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# Investment Lending

**19-23 August 2024**  
**ADB Headquarters, Philippines**

The logo of the Asian Development Bank (ADB), consisting of the letters 'ADB' in white on a dark blue square background.

ADB



# Outline

- Sovereign lending and grant modalities
- Project lending
- Sector lending
- Multitranche financing facility
- Emergency assistance

# 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



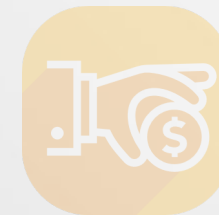
Multitranche financing facility



Sector development program



Special PBL & countercyclical support facility



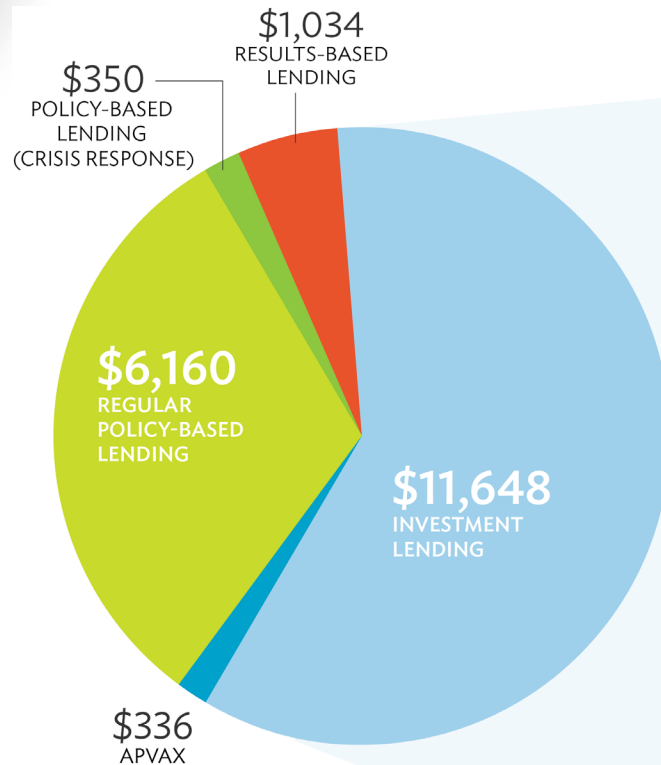
Small expenditure financing facility



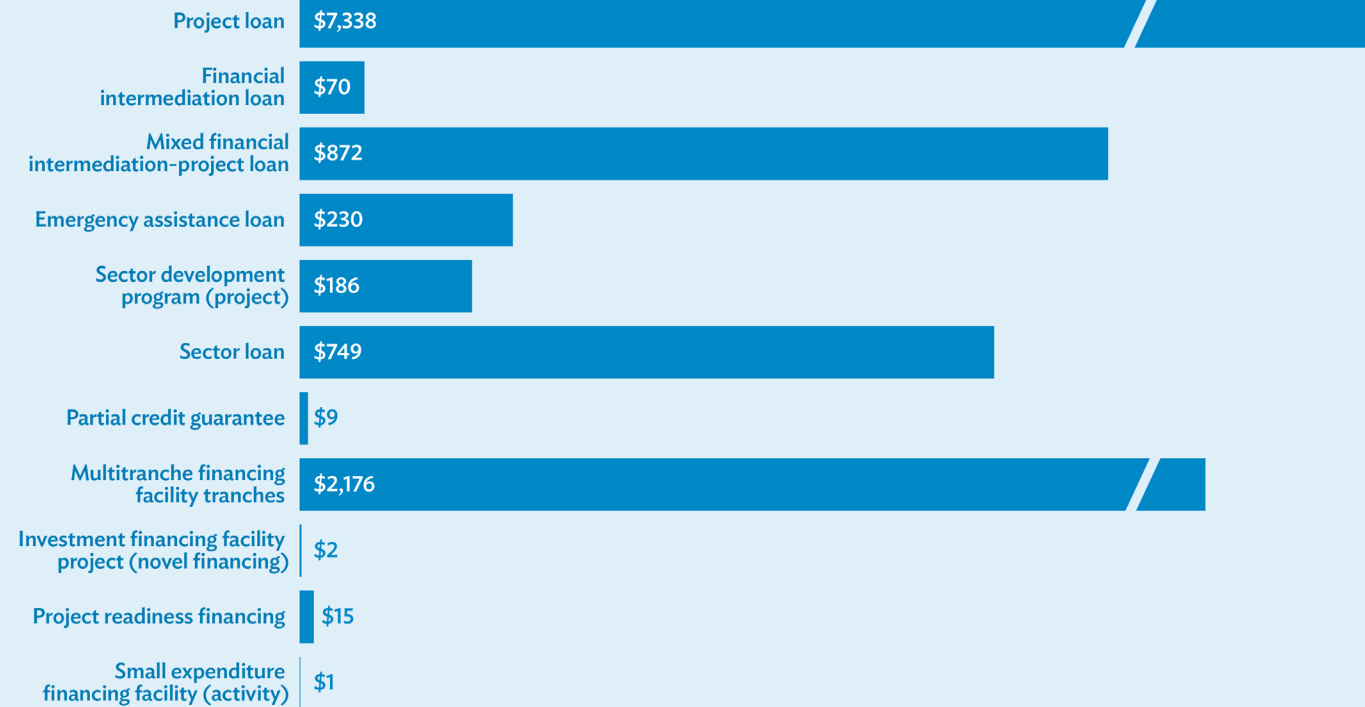
Technical assistance

# ADB sovereign lending and grant commitments by modality

Total 2023 commitments: \$ 19,527 million



## INVESTMENT LENDING





# Investment loans are expenditure-based

Loan size is based on cost of:



**Goods**



**Works**



**Services**



# Project lending

Finances a standalone investment with a defined scope and tangible outputs



# PROJECT LENDING

## At a glance



### 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



# PROJECT LENDING **Advantages**

**SIMPLE**

**UPFRONT**

Full scope is  
appraised before  
approval

**CLEAR**

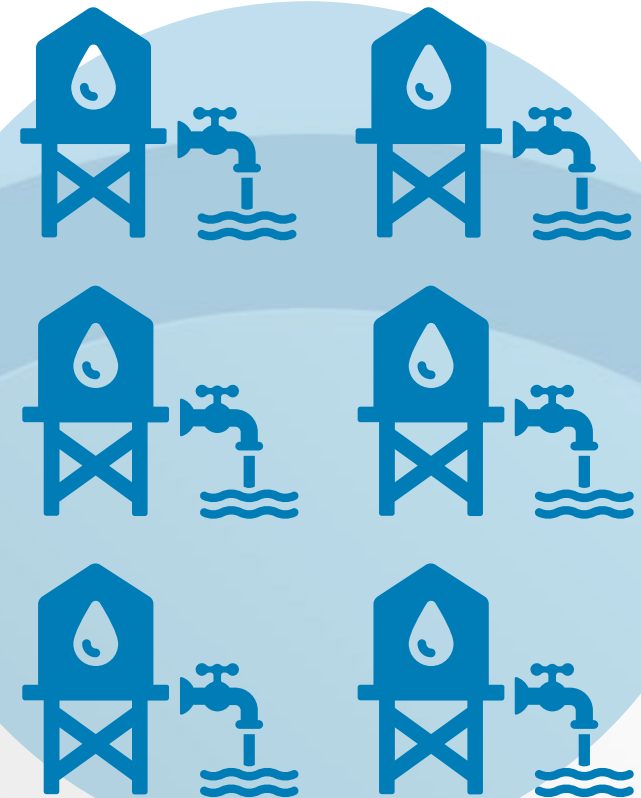
It is clear what the  
loan proceeds will be  
financing



# 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

## At a glance



### 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

# Advantages

## SIMPLER APPRAISAL

- Does not require full appraisal before project approval
- Subproject appraisal costs covered by the loan

## FLEXIBILITY

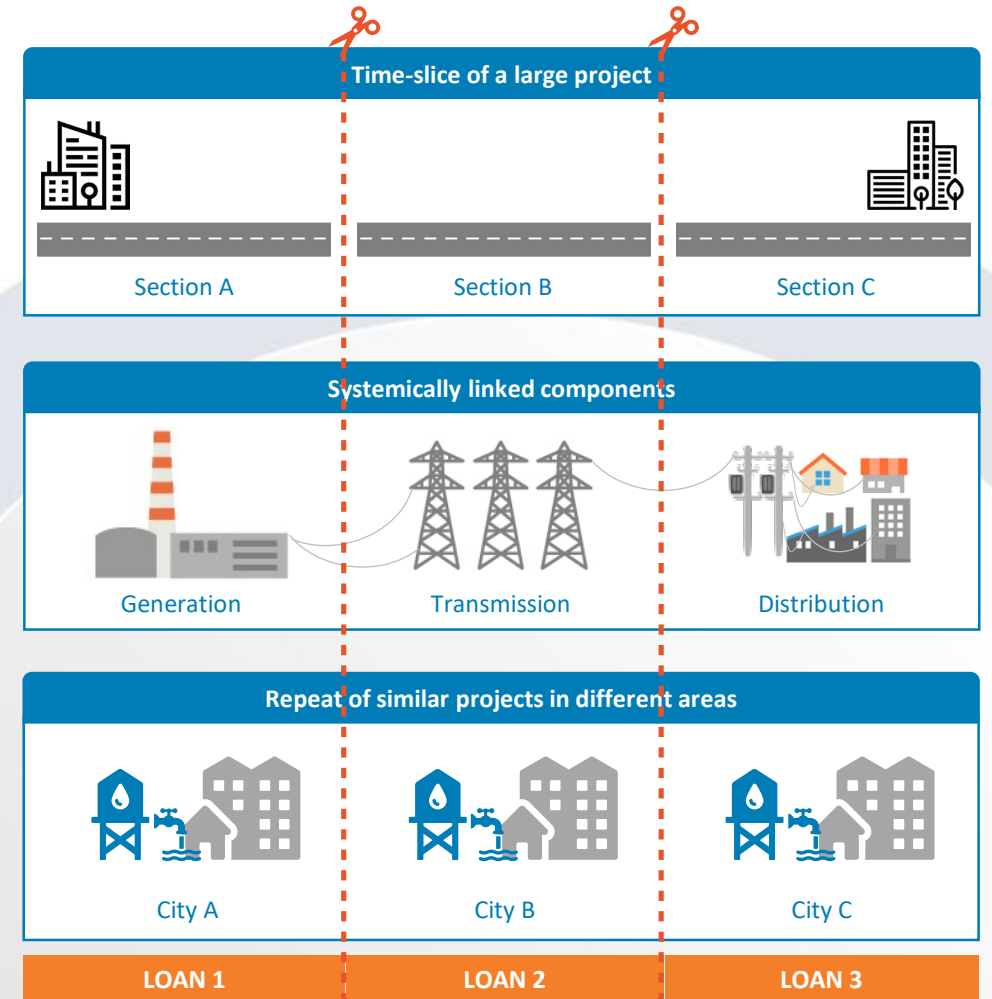
- Can adapt to changes in situation, needs, and priorities
- EA can propose subprojects during implementation
- Can accommodate changes in scope

# 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

INVESTMENT PROGRAM



# MULTITRANCHE FINANCING FACILITY

## At a glance



### 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



# MULTITRANCHE FINANCING FACILITY

## What makes MFF unique?



Longer-term engagement with multiple entry points for policy dialogue, enhanced monitoring of readiness, learning, and agency commitment



Larger financing envelope with possible use of project readiness financing



Physical (investment) proportional to programmatic (reform) components supported by enhanced sector assessments



Board approves maximum amount, deadline for last tranche approval and terms of the facility; Management approves and monitors tranches



Supports sector-wide institutional capacity building



Improved templates for investment programs and streamlined documentation and processing of large-scale investment projects

# Emergency assistance lending

Supports transition after an emergency

Helps rebuild high priority physical assets and restore economic, social, and governance activities

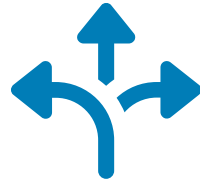


# EMERGENCY ASSISTANCE LENDING

## At a glance



### 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

# EMERGENCY ASSISTANCE LENDING

## Issues to consider



### MAXIMUM IMPLEMENTATION PERIOD

- 4 years after disasters
- 5 years post conflict



### FOR IMMEDIATE SHORT-TERM REQUIREMENTS

Meant for early recovery activities such as

- rehabilitating critical infrastructure
- meeting basic needs
- reconstruction activities



### BEFORE PROCESSING A NEW LOAN...

look at possibility of portfolio restructuring to use loan savings, or additional financing that can use EAL procedures

# Post-disaster needs assessment (PDNA)



Identifies potential impact on the economic, social, and governance needs and priorities



Required for EAL, findings provide basis for preparing EAL



Focus of PDNA is commensurate with type of hazard experienced



ADB does not necessarily have to be involved in the PDNA