

2 THE ASIAN DEVELOPMENT BANK

Introduction

- 2.1 The Asian Development Bank (ADB) is a multilateral development finance institution founded in 1966 to promote social and economic progress in its developing member countries (DMCs) in the Asian and Pacific region. As of the second quarter of 2006, ADB has 66 member countries (*see Appendix 1*).
- 2.2 ADB's principal functions are
- lending funds;
 - providing grants;
 - providing technical assistance and advisory services;
 - promoting investments for development purposes; and
 - assisting in coordinating DMCs' development policies and plans.
- 2.3 Loan disbursement is handled by the Loan Administration Division (CTLA) of the Controller's Department (CTL).

For loan service payments and billing matters, inquiries are addressed to Loan Accounting Section (CTLA-LA).

ADB Operations

- 2.4 ADB's operations consist of ordinary and special operations:
- Ordinary operations are financed from ADB's ordinary capital resources (OCR) which comprise paid-in capital from its members, accumulated reserves, and borrowings from the open market.
 - Special operations financed from special funds resources (SFR) include the
 - Asian Development Fund (ADF) to lend to poorer DMCs on concessional terms or to provide grants to poorer DMCs for projects and programs of high development priority;
 - Technical Assistance Special Fund (TASF) to finance technical assistance;

- Asian Tsunami Fund (ATF) to provide grants to DMCs affected by the 26 December 2004 tsunami for investment projects to support reconstruction, rehabilitation, and associated development activities;
- Pakistan Earthquake Fund (PEF) to provide grants to Pakistan for investment projects to support immediate reconstruction, urgent rehabilitation, and associated development activities;
- Japan Special Fund (JSF) to finance technical assistance, including Asian Currency Crises Support Facility and ADB Institute Special Fund; and
- Trust Funds managed and administered by ADB.

The details on OCR and ADF products and procedures are provided in Appendixes 2 and 3, respectively. Also see www.adb.org/Finance/default.asp for recent updates in ADB's products.

Lending Criteria

- 2.5 Lending criteria depend on the type of resource that is likely to be used. A DMC's eligibility for concessional funds (e.g., ADF resources) is determined primarily by the economic circumstances prevailing in the country, as indicated by per capita gross national product (GNP) and debt repayment capacity. Special consideration is given to certain Pacific Island DMCs in determining eligibility for ADF resources.

Relending Policy

- 2.6 Relending is necessary when the borrower is not the direct beneficiary of the ADB loan. Relending terms depend on the nature of the beneficiary, as follows:

| Beneficiary | Relending Terms |
|--|---|
| Government agency | Similar to terms of ADB loans |
| Commercially operated public corporation | Stricter terms |
| Private enterprise | Based on the cost of external capital and the prevailing borrowing terms in the local market, as reflected in the DMC's interest rate structure |

The Project Cycle

- 2.7 **Project Identification** - A project is normally identified during periodic consultations with DMCs. Before project identification, a study is made of the country's economic situation and its plans and priorities during ADB's country programming mission.
- 2.8 **Project Preparation** - A fact-finding mission obtains detailed information on all aspects of the proposed project to justify proceeding to the next stage.
- 2.9 **Project Appraisal** - All aspects of the project proposal and the sector or subsector to which it relates are reviewed and analyzed.
- 2.10 **Loan Negotiation and Approval** - After ADB has determined that the project is suitable for ADB's financing, formal loan negotiations take place. When negotiation is successfully completed, the proposal is submitted to ADB's Board of Directors. Upon approval of the proposal, a loan agreement is signed by ADB's President and the borrower's authorized representative.
- 2.11 **Project Implementation** - Normally, 90 days is allowed for the loan to become effective. However, the project preparatory works (which include selecting and recruiting consultants, preparing detailed designs, preparing tender documents, inviting bids, evaluating bids, awarding the contract, and procuring equipment) may take some time to accomplish. In certain cases, ADB may approve the borrower's request to undertake advance procurement action during the appraisal stage of the project to expedite project implementation. Unless retroactive financing has been approved, ADB will not finance any expenditure incurred prior to the loan effective date even if advance procurement has already been approved. ADB may finance any expenditure incurred prior to loan effective date but not earlier than 12 months before the signing of the loan agreement. Period longer than 12 months may be allowed if justified (*see paragraph 3.6 for more details*).
- 2.12 **Post evaluation** - A post evaluation mission is fielded for selected projects at an appropriate interval after the project completion report (PCR) is prepared. The mission reviews the preparation, design, appraisal, and implementation aspects of the project; the cost and benefits; and the outcome of the project in relation to its initial objectives. The mission also identifies lessons learned from the project. The mission's findings, together with the PCR, form the basis of the project performance evaluation report (PPER).

Types of Loans

- 2.13 **Project Loan** - A project loan finances specific projects and has been the most important vehicle for transferring ADB's resources to its DMCs.
- 2.14 **Sector Loan** - A sector loan finances a large number of subprojects in a single sector or subsector in a DMC.

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- 2.15 **Program Loan** - A program loan in the public sector supports sector development programs over the medium term (3–5 years), contributing to faster economic development of the DMC.
- 2.16 **DFI Loan** - In a DFI loan, the ADB lends directly or through the borrower to an autonomous financial intermediary who then onlends the loan proceeds to the final beneficiaries as subloans.

Cofinancing

- 2.17 **Cofinancing** refers to any arrangement where ADB's funds and funds provided by other sources outside the borrowing country finance a particular project or program. This generally applies when ADB provides its own resources for project financing while also arranging for the participation of other financing institutions (*see chapter 12 for more details*).

Private Sector Operations

- 2.18 ADB's private sector operations provide direct assistance to private enterprises and financial institutions by way of direct financing and/or risk mitigation, in most cases without government guarantee (*see chapter 13 for more details*).