. ADB's policy and/or guiding documents, such as 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.**
Market evolution may render certain types of additionality ineffective. A lack of transparency in emerging market economies can hamper the assessment of additionality. Considerations of the additionality of nonsovereign operations have not been consistently incorporated into the CPS process.	**2. ADB country partnership strategies 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.**
ADB does not have a fully implemented system for objectively assessing additionality at entry or for monitoring additionality. Aggregate reporting on additionality has been limited.	**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.**
The concept of additionality has not been consistently understood within ADB. Weak monitoring and evaluation systems of clients can hamper the tracking and reporting of additionality.	**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.**
ADB's governance mechanism for project approval is inadequate to enable ADB to screen projects for additionality.	**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.**

APPENDIXES

APPENDIX 1: DETAILS OF ADB'S NONSOVEREIGN PORTFOLIO

A. ADB's Nonsovereign Portfolio

1. **From 1 January 2008 to 31 December 2020, ADB approved a total of 350 NSO projects totaling $26.9 billion, of which 44 projects amounting to $3.6 billion were fully cancelled and $0.92 billion partially cancelled.** Of the remaining 306 projects, 273 projects totaling $19.9 billion have been committed.[1] The succeeding portfolio description will be based on the committed projects.

2. **There were three major types of NSO operations: (i) financial institutions, (ii) private equity funds and (iii) infrastructure finance.** As shown in Table A1.1, more than half of the number of committed projects and nearly two-thirds of the total committed amount were infrastructure finance. Financial institutions accounted for 28% of the total committed amount and private equity funds for 6%.[2]

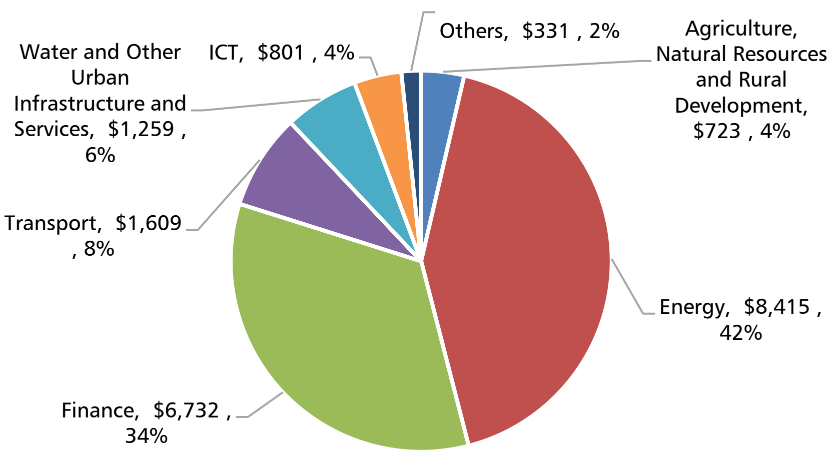
Table A1.1: Nonsovereign Operations by Committed Amount and Number by Type of Operations, 2008–2020

Type of Operations	Number	Amount ($ million)	% of Total Amount
Financial institutions	78	6,130	31%
Private equity funds	33	1,052	5%
Infrastructure finance	162	12,688	64%
Total	**273**	**19,870**	**100%**

Source: Asian Development Bank (Independent Evaluation Department).

3. **As illustrated in Figure A1.1, the energy sector had received the largest share of the total committed amount with $8.4 billion (42%) followed by finance sector with $6.7 billion (34%) and transport sector with $1.6 billion (8%).**

Figure A1.1: Nonsovereign Operations Committed Amount by Sector, 2008–2020 ($ million)



Source: Asian Development Bank (Independent Evaluation Department).

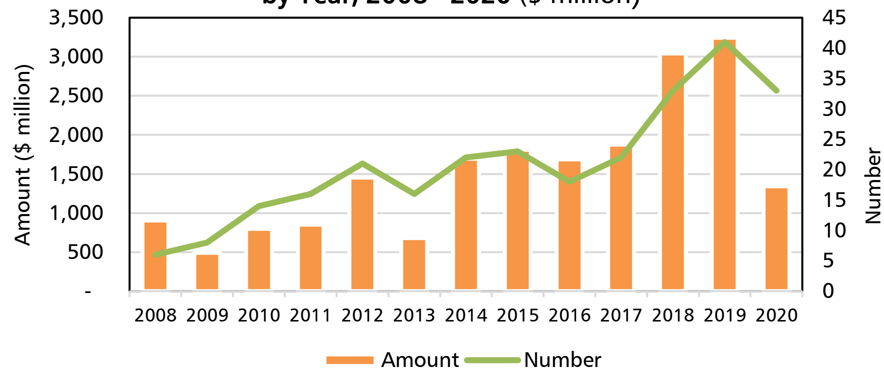
[1] Approval amounts are post-termination of subsequent approvals. Partially canceled amounts may be before signing or after signing. The amount includes both the Microfinance Risk Participation Program, approved in 2010 and the Supply Chain Finance Program, approved in 2012 and their corresponding limit increases during the evaluation period. However, the individual transactions under the program are not counted in the total number of projects and the commitments are counted under "regional." The Trade Finance Program was excluded since it was approved in 2003.

[2] ADB also makes direct equity investments in financial institutions and in companies undertaking infrastructure transactions. These direct equity investments have been originated by the Financial Institutions and Infrastructure Finance Divisions and are thus included in the 78 financial Institution and 162 infrastructure finance projects.

4. **By instrument, debt dominated with $16.3 billion (86% of the total committed amount).** The remaining 14% was divided among private equity funds (6%), direct equity investment (5%), and guarantees (4%).

5. **From 2008 to 2020, there was a noticeable uptrend in the amount and number of committed NSO projects.** As shown in Figure A1.2, the number of committed NSO projects increased from six in 2008 to 41 in 2019 while the committed amounts increased threefold from $905 million in 2008 to $3.2 billion in 2019. A decline in 2020 to 33 projects ($1.3 billion) may be attributed to COVID-19, which made it difficult for the Private Sector Operations Department to close out potential deals.

Figure A1.2: Nonsovereign Operations Committed Amount by Year, 2008–2020 ($ million)



Source: Asian Development Bank (Independent Evaluation Department).

6. **As shown in Table A1.2, seven countries accounted for 70% of total commitments**. India had the biggest share (26%) followed by the People's Republic of China (18%), Thailand and Indonesia (both 8%), Myanmar (5%), the Philippines (3%) and Pakistan (2%). Regional[3] projects accounted for 14% of total commitments while 18 other countries shared the remaining 17%.

Table A1.2: Nonsovereign Operations Committed Amount and Number by Country, 2008–2020

Country	Number	Amount ($ million)	Percentage
India	50	5,141	26
China, People's Republic of	44	3,509	18
Regional	43	2,717	14
Thailand	17	1,637	8
Indonesia	14	1,541	8
Myanmar	6	975	5
Philippines	8	682	3
Pakistan	9	471	2
18 Other Countries	82	3,917	16%
Total	**273**	**19,870**	**100**

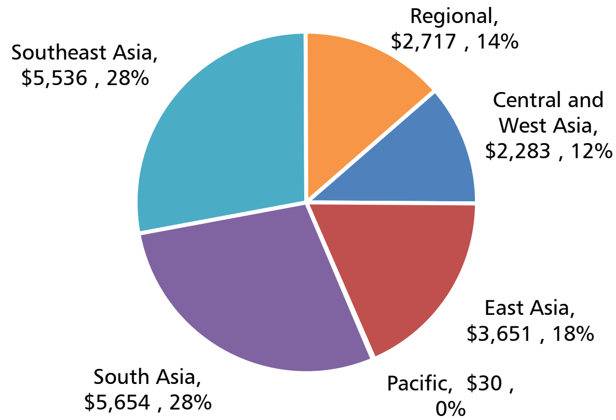
Source: Asian Development Bank (Independent Evaluation Department).

7. **By region, South Asia accounted for the biggest share of total NSO commitments with $5.7 billion (28%) in 67 projects, closely followed by Southeast Asia with $5.5 billion (28%) in 59 projects.** By contrast, there were only three projects in the Pacific totaling $30 million. East Asia accounted for $3.7

[3] Some projects may be implemented in more than one country and are thus classified as "regional." These types of transactions are common in private equity funds that target investments in selected geographies. The Supply Chain Finance Program and the Microfinance Risk Participation Programs are both classified as "regional" in this evaluation.

billion (18%) in 51 projects while Central and West Asia accounted for $2.3 billion (11%) in 48 projects. Regional projects accounted for the remaining $2.7 billion (14%) in 45 projects (Figure A1.3).

Figure A1.3: Nonsovereign Operations Committed Amount by Region, 2008–2020 ($ million)



Source: Asian Development Bank (Independent Evaluation Department).

B. ADB's NSO Technical Assistance Portfolio

8. **From 1 January 2008 to 31 December 2020, ADB approved a total of 141 nonsovereign TA grants amounting to $143.2 million.** Eleven of these TA grants amounting to $4.8 million were cancelled. The remaining 130 TA grants amounting to $138.4 million were either completed or are still in active status.

9. **Most nonsovereign TA grants covered more than one DMC and were classified as regional (76%) (Table A1.3).** India (6%), the People's Republic of China (5%), and the Philippines (2%) account for the other 13%, while the remaining 11% of the grants were distributed to 15 other countries.

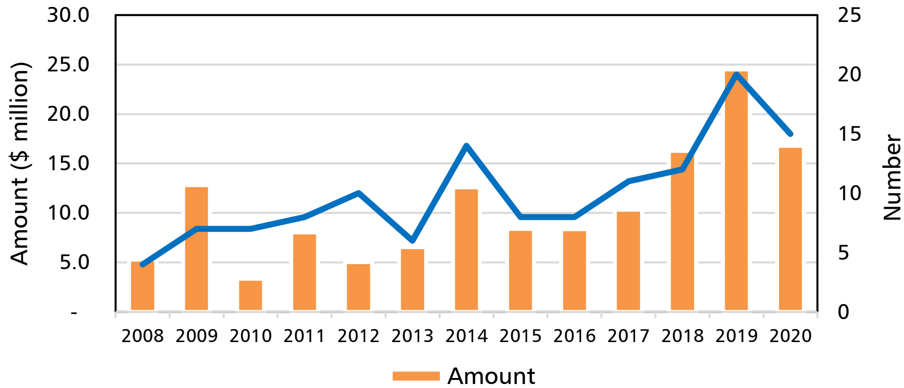
Table A1.3: Nonsovereign Technical Assistance Committed Amount and Number by Country, 2008–2020

Country	Number	Amount ($ million)	Percentage
Regional	72	105.1	76
India	8	8.4	6
PRC	8	6.7	5
Philippines	11	3.3	2
Viet Nam	6	3.1	2
15 Other Countries	25	11.9	9
Total	**130**	**138.4**	**100**

PRC = People's Republic of China.
Source: Asian Development Bank (Private Sector Operations Department).

10. **The amount of committed nonsovereign TA grants increased from a total of $5.3 million in 2008 to $16.8 million by December 2020. Over the same period, the number increased from four to 15 (Figure A1.4).** Committed TA projects peaked to 20 transactions in 2019 ($24.5 million). Almost all TA grants were facilitated by the different divisions of PSOD except for five which are jointly facilitated by the South Asia Department, Southeast Asia Department, and East Asia Department.

Figure A1.4: Technical Assistance Approved Amount by Year, 2008–2020 ($ million)



Source: Asian Development Bank (Private Sector Operations Department).

11. **There were previously four nonsovereign TA types available in ADB**: (i) capacity development TA (CDTA), (ii) project preparatory TA, (iii) research and development TA, and (iv) policy and advisory TA. In 2008–2016, CDTA projects accounted for more than half of the nonsovereign TA projects (63%) while about a quarter of the approved were project preparatory technical assistance (31%). Approved research and development technical assistance and policy and advisory technical assistance over the same period totaled less than 10% (Table A1.4).

Table A1.4: Number of Technical Assistance Per Type, 2008–2016

TA Types (2008–2016)	Number	Percentage
CDTA	45	63
PPTA	22	31
RDTA	4	6
PATA	11	1
Total	**72**	**100**

CDTA = capacity development technical assistance, PATA = policy and advisory technical assistance, PPTA = project preparatory technical assistance, RDTA = research and development technical assistance.
Source: Asian Development Bank (Private Sector Operations Department).

12. **Nonsovereign TA projects were consolidated into two types in 2017**. Transaction TA (TRTA) directly benefits a project (e.g., project preparation, project implementation support or policy advice). Knowledge and support TA (KSTA) is not directly linked to ADB-financed projects and would, therefore, cover any other TA falling outside the definition of the TRTA. KSTA covers capacity development, policy advice and research and development.[4] Since the reclassification of TA types in 2017, most of the nonsovereign TA projects processed by PSOD were TRTA projects (87%), with only seven transactions being classified as KSTA projects (13%) (Table A1.5).

Table A1.5: Number of Technical Assistance Per Type, 2017–2020

TA Types (2008–2016)	Number	Percentage
TRTA	51	88
KSTA	7	12
Total	**58**	**100**

KSTA = knowledge and support technical assistance, TRTA = transaction technical assistance.
Source: Asian Development Bank (Private Sector Operations Department).

[4] ADB. 2019. *Staff Instruction: Credit and Other Processes for Nonsovereign Operations*. Manila.

APPENDIX 2: INDICATORS AND RATINGS STANDARDS FOR ADB ADDITIONALITY

A. Concept

1. Evaluation of the additionality of Asian Development Bank (ADB) private sector operations considers ADB's value proposition in providing support to the project. It is based on a counterfactual assessment of how the projects would have (or would not have) proceeded without ADB support. It considers (i) financial additionality in providing funding or catalyzing other funding; and (ii) nonfinancial additionality in improving the project's risk profile, design, functioning, and development impact.[1]

B. Indicators

2. The key questions to be addressed for assessing financial additionality are whether the client would have been able to obtain sufficient financing on appropriate terms (pricing, tenor, grace period, currency, and timeliness), taking into account possible additional costs or delays imposed by virtue of ADB's participation, that would not have arisen if private sources of funds had been used instead of ADB finance. An assessment is made to determine whether ADB played a catalytic role in mobilizing funds from other sources or merely helped complete the financing plan. Finally, the assessment determines whether ADB's involvement was necessary to reduce the risk perceptions of other financiers.

3. The assessment of nonfinancial additionality considers whether ADB was needed to bring about a fair and efficient allocation of risks and responsibilities, and whether ADB's contributions (including knowledge sharing, advisory services, or complementary operations) helped improve project design, client capacity, environment, social, health, and safety (ESHS) or governance standards; and, ultimately, project performance and development impact.

C. Evaluation Standards

4. The standards for evaluating ADB additionality are as follows:

(i) **Excellent**. There are strong indications and/or a logical justification that leave no reasonable doubt that, without ADB participation, the project would not have gone ahead. ADB made a major contribution, particularly regarding in terms of nonfinancial additionality, to making the project a success.

(ii) **Satisfactory**. If ADB had not participated, the project would not have gone ahead with financing on appropriate terms or without undue delays; or the project would have entailed an unfair or inefficient allocation of risks and responsibilities; or the project would have been weaker in some key area, such as business and development performance, or standards of ESHS and governance.

(iii) **Less than satisfactory**. It is likely that the project would have been implemented with market finance without ADB's participation, and without material delay. No strong indications or logical justifications support the view that ADB's participation in the project materially improved performance in key areas.

(iv) **Unsatisfactory**. The project would clearly have gone ahead with market finance without ADB's participation, and without material delay. ADB did not deliver its expected contribution, or there are indications that ADB inputs and requirements undermined project performance.

[1] ADB (Independent Evaluation Department). 2014. *Guidelines for the Preparation of Project Performance Evaluation Reports on Nonsovereign Operations*. Manila.

APPENDIX 3: STATISTICAL ANALYSIS OF THE ADDITIONALITY OF ADB'S NONSOVEREIGN OPERATIONS

1. This appendix examines the evaluation's three main premises of additionality and their likely association with project-level indicators. These were: (i) the development results rating, and (ii) ADB's investment profitability rating.

1. For ease of implementation, ratings data on additionality, development results, ADB investment profitability were transformed into binary categories signifying whether a project was rated satisfactory or unsatisfactory. Likewise, total financing of projects was categorized in groups by financing size.

2. **Based on the statistical inference using the chi-squared and Fisher's exact tests, there is a high statistical significance that additionality ratings are likely associated with development results of a project.** Table A3.1 provides a cross tabulation of the frequency distribution of the 154 projects that were evaluated, based on their additionality and development results ratings. Based on the frequencies, it shows that most projects that were rated *satisfactory* for additionality were also rated as having had *satisfactory* ratings for development results.

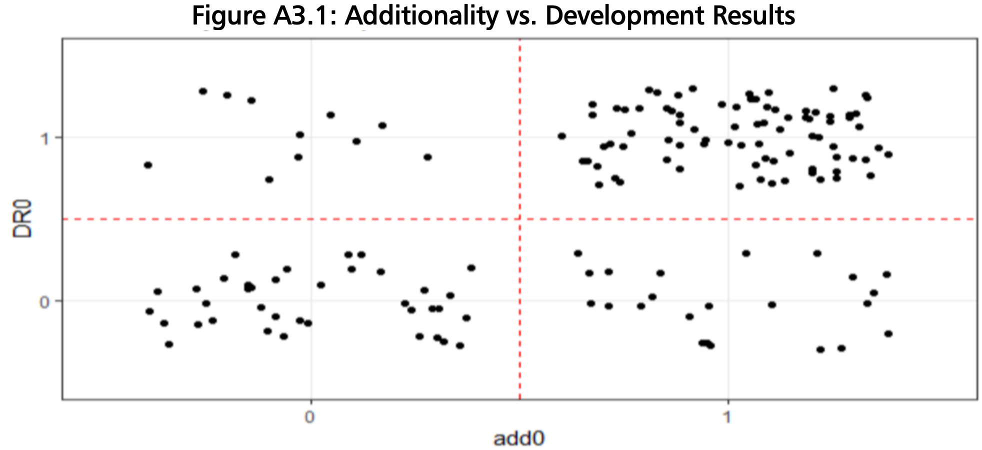
Table A3.1: Additionality and Development Results Ratings of Evaluated Projects, 2008–2020

	Additionality Ratings		
Development Results Ratings	Unsatisfactory	Satisfactory	Total
Unsatisfactory	38	11	**49**
Satisfactory	23	82	**105**
Total	**61**	**93**	**154**
	Value	p-value	Degrees of Freedom
Chi-square test	40.953	1.559e-10	1

Source: Asian Development Bank (Independent Evaluation Department).

3. Projects with *unsatisfactory* ratings for additionality were also rated *unsatisfactory* for development results in the rest of the projects. Figure A3.1 shows the likely association between these two project indicators.

Figure A3.1: Additionality vs. Development Results



Note: 0 = less than satisfactory and unsatisfactory rating; 1= satisfactory or excellent rating.
Source: Asian Development Bank (Independent Evaluation Department).

4. **Based on the tests of association, there is very high statistical evidence that a *satisfactory* additionality rating is likely associated with a *satisfactory* ADB investment profitability rating.** Table A3.2 presents the frequencies of the additionality rating against the ADB investment profitability rating.

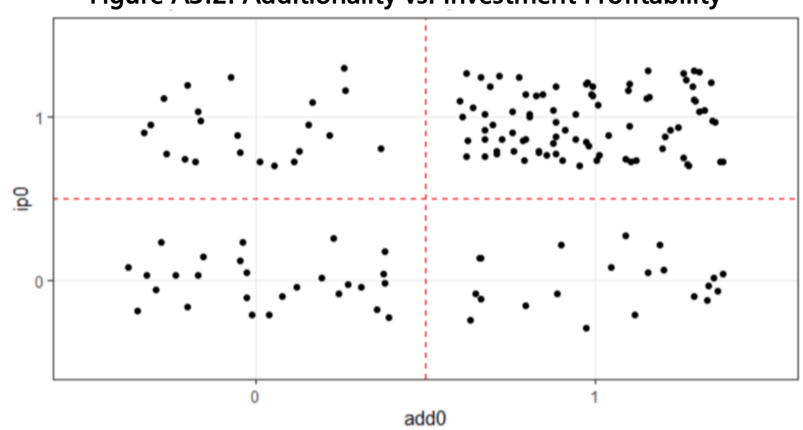
Table A3.2: Additionality and ADB Investment Profitability Ratings of Evaluated Projects, 2008–2020

	Additionality Ratings		
Investment Profitability Ratings	Unsatisfactory	Satisfactory	Total
Unsatisfactory	27	22	**49**
Satisfactory	21	84	**105**
Total	**48**	**106**	**154**
	Value	p-value	Degrees of Freedom
Chi-square test	17.586	2.745e-05	1

ADB = Asian Development Bank.
Source: ADB (Independent Evaluation Department).

5. Figure A3.2 presents these data in a graphical format. The high proportion of projects that are rated satisfactory for both is notable.

Figure A3.2: Additionality vs. Investment Profitability



Note: 0 = less than satisfactory and unsatisfactory rating; 1 = satisfactory or excellent rating.
Source: Asian Development Bank (Independent Evaluation Department).

6. The statistical analysis examined the two main premises of the evaluation on additionality and its likely association with project-level indicators on: (i) the development results rating, and (ii) ADB's investment profitability rating.

7. Two tests of association were used: (i) chi-square test; and (ii) Fisher's exact test. These tests were performed on the categorical contingency tables derived from the additionality portfolio database to determine whether there was a likely association of the additionality rating with the identified indicators. To test this association, the observed distribution in the contingency tables was compared with the expected values of the distribution of the categorical data. In this case, if the two random variables *x* and *y* are associated then the observed and expected value distribution will deviate considerably from one another.

8. Both the chi-square test and Fisher's exact test assume the null hypothesis that the additionality rating and the specified categorical data identified above are independent or have no association. The

alternative hypothesis is that an association exists between the two variables. The specification of the chi-square test is shown below:

$$\chi^2_{ij} \sim \sum \frac{\left(O_{ij} - E_{ij}\right)^2}{E_{ij}} \; with \; df = \; (i-1)(j-1)$$

Where from the *i x j* contingency table:
O_{ij} is the observed cell count in the *i*th row and *j*th column;
E_{ij} is the expected cell count in the *i*th row and the *j*th column, computed as:

$$E_{ij} = \frac{row\ i\ total * column\ j\ total}{grand\ total}$$

9. The Fisher's exact test was also computed to provide further validation since some of the generated contingency tables had cells that were less than five frequencies (so approximation may be inadequate compared with the chi-squared test). Fisher's exact test calculates the exact probability of the chi-squared test statistic and is a non-parametric test applying a hypergeometric distribution of the frequencies in the cells of the contingency table.

10. A probability level that the null hypothesis is rejected is assumed in both the chi-squared test and Fisher's exact test. At a 5% level of significance, we can then reject the null hypothesis if the p-value is less than 0.05 as generated in the chi-squared and Fisher's exact test. Rejection of the null hypothesis provides statistical evidence that a likely association between additionality and a specified indicator exists.