

RSCG is the Capacity Development and Governance Division of the, Regional and Sustainable Development Department (RSDD). Its mission is to support practitioners in the operations departments to carry out comprehensive “due diligence” as a part of pre-project activities.

ADB’s Charter places a clear fiduciary responsibility upon the Bank to ensure that:

- projects are financially viable and sustainable;
- that funds are used for the intended purpose; and
- that the borrower has the capacity to fulfill the obligations under the loan agreements.

It does this by undertaking a financial due diligence review of the proposed project. The RSDD’s mission is to promote quality, provide knowledge support, and offer innovation services.

RSCG provides support, guidance, and training on financial management and analysis, governance, and capacity development issues. [read more](#)

What is financial due diligence?

Due Diligence, in its most basic form, refers to the care (or diligence) exercised by a reasonable person in the conduct of day to day activity in order to avoid harm to other persons or their property. More commonly one hears the term “Financial due diligence” which describes the research and analysis of a company or organization which is done in preparation for a business transaction. Typically, this could be a takeover or merger or, from ADB’s perspective, the providing of a loan, grant, and guarantee. ADB performs financial due diligence reviews to ensure that the proposed lending is compliant with its fiduciary obligations under the Charter.

In practice this entails undertaking an assessment of the organization’s or the company’s financial management capacity. Often, again from the ADB perspective it also involves financial and economic analysis of the way the loan monies will be spent to ascertain the cost and benefits of the proposed expenditure in order to establish if the project makes sound financial and economic sense.

What is the difference between financial management assessment and financial analysis?

A **Financial Management Assessment (FMA)** is the process of assessing the capacity of the executing agency (EA) (i.e. the organization which receives the loan) to manage its financial resources. The FMA is focused on ensuring that proper systems are place to manage and account for financial transactions and that the company or organization is being run on a sound basis which will ensure long term sustainability. Even where a project is seen to be financially viable it would not get the “go ahead” if the FMA finds that the EA does not have sufficient financial management capability.

Financial Analysis is the process of assessing whether or not the financial benefits associated with the proposed loan expenditure (i.e., the project) will exceed the financial costs. In ADB, this means comparing the Financial Internal Rate of Return (FIRR) to the Weighted Average Cost of Capital. (WACC) This analysis, completed for each individual project assesses, therefore, the financial viability of a particular investment.

What is a financial sustainability assessment?

Long term annual financial projections showing the forecast financial position of the EA are used as the basis for assessing financial sustainability for all “revenue generating projects”. These projections are typically generated from a financial model which is built specifically to develop the long term impact of alternative assumptions.

This type of financial projections is not required for “nonrevenue generating projects”. Instead, it is important to analyze the likely incremental annual recurrent costs associated with the project. Incremental recurrent costs are those additional costs that the EA will incur in order to cover financing costs and to continue to maintain project investment assets or continue to offer the programs being developed. Once the annual projected recurrent costs have been calculated, it is then important to assess sustainability by ascertaining whether the EA has the capacity to cover these costs.

What are ADB Audit Requirements?

Independently audited financial statements are required at the entity level, generally, and at the project level. ADB requires audited financial statements within six months of fiscal year end. The fact that independent audits will be conducted sends a message that ADB will be monitoring the financial performance of its projects. [OM J7, PAI 5.09](#)

How is a Multi-tranche Financing Facility (MFF) project processed?

The steps involved in processing an MFF are largely similar to those of existing sector and project loan modalities. (Ref: IEI Pilot Financing Instruments Modalities Appendix 4, C-12). Cost Estimates are prepared for the 1st tranche. Each tranche may have different financial terms and currency denominations. Commitment fees are applied on committed amounts rather than on the total value available under the facility.

What’s New?

A Brown bag get together of the FM COP is planned for the last week of September 2008.

Main items on the Agenda will be
 launch of new products
 getting feedback from members on current issues and needs

New products include:

[Revised Financial Due Diligence Methodology](#) - updated to cover all recent changes in ADB policies and procedures.

[A Reference Matrix](#) - has been developed to provide practitioners with a clear, and practical set of reference points to practitioners with the *Preparation and Presentation of Cost Estimates and Financing Plan*. A copy is now available in the [stand-alone tools](#) of the Financial Management webpage.

[New Costab 32](#) is now ready for deployment. The new version includes the changes in the cost table format brought about by the changes in ADB policies. Please contact the OIST helpdesk 5555 for assistance in the installation.