

Financial Due Diligence in ADB projects

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Overarching Principles

Development Objective: Will the investment deliver its service objectives over the economic design period?

Sustainability: Will the EA/IA be able to prudently manage the financial aspects during construction and operation?

Governance: Does the EA/IA have sound governance arrangements?



ADB Charter – Article 14



Borrower able to meet obligations under loan



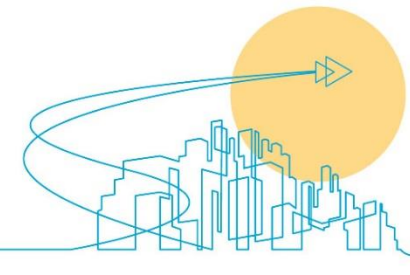
Loan proceeds used for purposes intended



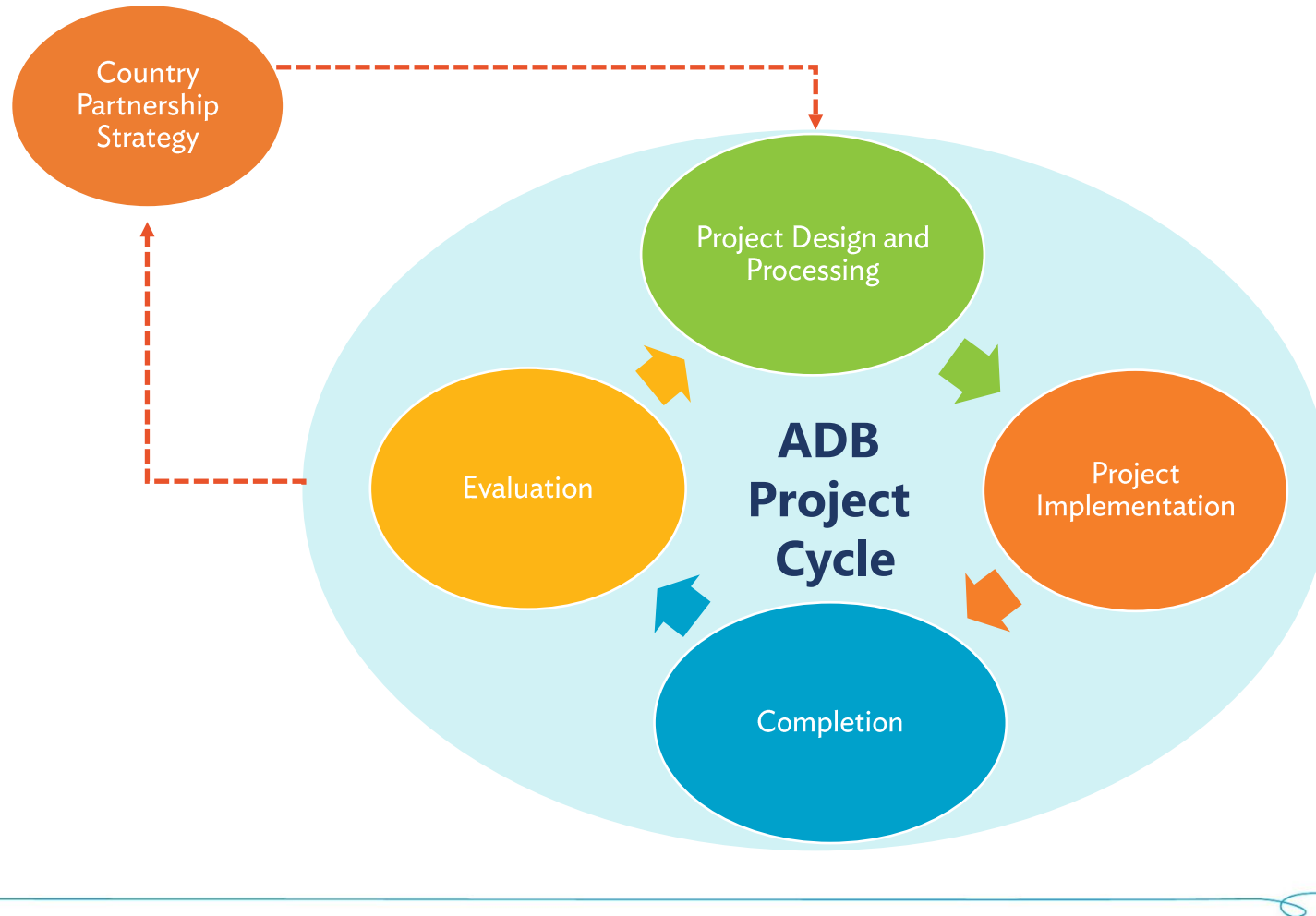
Attention to economy and efficiency



Guided by sound banking principles in operations



FM in the Project Cycle



Financial Due Diligence (processing)

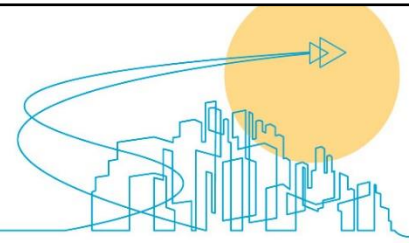
Reasonable cost estimate, credible financing plan.

FM and governance capacity.

Project financial viability.

Financial sustainability.

Risk assessment, mitigation plan.



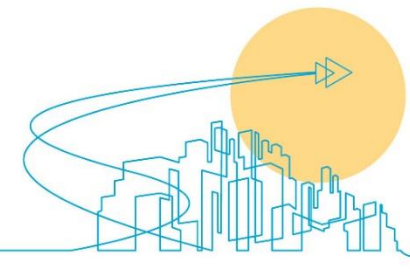
FM and Governance Assessment

Staffing, budget, internal control, funds flow, accounting policies, accounting software, internal and external audit.

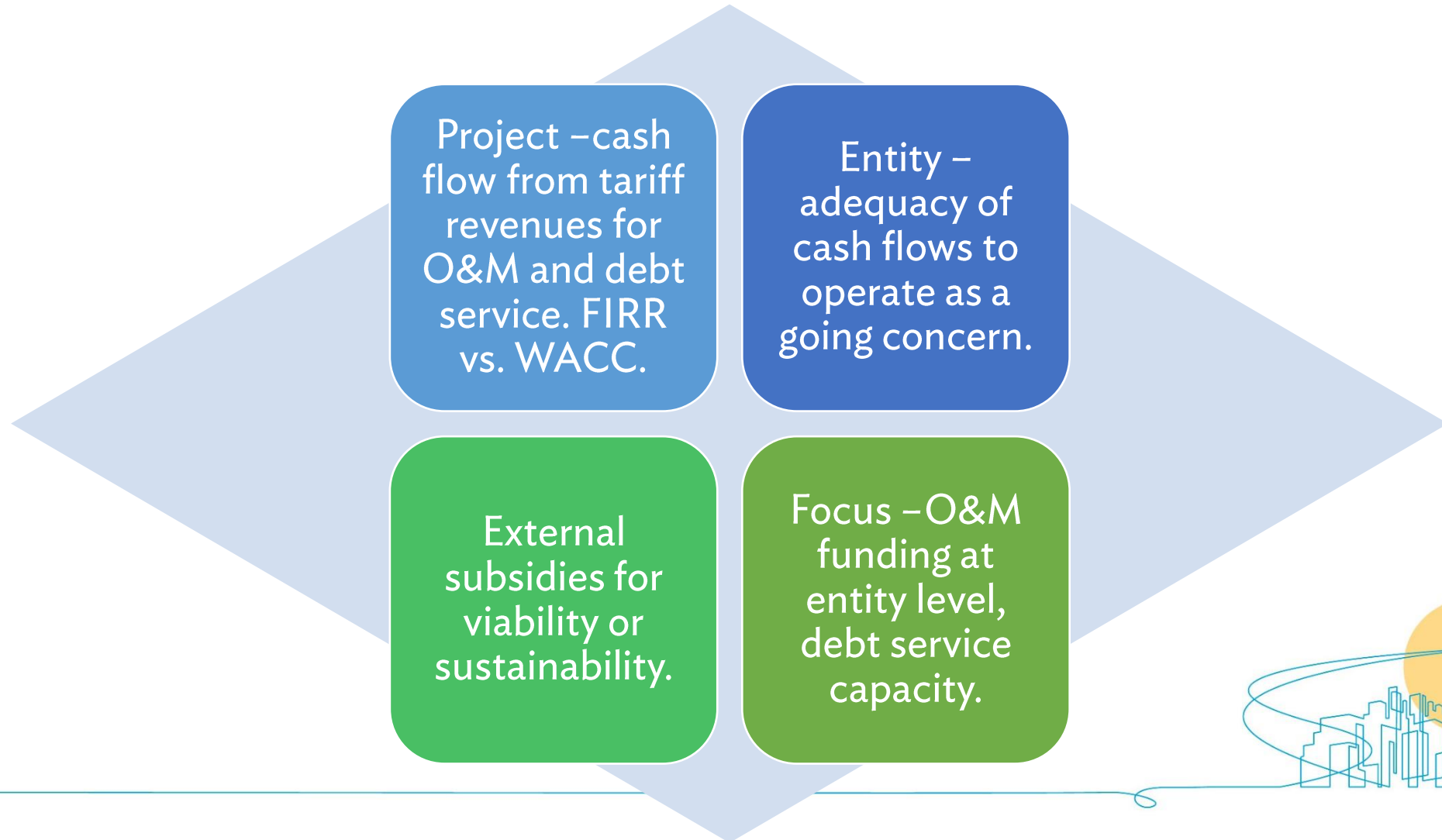
Governance – compliance with laws, good practice in governance structure, actual implementation.

Common weaknesses

- Governing body weaknesses – no independent directors, audit committees.
- Inadequate staffing, missing senior or operational staff.
- Weak accounting standards, manual accounting.
- Poor control over fixed assets, loans.



Financial Viability and Sustainability



Action Plans and Covenants



FM Action Plan – time-bound, to address financial management and governance risks.



Legal covenants – time-bound, critical steps address major risks.

- Conditions for effectiveness
- Conditions precedent to disbursement
- Standalone timebound covenants
- Covenants linked to audited financial statements

Financial Supervision (Implementation)

Timely

- implementation of the FM Action Plan.
- compliance of financial covenants.
- financial reporting (project and entity)

Monitor the risk assessment and risk mitigation plan for risk occurrence.

Review of financial reports, identification of issues of concern.

ADB's internal FM Risk Rating during implementation.



Project Performance Rating (PPR)

ADB PPR covers achievement of contract award and disbursement targets, accomplishment of outputs, FM, and safeguards compliance.

FM rating helps in assigning adequate resources during implementation to manage FM risks:

- ✓ Quality and timely submission of audited project and entity financial statements.
- ✓ Compliance with financial covenants (and audit opinion).
- ✓ Findings in the Management Letter.
- ✓ Submission of additional opinion on use of loan proceeds.

COVID-19 Considerations

Heightened risks – weaker FM capacity, use of emergency procedures, suspension of checks and balances, travel restrictions, virtual supervision.

Extension of 6 months to all projects for submission of APFS/AEFS/Covenants' opinions.

Tailored approach to FDD

- FMA must be concluded prior to project approval
- Financial analysis and evaluation may be delayed slightly but must be in place to justify the investment.
- Need to gather and preserve original supporting documents.



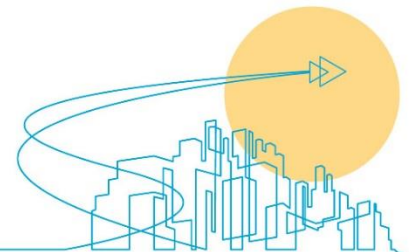
Financial Due Diligence in ADB projects

Thank you.

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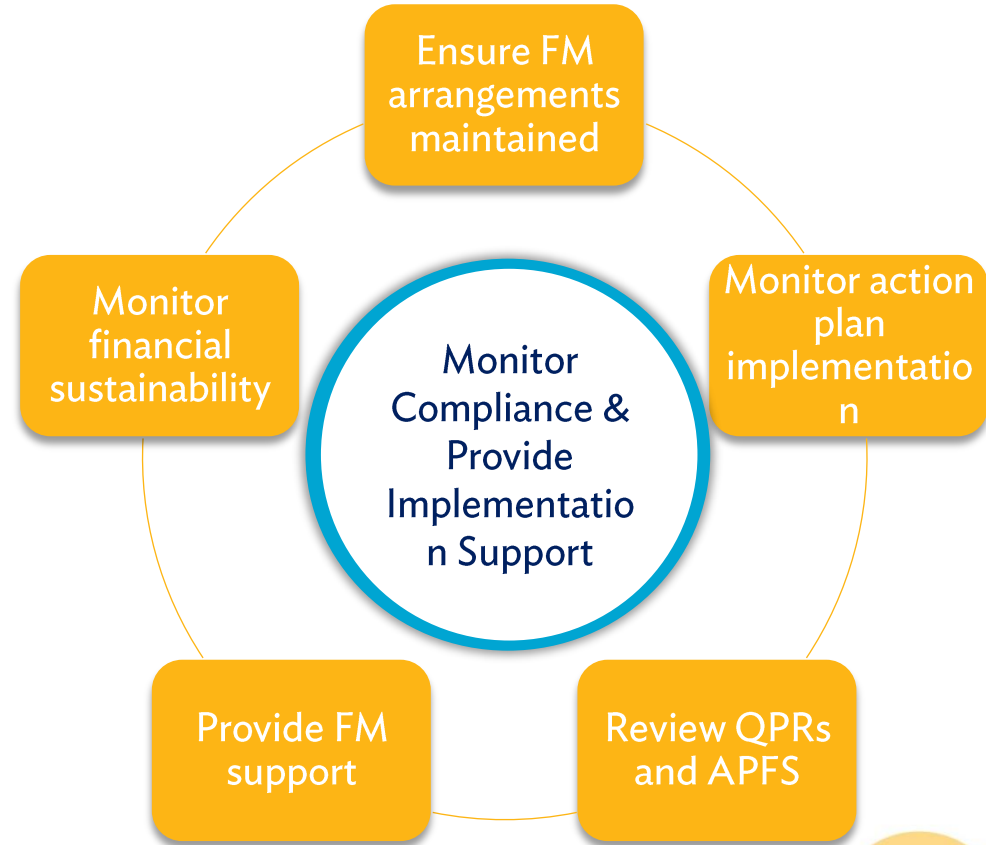
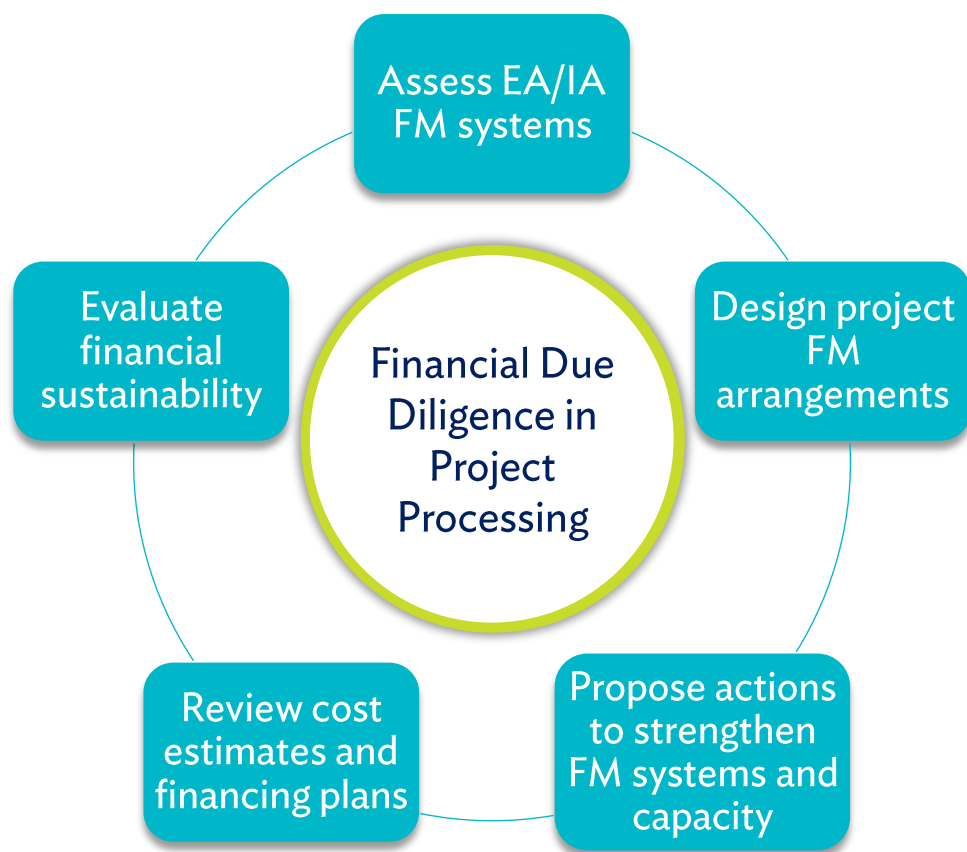
Remote Financial Due Diligence During COVID-19

Melissa Paterno

Principal Financial Management Specialist
SERD/SEOD – FM Support in Operations
























FM Role and Responsibilities



SERD Financial Management Team

SERD Sectors

Project Processing and Implementation

Sector	Primary Focal	Alternate
 Energy		
 Environment, Natural Resources & Agriculture		
 Human & Social Development		
 Public Mgt., Finance & Trade		
 Regional Cooperation		
 Transportation		
 Water		

SERD DMCs

Country FM Portfolio Compliance and Monitoring



Sector &
DMC
Knowledge

Early and
Regular
Engagement

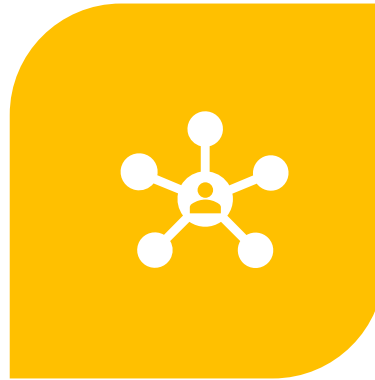
Capacity
Building

Improved FM in Projects
and DMCs

Remote Financial Due Diligence (FDD)



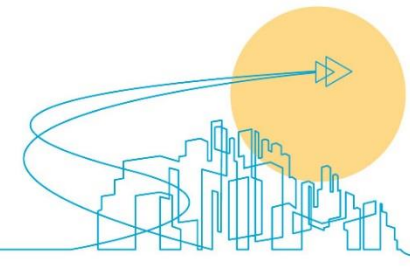
NEW NORMAL REQUIRES
NEW TOOLS, NEW WAYS
AND NEW MINDSET



MAXIMUM USE OF ADB'S RM
COLLEAGUES AND LOCAL
CONSULTANTS



FUNDS USED FOR
INTENDED PURPOSES



Challenges of Remote FDD



Communication



Connectivity &
Accessibility



Validation of
Information



Good Practices for EA/IAs

Early engagement



Effective communication



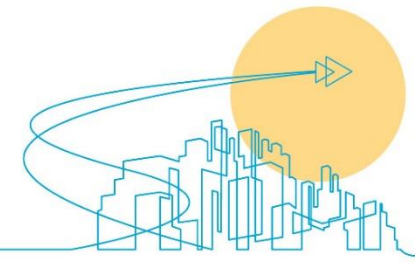
Comprehensive information



Timely communication



Establish monitoring system



ADB Tools to Support EA/IAs

Transaction
Technical
Assistance
(TRTA)

Knowledge
& Support
Technical
Assistance
(KSTA)

Project
Readiness
Financing
(PRF)

Small
Expenditure
Financing
Facility
(SEFF)

Capacity
Building
Component
in Projects



Strengthen
FM systems
and capacity



Improve FM
compliance

Benefit of Robust FM Systems



Pillar for good governance



Better entity FM capacity



Achieves project outputs

**ESSENTIAL TO
THE SUCCESS OF
ANY PROJECT**

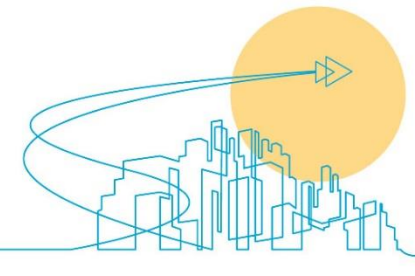
Remote Financial Due Diligence During COVID 19

Thank you

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SERD/SEOD - FM Support in Operations

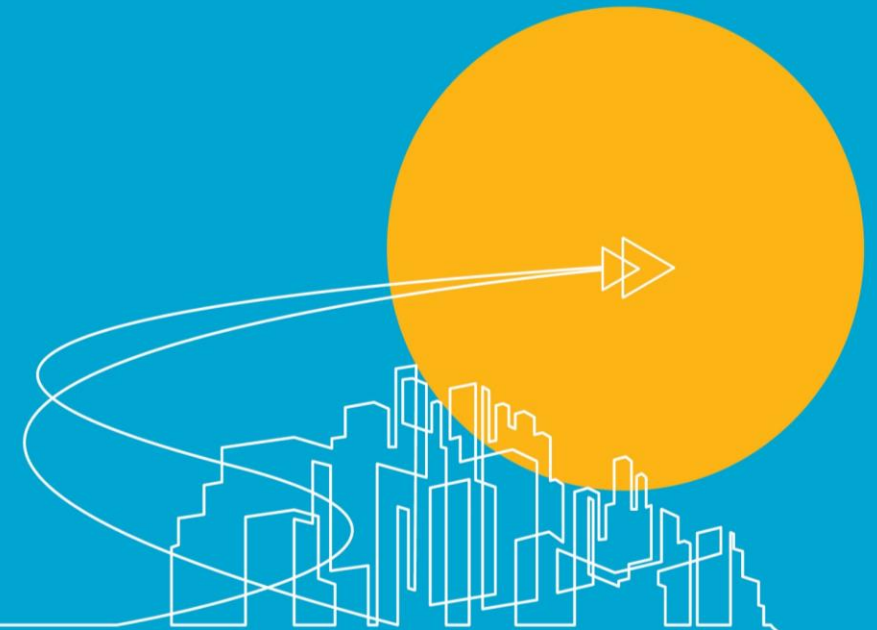


Financial Management – in a FCAS/SIDS environment

Matt Rees

Financial Management Specialist

PNG Resident Mission





PNG – FCAS/ SIDS context

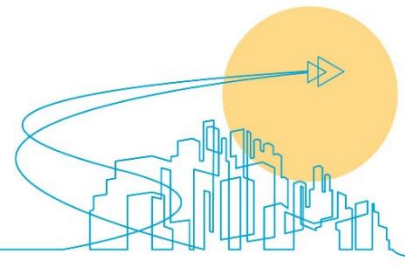
- GDP: USD23.5b nominal
- Pop: c9m
- 900+ tribes & Languages
- Large resource exporter
- Country of contrast
- 1.6bn ADB current Project portfolio
- 25 Staff in the PNRM office





Common FCAS/SIDS Challenges

- Governance – systems infrastructure
- Security and physical limitations
- Staffing capacity
- Assets
- Vulnerability to additional stress



CPS – Project design

- Constant engagement Government with ADB – ADB is always available
- Good project design leads to good project outcomes
- Early engagement of FM staff allows better design and more robust FM arrangements
- Sustainability – know the areas of risk
- Staff capacity – work together to build staff knowledge and capability

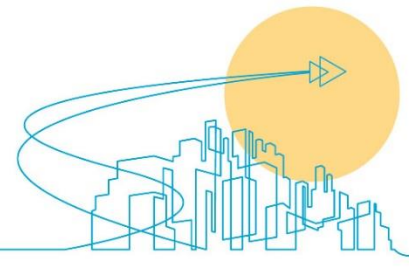


Importance of Communication and relationships



Good hints Financial Due Diligence

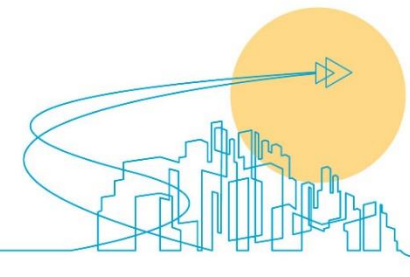
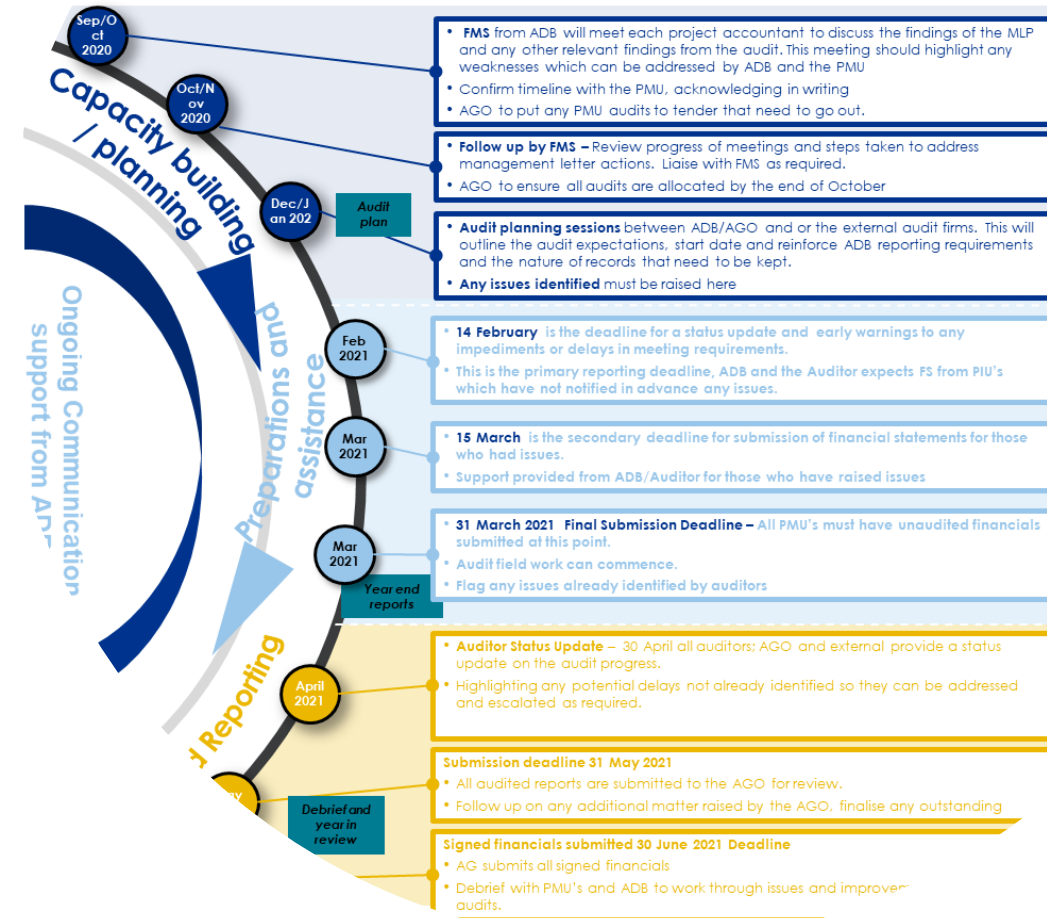
- FM staff is here to support the creation of effective projects with sound governance and robust systems
- ADB operates in FCAS' – we need to work with and manage existing risks
- Completeness and timeliness of available data
- Alternative procedures for verifying data
- Building a mitigating strategy/ reform road-map
- Using consultants/ creating links and making sure they have appropriate support
- COVID has amplified some of these challenges
- Pick up the phone; know who your people are



Financial Supervision – Ongoing support

- More than just a yearly exercise on audits
- Stakeholder engagement – APFS success story
- Detailed project plan
- Capacity changes improvement
- High staff rotation
- Difficult Physical verification of assets
- Monitoring of tariffs and sustainability
- Impact of COVID: reassess ability to meet loan obligations and need for changes in project design.

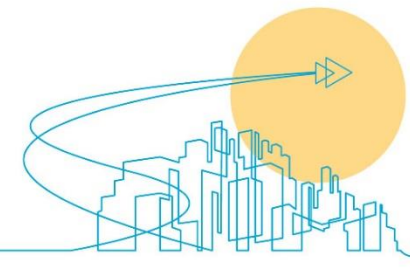
2020 Audit Timeline





Completion

- Plan – can take longer than expected and require additional resources (staff/consultants time)
- Timeline months in advance with key milestones
- Share key lessons learned
- Make sure lessons are taken up by the next project
- Reassess/reevaluate Financial Sustainability



Reality and Challenges on the ground

Thank you

Matt Rees

Financial Management Specialist

PARD/ PNG Resident Mission

