ADB

SOVEREIGN LENDING AND GRANT MODALITIES

QUICK GUIDE

OCTOBER 2024

ABBREVIATIONS

ADB	Asian Development Bank
CDF	contingent disaster financing
COL	concessional ordinary capital resources lending
CSF	countercyclical support facility
DMC	developing member country
EA	executing agency
EAL	emergency assistance lending
FIL	financial intermediation lending
MFF	multitranche financing facility
OCR	ordinary capital resources
PBG	policy-based guarantee
PBL	policy-based lending
PRF	project readiness financing
RBL	results-based lending
SDP	sector development program
SEFF	small expenditure financing facility
TA	technical assistance

MORE INFORMATION

- ADB.org includes animated explainer videos about the modalities, as well as links to relevant policies and sections of the ADB Operations Manual. See: adb.org/what-we-do/public-sector-financing/financial-products-modalities
- An e-learning course on ADB's sovereign modalities is available at: https://elearn.adb.org/enrol/index.php?id=306.

ABOUT THIS QUICK GUIDE

The Asian Development Bank (ADB) helps its developing member countries (DMCs) achieve economic growth, reduce poverty, and address development challenges through its various financing instruments including loans, grants, and technical assistance.

This quick guide offers brief information on the different lending and grant modalities that ADB offers to its DMCs. It describes the purpose, key features, financing, disbursement, and implementation arrangements of each modality so clients could explore the most suitable options for their development needs.

When processing actual ADB operations, please refer to ADB's Operations Manual Section D and related policy papers for complete details on the various modalities included in this guide.

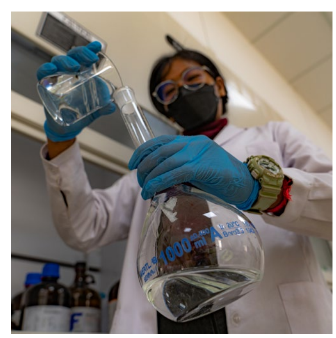
Please note that this quick guide serves only as a learning tool and is not a substitute for ADB-approved policies and procedures.

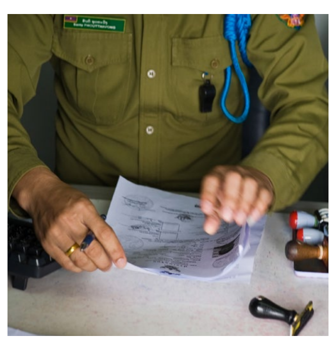
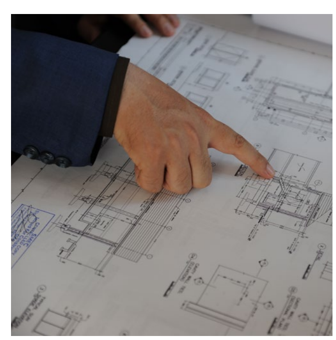
For questions and concerns, please contact the Strategy, Policy, and Business Process Division Director in ADB's Strategy, Policy, and Partnerships Department.







SOVEREIGN LENDING AND GRANT MODALITIES AT A GLANCE

PROJECT LENDING (p. 3)

Project lending 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.

SECTOR LENDING (p. 4)

Sector lending finances numerous, smaller subprojects within a sector. ADB appraises sample subprojects before the sector loan is approved. The borrower selects and appraises more subprojects during implementation.

FINANCIAL INTERMEDIATION LENDING (p. 5)

Financial intermediation lending enables the sovereign borrower to onlend ADB funds to eligible financial intermediaries, like local banks or other financial institutions, which then provide smaller loans at their own credit risk to sub-borrowers.

EMERGENCY ASSISTANCE LENDING (p. 6)

Emergency assistance lending helps rebuild high-priority physical assets and restore economic, social, and governance activities after disasters and emergencies. Designed for quick response from ADB, the modality allows for abbreviated business processes.

MULTITRANCHE FINANCING FACILITY (p. 7)

Multitranche financing facility supports complex projects that require a larger investment and longer commitment than a project loan could provide. ADB provides a series of tranches when the investments are ready and the borrower requests financing.

POLICY-BASED LENDING (p. 8)

Policy-based lending transfers loan amounts to the government's general budget instead of paying for explicit project costs. This helps countries that may be facing a financing gap in their annual budget, and may need additional funds to pay for general development expenditures.

SECTOR DEVELOPMENT PROGRAM (p. 9)

Sector development program combines a policy-based loan with an investment loan, responding to times when a country has both an investment requirement and a need for policy reform in a given sector. It provides an integrated solution to a country's sector needs.

RESULTS-BASED LENDING (p. 10)

Results-based lending focuses on the positive change brought about by ADB's support to beneficiaries. It finances government-owned programs and relies on country systems for financial management, procurement, safeguards, and monitoring and evaluation.

PROJECT READINESS FINANCING (p. 11)

Project readiness financing is a fast and flexible modality that supports activities expected to generate at least one ADB-funded project. It ensures high project readiness and minimizes startup delays during the initial phase of project implementation.

SMALL EXPENDITURE FINANCING FACILITY (p. 12)

Small expenditure financing facility provides quick and responsive support to clients' small financing needs that are linked to ADB-financed projects. The total estimated contract value of each activity should not exceed $15 million.

TECHNICAL ASSISTANCE (p. 13)

Technical assistance supports the preparation, financing, and execution of development projects and programs. Generally grant-based, it helps increase borrower capacity to make better use of their development resources.

PROJECT LENDING

Project lending. This supports stand-alone investment projects with a clear scope and tangible outputs, such as a single road connecting two locations.

PURPOSE

Project lending finances a stand-alone investment with a defined scope and tangible outputs. It provides direct financial assistance to sovereign projects as well as eligible privately held, state-owned, or subsovereign entities.

KEY FEATURES

Project lending is simple, upfront, and clear. What it will be financing is known and fully appraised before approval. ADB is strongly involved in safeguards assessments and plans, so the modality is appropriate for Category A investments (projects that have been classified as likely to have significant adverse environmental impacts that are irreversible, diverse, or unprecedented, according to ADB's 2009 Safeguard Policy Statement).

Project lending is appropriate when:

(i) the country systems and institutions are still developing, and

(ii) a project needs careful environmental and social consideration.

Project lending is less suitable when:

(i) the borrower is an upper middle-income country with its own systems,

(ii) significant institutional or policy reforms are needed, and

(iii) appraisal will take too much time.

WHAT IT PAYS FOR

Project expenditures (goods, works, and services) that support the delivery of project outputs

REQUIREMENTS

ADB's general policy requirements

HOW IT IS PROVIDED

It is provided as a loan or grant.

HOW IT IS DISBURSED

The borrower withdraws amounts from the loan account to cover project expenditures.

REFERENCES

- ADB. 2015. *Enhancing Operational Efficiency of the Asian Development Bank.*
- ADB. 2023. Sovereign and Sovereign-Guaranteed Financing. *Operations Manual.* OM D11.

SECTOR LENDING

Sector lending. This is a cost-efficient way to finance a large number of subprojects in a sector, such as delivering improved water supply and sanitation to many small towns in a country.

PURPOSE

By financing a part of the sector investment that has been planned by the borrowing government, sector lending assists in the development of a specific sector or subsector in DMCs. The modality is expected to improve sector policies and strengthen institutional capacity.

KEY FEATURES

Only sample subprojects are appraised before ADB Board approval. Candidate subprojects are appraised by the executing agency (EA) during project implementation, and if these meet the subproject selection criteria, the cost of subproject appraisal is covered by the loan. As such, sector lending is more cost-efficient than project lending. Sector lending is flexible and can accommodate changes in scope. It can adapt to changes in situation, needs, and priorities since the EA can propose subprojects during implementation.

Sector lending is appropriate when:

(i) numerous subprojects in the sector or subsector are to be financed, and
(ii) sector policies need to be improved and institutional capacity strengthened.

Sector lending is less suitable when:

(i) project implementation readiness is low (as it will cause implementation delays), and
(ii) the EA lacks the capacity to manage and mitigate safeguards risks.

WHAT IT PAYS FOR

Expenditures (goods, works, and services) that support subprojects

REQUIREMENTS

(i) Sector development plan
(ii) Institutional capacity to implement the sector development plan and appraise proposed subproject
(iii) Appropriate sector policies, to be improved as needed
(iv) ADB's general policy requirements

HOW IT IS PROVIDED

It is provided as a loan or grant.

HOW IT IS DISBURSED

The borrower withdraws amounts from the loan account to cover expenditures related to subprojects.

REFERENCE

ADB. 2023. Sector Lending. *Operations Manual.* OM D3.

FINANCIAL INTERMEDIATION LENDING

Financial intermediation lending. ADB is able to support small and medium-sized enterprises by lending to eligible financial intermediaries that provide smaller loans to sub-borrowers.

PURPOSE

Financial intermediation lending (FIL) provides financing to eligible participating financial intermediaries for onlending at their own credit risk. Financial intermediaries are usually financial institutions with lending as their main function, such as a commercial bank or microfinance organization. Sub-borrowers fund their own projects, which may consist of investment or economic activities for the trade and production and goods and services; and the development of housing and infrastructure.

The goal of the FIL is to achieve private sector-driven economic growth in DMCs. The FIL can also help further financial sector reforms.

KEY FEATURES

Onlending through financial intermediaries, rather than direct supervision by ADB, enables greater outreach to sub-borrowers with smaller loan requirements. FIL can target specific types of sub-borrowers, such as micro, small, and medium-sized enterprises; women entrepreneurs; or rural-based industries. This gives underserved market segments greater access to finance. FIL supports the financing of investments through market-based allocation mechanisms, and can help expand the outreach and stability of a country's financial system.

FIL is suitable when:

(i) there is demand for credit by potential sub-borrowers that the domestic financial system cannot meet,
(ii) the financial intermediaries have enough onlending capacity and incentive,
(iii) the FIL will not discourage domestic resource mobilization or cause market distortions, and
(iv) the FIL contributes to the establishment of financial institutions and systems that can raise and allocate resources in DMCs efficiently and sustainably.

WHAT IT PAYS FOR

Cost of subloans onlent by financial intermediaries

REQUIREMENTS

(i) The FIL is consistent with ADB's strategy for financial sector development in DMCs, as reflected in the borrowing country's strategy and program.
(ii) Participating financial intermediaries meet required eligibility criteria.
(iii) Government policy and the economic environment are conducive to FIL operations.
(iv) ADB's general policy requirements.

HOW IT IS PROVIDED

The FIL is provided as a loan on a stand-alone basis, or as components of sector development programs or sector or project loans. It may be used in conjunction with ADB's guarantee products to enhance fund availability for financial intermediaries.

HOW IT IS DISBURSED

The borrower withdraws amounts from the loan account to cover expenditures (i.e., cost of subloans approved by the financial intermediaries). The borrower onlends funds to the financial intermediaries, which further onlend to sub-borrowers.

REFERENCE

ADB. 2023. Financial Intermediation Lending. *Operations Manual.* OM D6.

EMERGENCY ASSISTANCE LENDING

Emergency assistance lending. This modality provides quick assistance so countries can respond, restore essential services, and construct high-priority assets when a disaster or emergency situation strikes.

PURPOSE

Emergency assistance lending (EAL) helps rebuild high-priority physical assets and restore economic, social, and governance activities after disasters and emergencies.

It provides emergency support approved in the aftermath of disasters triggered by natural hazards, health emergencies, food insecurity, technological and industrial accidents, and post-conflict situations.

KEY FEATURES

EAL focuses on immediate short-term requirements that can be completed within a fixed maximum implementation period. This includes early recovery activities such as rehabilitating critical infrastructure and meeting basic needs, as identified by a post-disaster needs assessment.

ADB may be required to support long-term reconstruction following a disaster that might not necessarily be completed within the fixed maximum EAL implementation period. In such cases, additional financing to the EAL—applying regular ADB financing terms and conditions—can be considered.

EAL also supports efforts of DMCs to build back better, enhancing resilience to future emergencies.

WHAT IT PAYS FOR

Expenditures (goods, works, and services) that support recovery and reconstruction

REQUIREMENTS

(i) The government has made an official request for assistance.
(ii) A post-disaster needs assessment has identified, as appropriate, the potential economic, social, and governance impact of needs and priorities.
(iii) The event involves significant economic dislocation, and the EAL is intended to address immediate needs and/or expedite the preparation of a regular project.
(iv) The security of ADB staff undertaking operations in conflict-affected areas is guided by United Nations security norms and clearances.
(v) The level of burden and risk-sharing among partners, especially shareholders and other key local and international actors, is appropriate.

HOW IT IS PROVIDED

It is provided as a loan or grant.

HOW IT IS DISBURSED

The borrower withdraws amounts from the loan account to cover eligible expenditures.

REFERENCES

- ADB. 2021. *Revised Emergency Assistance Loan Policy.*
- ADB. 2022. Emergency Assistance Loan. *Operations Manual.* OM D19.
- ADB. 2023. Disaster and Emergency Assistance. *Operations Manual.* OM D7.

MULTITRANCHE FINANCING FACILITY

Multitranche financing facility. This modality can be used to support large-scale projects such as road networks.

PURPOSE

Multitranche financing facility (MFF) responds to a country's large-scale, long-term investment needs. It can finance multiple projects under an investment program in a sector or various sectors, as well as large, long-term stand-alone projects with substantial and related individual components. It can also finance slices of long-term contract packages in these large stand-alone projects or investment programs.

KEY FEATURES

MFF enables ADB to provide a series of tranches as and when the investments are ready and the borrower requests financing. There is assurance that a large, long-term program will have ADB support up to MFF completion.

ADB and borrowers have multiple entry points for policy dialogue, since lessons from an earlier tranche can be applied to a succeeding one. All DMCs are eligible to use MFF in any sector that ADB covers in the borrowing country, but it is most suitable for long-term and large investments.

WHAT IT PAYS FOR

Project expenditures (goods, works, and services) that support the delivery of project output

REQUIREMENTS

Aside from ADB's general policy requirements, there are six preconditions for the use of MFF:

(i) Road map defining strategic directions for the sector
(ii) Policy framework identifying main challenges and operating conditions, targets for change, and reform actions
(iii) Strategic context for MFF within ADB's country partnership strategy
(iv) Investment program clarifying the scope of MFF
(v) Financing plan specifying amounts, timing, and fund sources
(vi) Undertakings outlining borrower commitments over the term of MFF

A framework financing agreement between ADB and the borrower sets out the main features of the investment program and the undertakings made by the borrower. It emphasizes the indicative nature of the funding commitment against the availability of funds.

HOW IT IS PROVIDED

A maximum amount is approved by the ADB Board of Directors under the facility. This amount is converted by ADB Management into a series of tranches that may take the form of loans, grants, guarantees, or cofinancing administered by ADB upon formal requests from the borrower.

HOW IT IS DISBURSED

MFF is disbursed as amounts committed against a financing request, out of the available facility amount. Each separate financing is disbursed as a loan or grant.

REFERENCES

- ADB. 2022. Enhancing the Asian Development Bank's Multitranche Financing Facility.
- ADB. 2023. Multitranche Financing Facility. *Operations Manual.* OM D14.

POLICY-BASED LENDING

Policy-based lending. This modality provides funds for general budget support instead of paying for explicit project costs.

PURPOSE

Policy-based lending (PBL) supports policy reform by focusing on policy actions that address critical development constraints in DMCs.

KEY FEATURES

ADB has four types of PBL operations, each catering to a different situation in a DMC, and are generally categorized as conventional PBL and crisis-response PBL.

Conventional PBL

1. **Stand-alone PBL.** Provides budget support and is packaged either as a multitranche or single tranche loan to support structural reforms over a short- to medium-term period.
2. **Programmatic approach.** Comprises a series of single-tranche loans (subprograms) to support structural reforms over a medium-term time frame.

Crisis-Response PBL

3. **Special PBL.** Designed to address external and internal payments crises by providing large-scale support as part of an international rescue effort, led by the International Monetary Fund and supported by other international financial institutions.
4. **Countercyclical support facility (CSF).** Provides budget support to DMCs undertaking fiscal stimulus for growth following an exogenous shock, with access criteria that cover health emergencies and reflect ADB's prioritization of support for vulnerable groups.

Conventional PBLs also include two financing options:

5. **Contingent disaster financing (CDF).** A contingent financing option, which provides quick-disbursing and flexible financing for DMCs impacted by disasters triggered by natural hazards or health emergencies. Policy dialogue and reforms are completed before a natural hazard or a health emergency occurs, with disbursement made upon satisfaction of pre-agreed disbursement condition(s).
6. **Policy-based guarantee (PBG).** This is a credit enhancement product that supports countries' access to commercial financing markets by using a partial credit guarantee, anchored on a set of policy conditions, as a financial instrument for sovereign borrowing. It is backed by a sovereign counter-guarantee and indemnity.

WHAT IT PAYS FOR

Development expenditures through general budget support, balance of payments support, and fiscal stimulus

REQUIREMENTS

(i) Strong government ownership of the reform program and commitment to reform
(ii) Implementation of substantive policy reforms with sector- or economy-wide impacts
(iii) Fiduciary arrangements in place to ensure efficient utilization of overall resources through sound public financial management
(iv) Direction of macroeconomic conditions and policies deemed satisfactory
(v) Close coordination with the International Monetary Fund and other development partners

HOW IT IS PROVIDED

(i) Upfront loan or grant (except for PBG, which is a credit enhancement product)
(ii) For programmatic approach, a series of loans or grants

HOW IT IS DISBURSED

(i) Disbursement is conditional on completion of agreed policy actions (ex-ante/prior actions or ex-post conditions) depending on PBL type.
(ii) For CDF, conditions are designated as prior actions, but funding is available in the event of a disaster triggered by a natural hazard or a health emergency.

REFERENCE

- ADB. 2023. Policy-Based Lending. *Operations Manual.* OM D4.

SECTOR DEVELOPMENT PROGRAM

Sector development program. A combination of an investment loan and policy-based loan provides integrated solution to a country's sector needs. For example, a health services program may both support health policy reforms and provide rural healthcare infrastructure.

PURPOSE

The sector development program (SDP) finances a government's reform program within a sector, as well as a specific investment project linked to the sector and program. It does this by combining investment lending (project, sector, or financial intermediary loan) with PBL. SDP fosters an integrated approach to a sector need and enhances ADB's leverage for promoting policy and institutional reforms.

KEY FEATURES

The investment and PBL components of the SDP complement each other: investments facilitate reforms in the short term, while reforms maximize the benefits of the project investment in the medium to long term.

SDPs are appropriate when:

(i) the sector requires substantial investment lending as well as substantive policy and/or institutional reform, where the former cannot be fully accomplished without the support of a policy-based lending component;
(ii) the government is committed to sector reform and has implementation experience;
(iii) ADB is already engaged and has expertise in the sector;
(iv) investment lending component has high project readiness; and
(v) the PBL component adds a clear benefit, such as helping address a development financing need, supporting the achievement of difficult and complex reforms, or ensuring that an adequate policy and institutional framework is in place for effective implementation of the investment project.

SDP is less appropriate when:
(i) the borrower lacks PBL knowledge and experience,
(ii) the link between PBL and the investment loan is weak, and
(iii) analytical and preparatory work is lacking.

WHAT IT PAYS FOR

The PBL component pays for development expenditures through general budget support, balance of payments support, and fiscal stimulus. The investment component pays for project expenditures (goods, works, and services) that support the delivery of project outputs or cost of subloans onlent by financial intermediaries..

REQUIREMENTS

The policy requirements for both investment and policy-based lending apply to SDPs.

HOW IT IS PROVIDED

It is provided as two loans and/or grants: one policy-based and one investment loan.

HOW IT IS DISBURSED

The PBL component is disbursed in one or more tranches against the completion of agreed conditions, while the investment component is disbursed in amounts requested to cover project expenditures.

REFERENCE

ADB. 2023. Sector Development Programs. *Operations Manual.* OM D5.

RESULTS-BASED LENDING

Results-based lending. Since it focuses on project outcomes rather than expenses, funds are disbursed when agreed program results are achieved.

PURPOSE

Results-based lending (RBL) supports the delivery of results in a government program while using and improving the program's institutions and systems to achieve these results. It aims to enhance the accountability, efficiency, and effectiveness of government-owned programs.

KEY FEATURES

RBL is particularly useful for orienting the efforts by various government agencies toward a common set of results. It also provides a good platform for development partners to pool resources and share the same set of targets, thus coordinating their development assistance.

RBL is appropriate when:

(i) a development challenge needs a systems approach;
(ii) there is strong government interest and ownership;
(iii) the government program to be financed is well-defined;
(iv) there are opportunities for knowledge and learning, as well as for leveraging ADB financing to expand impact; and
(v) operations involve a large number of small contracts, where the transaction costs would be very high if financed through an investment loan.

RBL excludes:

(i) environmental category A projects and activities likely to have significant adverse impacts that are sensitive, diverse, or unprecedented on environment or affected people; and
(ii) high-value contracts ($50 million for works, turnkey and supply and installation contracts; $30 million for goods; $20 million for IT systems and nonconsulting services; and $15 million for consulting services).

WHAT IT PAYS FOR

Achievement of results under a specific government program with a clear program expenditure framework. RBL may support the whole, part, or a time slice of a government-owned program, which could be ongoing or new, national or subnational, and multisector or subsector in scope. ADB financing for RBL is capped at 10% of total Asian Development Fund (ADF) and ordinary capital resources on a 3-year rolling average.

REQUIREMENTS

While RBL uses government program systems and procedures, and seeks to enhance them where necessary, the program systems need to be consistent with ADB policy objectives and principles. As RBL relies on country systems for financial management, procurement, safeguards, and monitoring and evaluation, ADB will carry out rigorous capacity and risk-assessment during due diligence.

HOW IT IS PROVIDED

RBL is provided in the form of a loan and/or grant to a government program's expenditure framework.

HOW IT IS DISBURSED

Financing is disbursed when agreed and verified program results are achieved. For example, while an investment loan may finance civil works for school construction, an RBL will disburse financing based on successful achievement of specified exam pass rates.

Program results are measured in terms of disbursement-linked indicators. An independent entity verifies whether the disbursement-linked indicators were met. Disbursement can be proportional to the results achieved.

REFERENCES

- ADB. 2019. *Mainstreaming the Results-Based Lending for Programs.*
- ADB. 2021. Results-Based Lending for Programs. *Operations Manual.* OM D18.

PROJECT READINESS FINANCING

Project readiness financing. This supports activities expected to generate at least one ADB-financed project, and increase implementation readiness and the likelihood of achieving the intended project outcomes.

PURPOSE

Project readiness financing (PRF) supports activities expected to generate one or more ensuing ADB-financed project(s). It supports project preparation and project readiness activities like pre-implementation capacity building. It can also be used for pipeline development.

KEY FEATURES

PRF is a fast, simple, and responsive tool to ensure high project readiness and minimize startup delays during the initial phase of project implementation.

Eligible project preparation and design activities under a PRF include:

(i) upstream project pipeline development, sector studies, and investment plans;
(ii) feasibility studies and due diligence assessments;
(iii) safeguards preparation work;
(iv) surveys (e.g., topographic and geotechnical) that are needed to collect information for the preparation of detailed engineering designs, and related equipment costs;
(v) procurement capacity and risk assessments, and advanced procurement actions;
(vi) detailed engineering designs;
(vii) pilot-testing of project designs;
(viii) project pre-implementation capacity building; and
(ix) development of a specific public–private partnership under transaction advisory services.

PRF financing terms are standardized as follows:

(i) A 15-year amortization period, including a 3-year grace period for loans from ADB's ordinary capital resources (OCR), with no commitment charge.
(ii) For eligible countries, standard concessional OCR loan (COL) or ADF grant terms, whichever applies.

PRF may be refinanced by an ensuing loan to the same borrower or surplus loan proceeds from an ongoing ADB loan, to the same borrower.

WHAT IT PAYS FOR

Consulting services for project preparation such as detailed engineering design, capacity building, limited project startup support, and pilot-testing of project designs—including cost of pilot-related equipment and works.

REQUIREMENTS

PRF financing is limited to project preparation and design activities for follow-on investment projects expected to be financed by ADB.

HOW IT IS PROVIDED

PRF is provided as a loan and/or grant.

HOW IT IS DISBURSED

Financing is disbursed in amounts requested to cover PRF expenditures.

REFERENCES

- ADB. 2018. *Proposal for ADB's New Products and Modalities: Policy Paper.*
- ADB. 2023. Project Readiness Financing. *Operations Manual.* OM D16.

SMALL EXPENDITURE FINANCING FACILITY

Small expenditure financing facility. This funds low-cost, low-risk activities linked to ADB-funded projects to improve their preparation, implementation, or sustainability.

PURPOSE

Small expenditure financing facility (SEFF) provides quick and responsive support to DMCs' small financing needs that are linked to ADB-financed projects. The total estimated contract value of each activity should not exceed $15 million.

KEY FEATURES

Once the SEFF has been established, individual activities are processed as and when needed up to the maximum approved facility amount. The SEFF's availability period is 5 years with a possible extension of another 5 years subject to ADB Board approval.

The SEFF typically supports low-risk activities across the project cycle—covering preparation, implementation, pilot-testing, and even post completion activities including operations and maintenance, rehabilitation, and post-disaster early recovery.

When funded by ADB's regular OCR, the following financing terms apply:

(i) Each activity will have a 5-year tenor from the commitment of each subloan with a bullet repayment.
(ii) Each activity will charge interest based on that for a regular OCR loan less 20 basis points for a shorter tenor.
(iii) No commitment fee applies, but there is a front-end fee of 15 basis points on the facility amount.
(iv) When SEFF activity is funded by regular OCR or COL, it can be refinanced by an ensuing loan to the same borrower or surplus loan proceeds from an ongoing loan to the same borrower.

Standard financing terms will apply to activities funded by COL or ADF.

WHAT IT PAYS FOR

Consulting services, goods, and civil works

REQUIREMENTS

(i) Loans for activities under SEFF must be linked to one or more ADB-financed projects.
(ii) SEFF size is agreed with the borrower, subject to general ceilings and the estimated financing needs.
(iii) A DMC can establish multiple SEFFs, and the following ceilings apply to the sum of all facilities in the country.
  - For SEFF funded with regular OCR, the size should not exceed 20% of the average annual commitments of regular OCR for the country in the past 3 years, or $150 million, whichever is smaller.
  - The size of SEFFs funded with COL or ADF should not exceed 20% of the annual performance-based allocation of COL or ADF for the country.
  - To ensure a reasonable facility size in small DMCs with small resource allocations, SEFF of up to $10 million can be established, in cases where 20% of the annual average commitments of regular OCR resources, or 20% of the average annual performance-based allocation is less than $10 million.

(iv) Maximum amount per activity under SEFF is $15 million.

HOW IT IS PROVIDED

SEFF is provided as a series of activity loans or grants committed within the SEFF availability period and resource envelope.

HOW IT IS DISBURSED

It is disbursed in amounts requested to cover eligible expenditures within the agreed facility amount. SEFF can be revolving (except when funded by ADF grants), allowing the borrower to request new fund commitments for activities within the SEFF size.

REFERENCES

- ADB. 2018. *Proposal for ADB's New Products and Modalities: Policy Paper.*
- ADB. 2019. Small Expenditure Financing Facility. *Operations Manual.* OM D17.

TECHNICAL ASSISTANCE

Technical assistance. ADB provides technical assistance, mostly as grants, to countries so they could increase their capacity to make better use of development resources.

PURPOSE

Technical assistance (TA) helps address DMCs' development challenges and find solutions to development problems—particularly by improving DMCs' capacities and enabling them to make better use of their development resources.

KEY FEATURES

Under its sovereign operations, ADB provides TA to the government of a DMC or its agency, institution or subdivision, or another entity at the government's request. In terms of coverage, TA may either be DMC-specific or regional (provided to two or more DMCs).

TA can be used to finance expert services needed for:

(i) upstream capacity development;
(ii) policy advice;
(iii) research and development;
(iv) project preparation for one or more ensuing project(s), which ADB intends to finance;
(v) development of one or more specific public–private partnership project(s), including under transaction advisory services; and
(vi) project implementation support.

WHAT IT PAYS FOR

Consulting services and related support costs and limited pilot-testing activities

REQUIREMENTS

(i) DMC should generally request for TA, or TA should be aligned with government priorities.
(ii) DMC provides counterpart support, which can be cash and/or in-kind contribution, as part of the total TA cost. Cost sharing is not required for regional TA but may apply as needed.
(iii) ADB, in consultation with the DMC, prepares TA paper covering among others the rationale, proposed results, value addition, implementation arrangements, cost estimates and financing sources.
(iv) TA agreement, TA letter between ADB and the DMC are signed to ensure that the DMC does not object to ADB financing the TA (except when the TA does not involve any activity in the territory of the DMC).

HOW IT IS PROVIDED

TA is generally provided as a grant, but may also be provided on reimbursable basis.

HOW IT IS DISBURSED

It is disbursed in amounts requested to cover eligible TA expenditures.

REFERENCE

ADB. 2022. Technical Assistance. *Operations Manual.* OM D12.

Sovereign Lending and Grant Modalities

Quick Guide

The Asian Development Bank (ADB) helps its developing member countries achieve economic growth, reduce poverty, and address development challenges through its various financing instruments, including loans, grants, and technical assistance. This quick guide covers brief information on different lending and grant modalities available to ADB's developing member countries, and describes its purpose, key features, financing, disbursement, and implementation arrangements so clients can explore suitable options for their development needs. This publication serves as a learning tool and is not a substitute for ADB-approved policies and procedures.

About the Asian Development Bank

ADB is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. Established in 1966, it is owned by 69 members —49 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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