

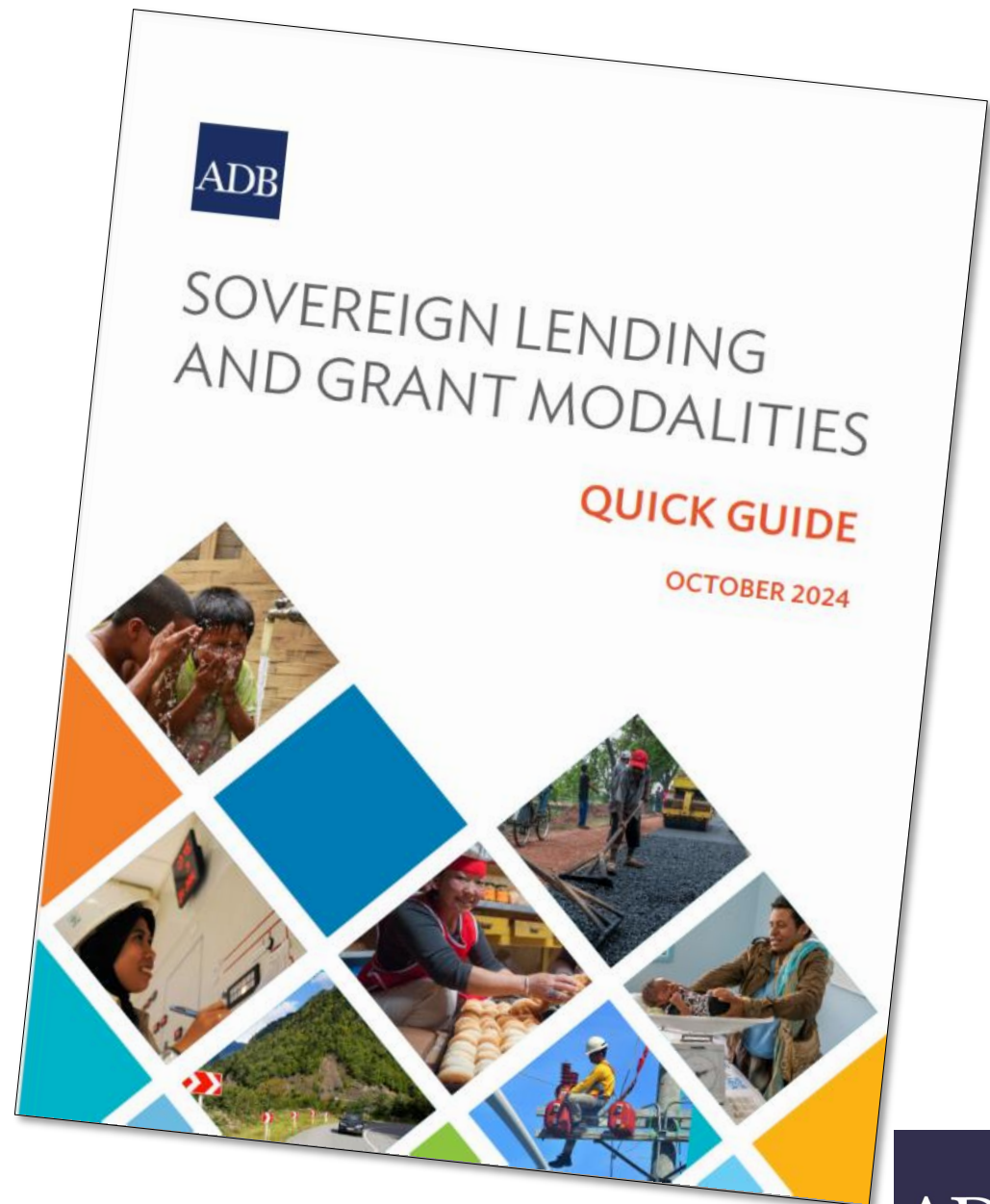
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## Session 1

# Overview of ADB Lending Modalities

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# ADB Modalities



[Sovereign Lending and Grant Modalities Quick Guide](#)

ADB

# What do we provide to clients?



Loans



Grants



Guarantees

## FUNDING SOURCES

- Regular ordinary capital resources (OCR)
- Concessional OCR
- Asian Development Fund (ADF) grants
- Technical Assistance Special Fund (TASF) and other special funds
- ADB-administered trust funds and cofinancing

# Sovereign Lending and Grant Modalities



Project  
lending



Financial  
intermediation  
lending



Policy-based  
lending



Results-based  
lending



Sector  
lending



Emergency  
assistance lending



Contingent  
disaster financing



Project readiness  
financing



Credit enhancement  
products



Multitranche  
financing  
facility



Sector  
development  
program



Special PBL &  
countercyclical  
support facility



Small expenditure  
financing facility



Technical  
assistance



# INVESTMENT LENDING

# Project Lending

Finances a standalone investment with a defined scope and tangible outputs



# Project Lending



## APPRAISAL

- Project scope to be clearly defined (feasibility study)
- ADB assesses whole scope of the project + executing agency
- Encouraged: detailed design at early stage



## LOAN AMOUNT

- Determined by project cost
- Pays for project expenditures incurred



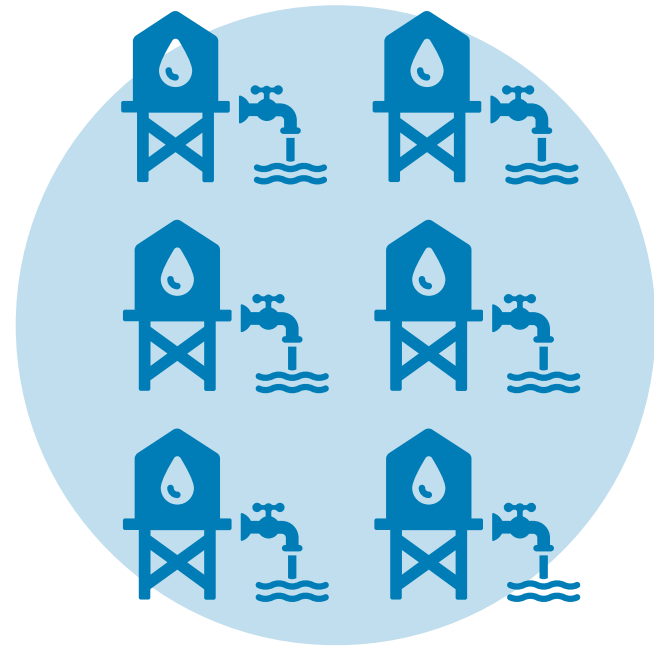
## CAPACITY

- Executing agency with good implementation experience is preferred
- Provide trainings to mitigate weak implementation capacity

# Sector Lending

Finances numerous, smaller subprojects within a sector

ADB appraises sample subprojects before approval, and the executing agency appraises other candidate subprojects during project implementation





# Sector Lending



## APPRAISAL

- ADB assesses
  - sector policies
  - sector development plan
  - project agency capacity
  - sample representative subprojects
- ADB and the client agree on subproject selection criteria



## LOAN AMOUNT

- Determined by sector-wide investment needs
- Pays for the subproject expenditures incurred



## CAPACITY

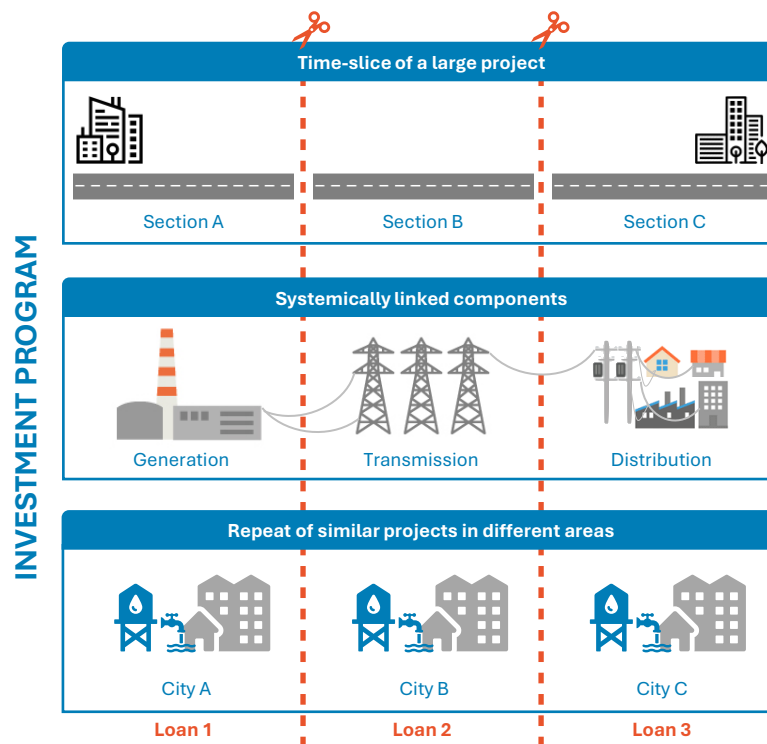
- Overall assessments of institutional capacity must be positive
- Necessary capacity includes
  - Procurement
  - Financial management
  - Safeguards assessment and monitoring

# Multitranche Financing Facility



Supports complex projects that require a larger investment and a longer commitment

Once the ADB Board has approved an MFF, a series of loans (tranches) supports investments as they are ready and the client requests financing



# Multitranche Financing Facility



## APPRAISAL

- Borrower and ADB agree on reforms aimed at improving sector's policy framework and institutions
- ADB assesses the whole investment program and details of the first loan project



## MFF AMOUNT

- Determined by the cost of the investment program
- Converted to loans upon borrower's requests and based on ADB assessments
- Each loan acts like a project loan (may also be a sector or financial intermediation loan)



## CAPACITY

- Capacity development is crucial to manage large scale investments and to be able to undertake reforms

# Emergency Assistance Lending



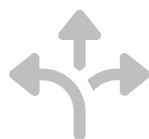
Supports transition after an emergency, helping to rebuild high priority physical assets and restore economic, social, and governance activities



# Emergency Assistance Lending



## **FAST-TRACK PREPARATION AND PROCESSING**



## **PROCEDURAL FLEXIBILITIES**

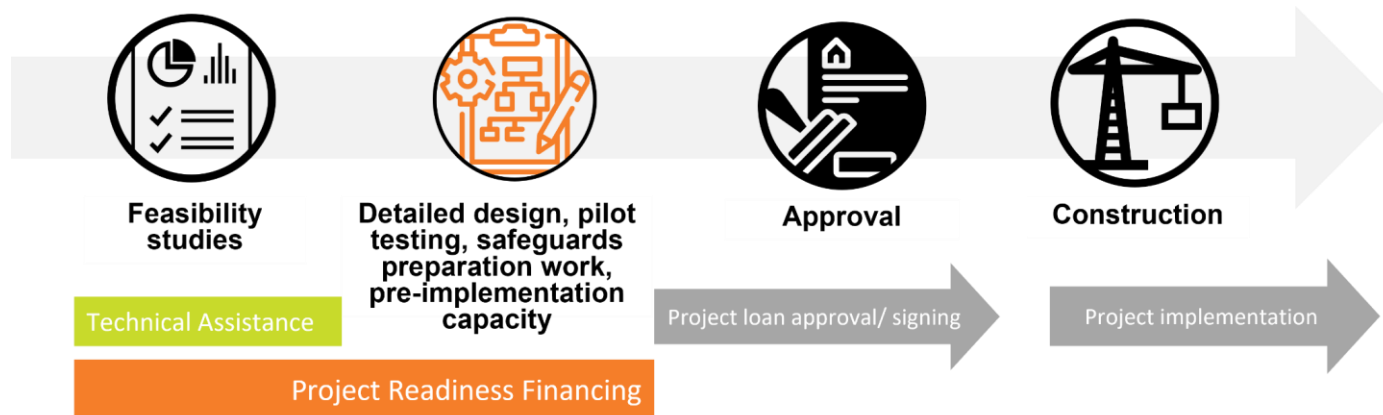
- Procurement
- Financial management
- Safeguards



## **CONCESSIONAL FINANCING TERMS**

- EAL financed by COL: 1% interest per year, 40-year maturity, 10-year grace period
- EAL financed by OCR: 32-year maturity, 8-year grace period

# Project Readiness Financing

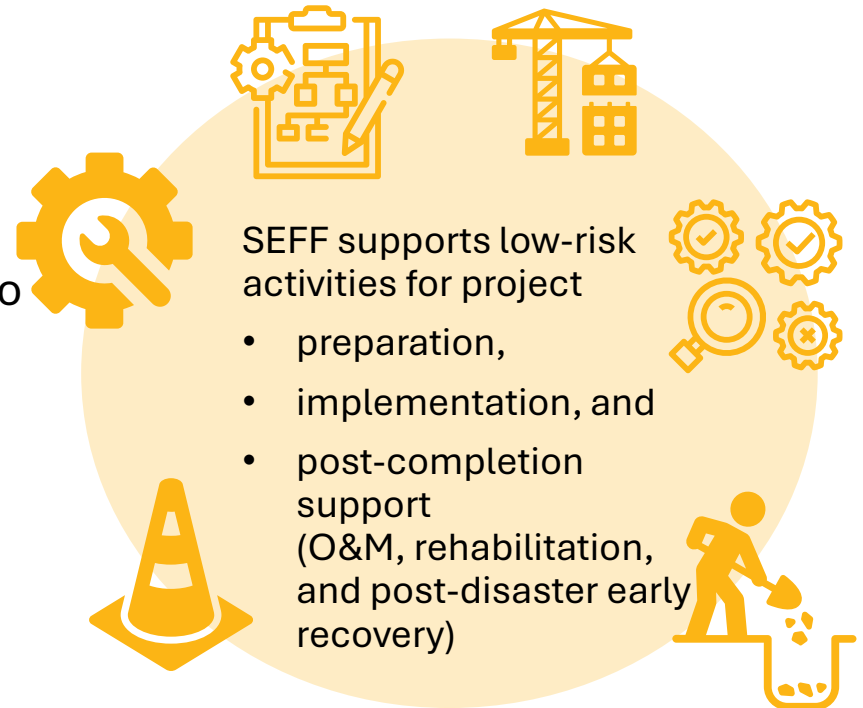


- Supports activities to prepare one or more ensuing project(s)
- Ensures high project readiness and minimizes startup delays
- Streamlined business process for PRF up to \$15 million
- Can be refinanced under any ensuing or ongoing loan to the same borrower

# Small Expenditure Financing Facility



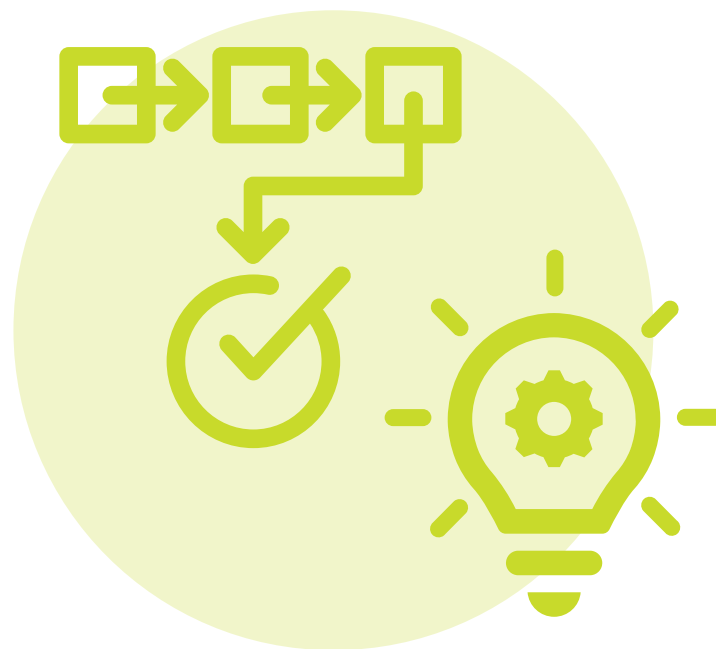
- Quick and responsive financing for small financing needs linked to ADB projects
- Facility made available for 5 years, with possible extension for another 5 years
- Under the facility individual activities up to \$15 million are processed as and when needed
- Loans for individual activities can be refinanced by an ensuing or loan to the same borrower
- Funds under the facility may be revolving



# Technical Assistance



- TA helps countries improve their capacities and make better use of development resources.
- Can be used for capacity development, policy advice, research and development, development of project pipeline, and project preparation and implementation support.
- Provided either to a DMC or a group of DMCs (regional).
- Usually provided as grant but sometimes provided on cost-recovery basis.





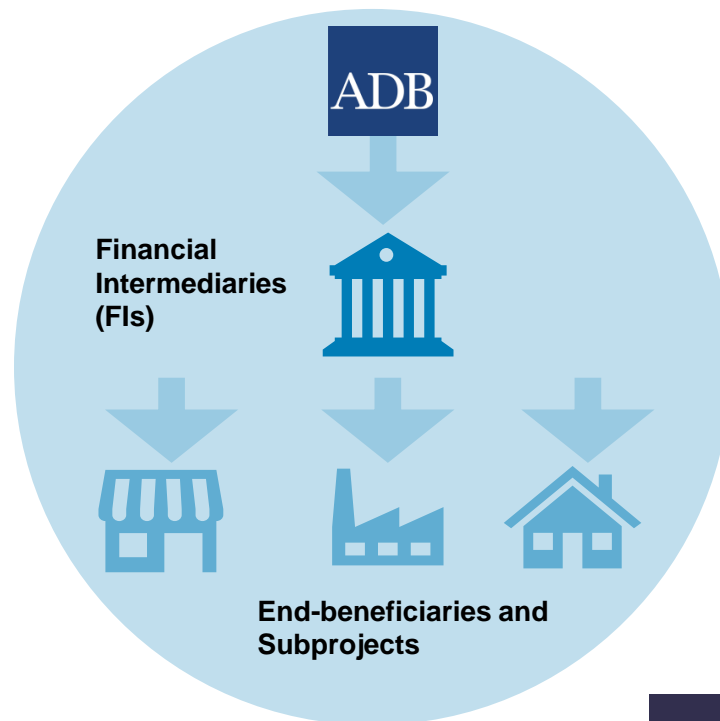
# Financial Intermediation Lending (FIL)

ADB may provide loans to financial intermediaries to finance specific development projects whose individual financing requirements are not large enough to warrant the direct supervision of ADB.

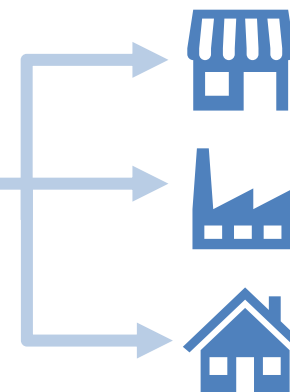
## Objectives

FILs will support the DMC's private-sector driven economic growth and poverty reduction by:

- furthering policy reforms in the financial and real sectors;
- financing real sector investments through market-based allocation mechanisms;
- strengthening the capacity, governance, and sustainability of financial intermediaries; and
- helping increase the outreach, efficiency, infrastructure, and stability of the financial system.



# Roles and Responsibilities



## ADB

- Assesses FI performance and position
- Analyzes market failures and distortions
- Proposes regulatory and institutional reforms for financial market and financial intermediaries
- Provide capacity building support
- Support DMCs to undertake monitoring and evaluation

## FINANCIAL INTERMEDIARY (FI)

- Selects and appraises subloans or other financial instruments
- Provides subloans or other financial instruments to borrowers or beneficiaries by taking on credit risk
- Must have good capacity in credit appraisal, financial management and safeguard management

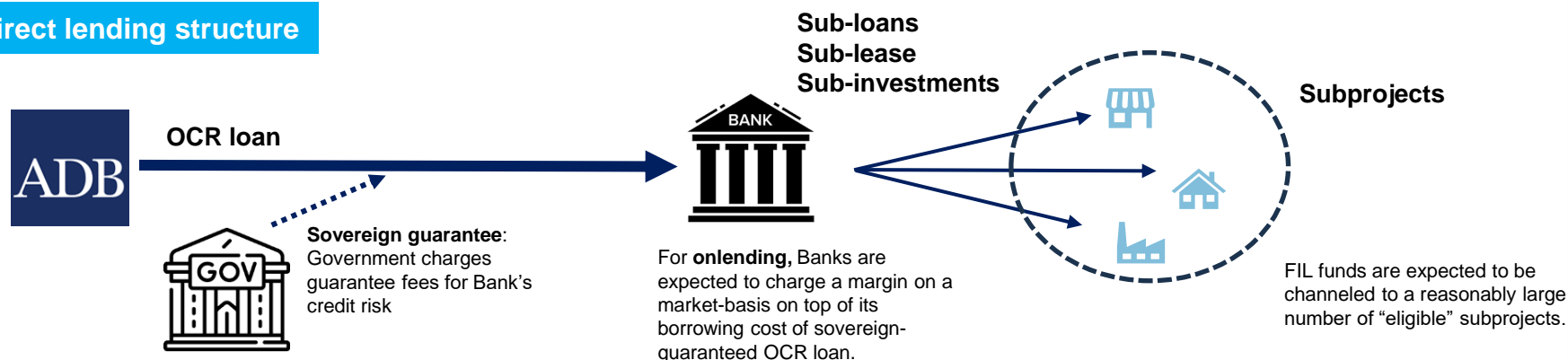
## END-BENEFICIARIES SUBPROJECTS

- Both private and public sector subprojects can be financed – such as SMEs, infrastructure, affordable housing, etc.
- Subprojects must be financially viable
- Subprojects must be complied with ADB's safeguards and other requirements

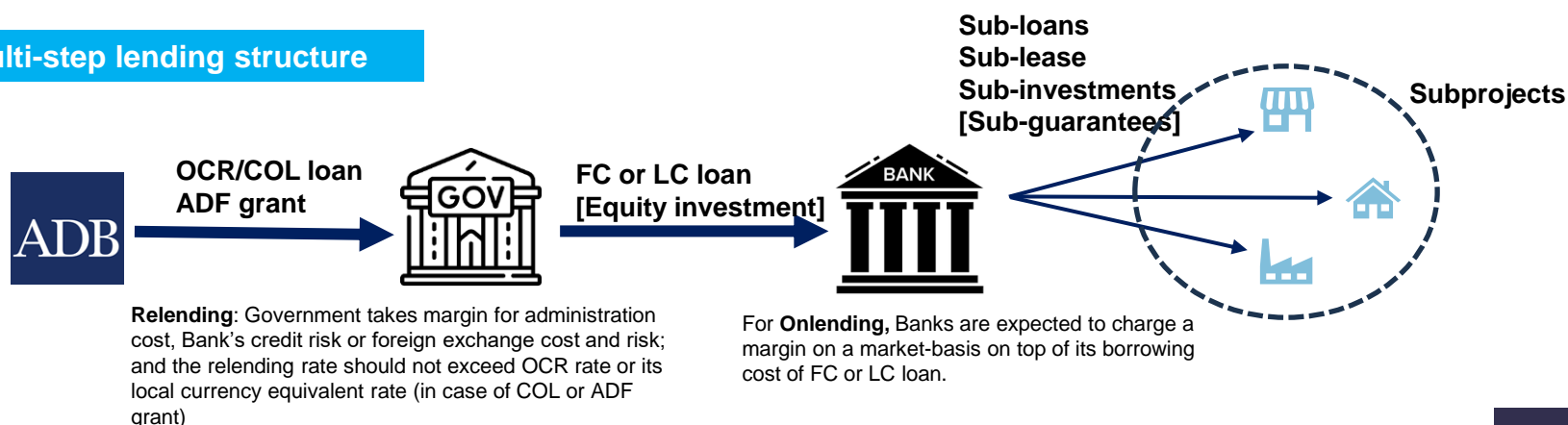
## INVESTMENT LENDING

# Two Structures

### 1. Direct lending structure



### 2. Multi-step lending structure



Note: It is possible for the both schemes to have a multi-layer of financial intermediaries. For example, ADB or the government lends/relends to an apex (or wholesale) financial institution (1<sup>st</sup> layer), which relends to multiple financial institutions (2<sup>nd</sup> layer) that on-lend or on-invest to subprojects.

# Strategic Considerations



## LOAN AMOUNT DETERMINATION

- Effective demand of financing at subproject level
- Type and expected size of subloans
- Expected financial leverage, concessionality, and cofinancing arrangements
- FI's record of performance
- FI's management capacity
- FI's appraisal standards



## ISSUES TO CONSIDER

- Good capacity of FI and Sound regulatory environment
- FI incentives to draw down credit line or lend to target borrowers
- Macroeconomic and financial stability
- Market failures or distortions in financial and real markets
- Facilitate domestic resource mobilization



## NON-FINANCIAL BENEFITS

- Institutional and governance reform of FI
- Introduction of new financial products
- Better financial outreach
- Catalyzing private sector investment
- Promoting entrepreneurship



# POLICY-BASED LENDING

# Policy-Based Lending



Design  
policy  
packages



Implement  
policy actions



Review  
achievement  
s



Disburse

May be supported by technical  
assistance

Transfers loan amounts to the government's general budget instead of paying for explicit project costs

Supports sectoral and intersectoral reform programs that the government is committed to

# Policy-Based Lending



## ASSESSMENTS BY ADB

- Development constraints
- Policy actions/reforms to address constraints (as agreed with the client)
- Government ownership of the reforms



## LOAN AMOUNT

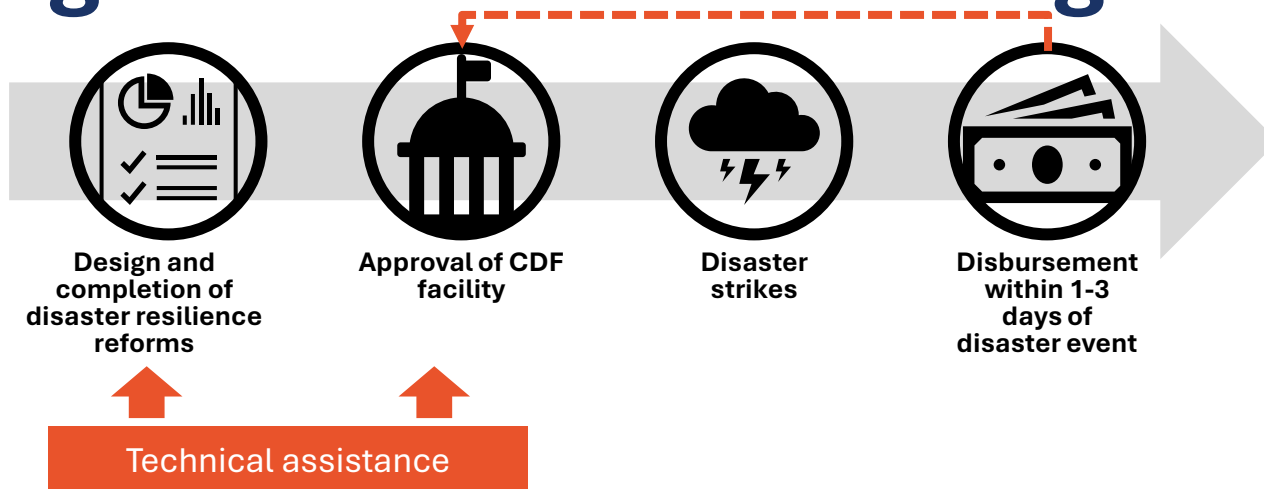
- Determined by development financing needs



## FORMS OF PBL

- Conventional PBL
  - Standalone PBL
  - Programmatic approach

# Contingent Disaster Financing



## PURPOSE

- Reforms to strengthen institutional preparedness for disasters
- To provide *quick disbursing* liquidity following a disaster
- Facility remains available for up to 15 years for regular OCR, and up to 6 years for concessional OCR and ADF

## LOAN AMOUNT

- Determined by development financing needs including disaster financing needs
- (Replenishments may be applied under a multi-year CDF program)

## FEATURES

- Disbursed as general budget support
- Deferred disbursement option allows for fund access at end of availability period
- Tailored commitment options to reduce fees
- Full or partial disbursement available



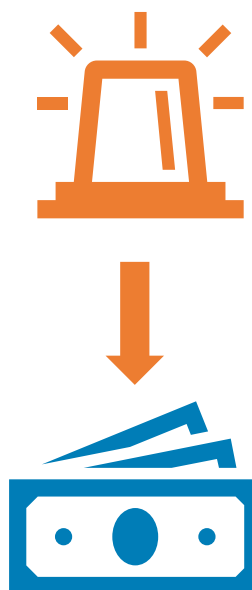
## Countercyclical Support Facility and Special PBL

CSF provides stimulus in times of economic crisis or significant fiscal pressure

- Countercyclical expenditure program is a requirement; policy matrix not required, but structural reforms expected; IMF program not required
- All DMCs eligible (including those that have graduated from regular ADB assistance)

SPBL supports DMCs facing balance-of-payments crisis as part of IMF-led program

- Flexible conditionalities, focusing on actions to reduce severity of crisis
- IMF program required



# Sector Development Program



Combines a PBL component and investment component in one program

- Addresses sector needs and development constraints in a comprehensive manner
- Fosters an integrated and long-term approach to sector needs (policies, institutions, and investments) and enhances ADB's leverage for promoting policy and institutional reforms
- Strong commitment to sector reform by the government is essential





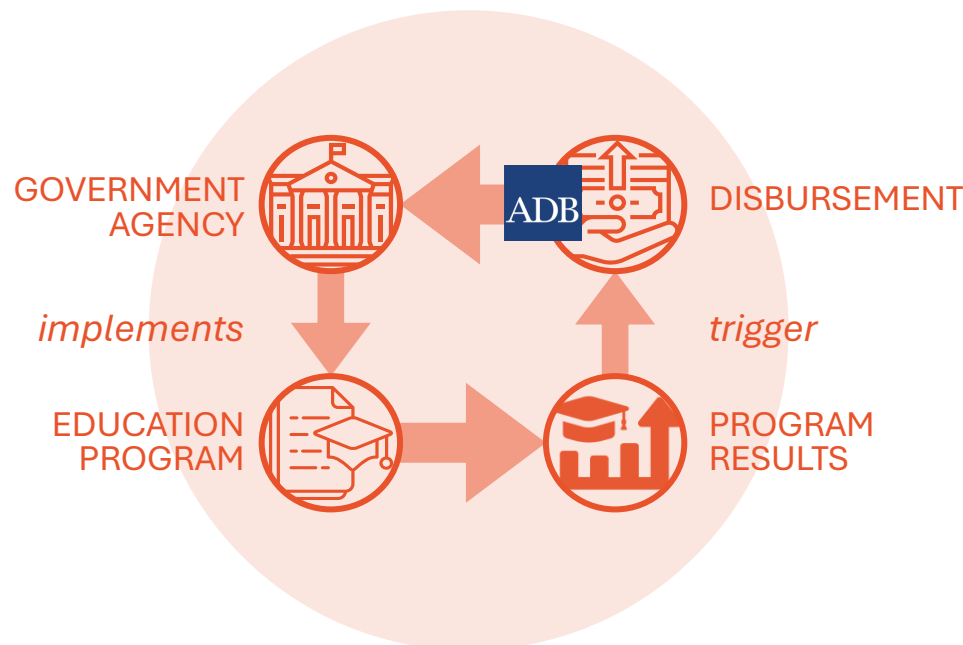
# RESULTS-BASED LENDING

## RESULTS-BASED LENDING

# Results-Based Lending



- Supports a specific government-owned program
- Creates incentives for delivering results as disbursement is based on achievement of defined results
- Uses government program systems & procedures and seeks to enhance them as needed
- Enables partnerships and coordination among development partners



# Results-Based Lending



## ASSESSMENTS BY ADB

- Definition of the RBL program boundary
- Identification of key results and disbursement linked indicators
- Program soundness including expenditure and financing framework and sustainability
- Program systems including fiduciary, M&E, safeguards, and other relevant program systems



## CAPACITY DEVELOPMENT

- Measures agreed by ADB and the government to improve program systems and institutions
- Defined in the Program Action Plan



## EXCLUDED ACTIVITIES

- Environment category A
- Activities likely to have significant adverse impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people
- High value contracts

# Key Financing Terms

	Regular OCR for Group C and B		Concessional OCR for Group B		Concessional OCR for Group A	
	Interest	Tenor (Grace)	Interest	Tenor (Grace)	Interest	Tenor (Grace)
<b>Investment lending</b> <b>Results-based lending</b> <b>Other non-PBL modalities</b>	SOFR + 50 bp (+ 0-75 bp maturity premium*)	Up to 19y**	2%	25y (5y)	1-1.5%	32y (8y)
- Emergency assistance loan	As above	32y (8y)	1%	40y (10y)	1%	40y (10y)
<b>Policy-based lending</b>	SOFR + 50 bp (+ 0-75 bp maturity premium*)	15y (3y)	2%	25y (5y)	1-1.5%	24y (8y)
- Special PBL	SOFR + 200 bp*	5-8y (3y)	n/a	n/a	n/a	n/a
- CSF	SOFR + 75 bp*	7y (3y)	2%	25y (5y)	1-1.5%	24y (8y)

\* The grace period is based mainly on the time needed for the project to become operational.

\*\* Maturity premium apply to loans with average maturity exceeding 9 years.

# Criteria for Board Approval Process

## Track 1

No objection procedure

**The amount of ADB financial assistance does not exceed**

- \$100 million for stand-alone PBL, a subprogram of a programmatic approach, or a PBL component of an SDP
- \$400 million for all other sovereign operations

**The operation does not**

- require any major exception to an existing ADB policy, as determined by Management
- have the potential for significant adverse environmental, economic, and/or social impacts, particularly on vulnerable groups that may be unable to absorb such impacts
- involve the use of a novel financing arrangement
- involve significant financial assistance relative to the size of the developing member country in question, as determined by Management
- involve important innovations or learning that are relevant for broader ADB operations

## Track 2

Full Board discussion

- Project does not meet any of the track 1 criteria (above)

# Approvals Delegated to Management



**MFF tranches:** After Board approves facility, President approves all tranches. Management submits MFF annual report to the Board.



**PRF:** Management (VP) approves small-scale PRF (not exceeding \$15 million under a total annual commitment not exceeding \$100 million).



**SEFF:** After the Board approves the facility, the regional director general approves subloan financing (activity report). An activity under an SEFF cannot exceed \$15 million.



**TA:** Management (President and other approving authorities depending on amount) approves TA operations except: (i) those exceeding \$5 million from ADB Special Funds, and (ii) those that deviate from ADB policies, which the Board approves.



# Modalities Requiring Informal Board Sessions



## **MFF**

Track 2 proposals  
(those requiring full  
Board discussion)



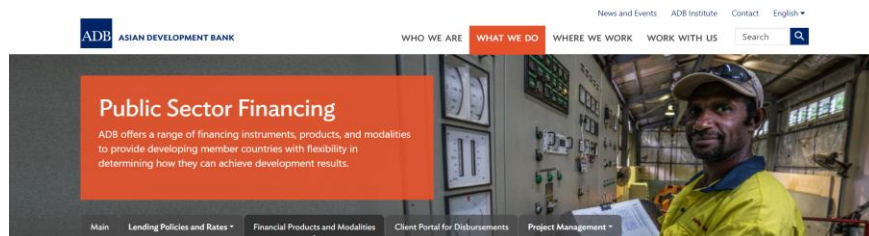
## **RBL**

Track 2 proposals



## **PBL**

- Track 2 proposals for:
  - Stand-alone PBL
  - Programmatic approach
    - Subprogram 1
    - Subprogram 2 and subsequent subprograms (or component of a sector development program)
      - originally categorized as Track 1 but recategorized as Track 2
      - with material difference from the originally approved programmatic approach
  - Sector development program
- Countercyclical support facility
- Special PBL



## Lending and Grant Modalities

Responding to the evolving needs of DMCs and the Asia and Pacific region as a whole, ADB offers a range of public sector loans and grants that differ in purpose, focus, financing and disbursement, and implementation arrangements.

These first five modalities fall under the **investment lending** category, which pays for goods, works, and services related to specific projects.



### Project Loan

ADB's most commonly used modality. It typically supports investments with a clear scope; tangible outputs; and the estimated cost of goods, works, and services needed to complete the project. ADB is highly involved and uses its own procedures in preparing and administering project loans. It is most suitable for projects needing capacity building support and for activities that might have adverse environmental and social impacts.

[Operations Manual D1: Sovereign and Sovereign-Guaranteed Financing \(2023\)](#)

### Sector Loan

Finances numerous, smaller subprojects within a sector. ADB appraises sample subprojects before the sector loan is approved. The borrower then selects and appraises additional subprojects during implementation. This makes the sector loan more cost-efficient than a project loan. It is also more flexible and adaptable to changes in situation, needs, and priorities.

[Operations Manual D3: Sector Lending \(2023\)](#)

### Financial Intermediation Loan (FIL)

Provides funding to target sub-borrowers through financial intermediaries. Under this modality, the borrower onlends ADB funds to eligible financial intermediaries, like local banks or other financial institutions. These then provide smaller loans at their own credit risk to sub-borrowers. FILs may target certain types of sub-borrower beneficiaries like micro-, small- and medium-

### Related

[Public Sector \(Sovereign\) Projects](#)

[Financing Partnerships](#)

[Funds and Resources](#)

[Statement of ADB Operations](#)

# More information

[ADB.ORG/WHAT-WE-DO/PUBLIC-SECTOR-FINANCING/FINANCIAL-PRODUCTS-MODALITIES](https://www.adb.org/what-we-do/public-sector-financing/financial-products-modalities)