

11 DFI LOAN, PROGRAM LOAN, AND DISASTER AND EMERGENCY ASSISTANCE LOAN

LOANS TO DEVELOPMENT FINANCE INSTITUTIONS (DFIs)

Description

- 11.1 A development finance institution (DFI) is an autonomous financial intermediary entity authorized by the borrower to receive loans either directly from ADB or through the borrower for passing on the loan amount to the final beneficiaries as subloans.
- 11.2 Loans to DFIs are re-lent by them to small- and medium-scale industries, enterprises, or individuals whose subprojects they appraise and supervise.

Ceiling/Free Limit

- 11.3 Depending on the capabilities of each DFI, ADB and the borrower normally agree to establish a monetary ceiling of subloan amount for which ADB's prior approval of subloans is not required. This ceiling is called the "free limit."

Disbursement Procedures

- 11.4 Procedures that do not require ADB's prior approval are normally used. For subloans below the free limit, ADB may authorize the DFI to use simultaneous application for SAW reimbursement procedure. Under this procedure, the DFI may apply for ADB's confirmation of the subloan approval and simultaneously request reimbursement of eligible expenditures already paid to sub-borrowers (*see paragraphs 9.27 to 9.30 and Appendix 28*).
- 11.5 For some qualified DFIs, ADB may agree to use the imprest fund and SOE procedures. The advance funding in these cases should not exceed 6 months' estimated expenditures for cash flow required for payments to be made to sub-borrowers or for related goods and services on known commitments. As for the SOE ceiling, the free limit may be considered as the standard ceiling for the nonsubmission of full supporting documentation.

PROGRAM LOANS

Purpose of the Program Loan

- 11.6 A program loan is provided by ADB to assist a DMC in developing a sector (or subsector, sectors) as a whole and improving the performance of a sector through appropriate policy and institutional improvements over the medium to long term.

- 11.7 Program loans are relatively quick disbursing to cover the immediate adjustment costs arising from policy reforms. ADB makes program loans only to DMC governments.

Loan Proceeds

- 11.8 A program loan is divided into tranches if major elements of the sector policy reforms are to be introduced after the loan agreement becomes effective. Tranching enables ADB to monitor and expedite phased program implementation. The program period and number of tranches are determined case by case. Untranching loans may be considered if the most important reforms can be implemented prior to effectiveness. A progress review is necessary prior to the release of the second or any subsequent tranche.

Disbursement Procedures

- 11.9 For program loans with a list of ineligible items of imports (negative list), the borrower is required to submit a certificate (*see Appendix 35*) in support of the withdrawal application. The certificate confirms that
- the value of a DMC's total net imports¹ for a certain period is equal to or greater than the amount of requested withdrawal; and
 - the requested withdrawal will be used to finance eligible items procured in accordance with the loan agreement provisions.
- 11.10 For program loans with a list of eligible items of imports (positive list), documentation for specific imports is required in support of withdrawal applications. SOE procedure can be used if approved by ADB.

Audit Arrangement

- 11.11 Under all program loans, an audit of program loan proceeds will be undertaken only upon ADB's request. ADB retains its rights to audit any accounts or to verify the validity of the certification issued by the borrower with each withdrawal application, following paragraph 11.8.

DISASTER AND EMERGENCY ASSISTANCE LOANS

Description

- 11.12 A disaster is a sudden, calamitous event that seriously disrupts the functioning of a community or society. Types of disaster include natural and non-natural disasters which include post-conflict situations. An emergency occurs after a disaster when unforeseen circumstances require immediate action and local capacity is insufficient to address and manage traumatic events.

¹ The total net imports are calculated based on the total imports less (a) imports from non-ADB member countries, (b) ineligible imports, and (c) imports funded by other official development assistance organizations.

Disaster and Emergency Assistance Policy

- 11.13 ADB approved in June 2004 the updated Disaster and Emergency Assistance policy.² The new policy shifts the emphasis from only responding after disaster strikes to also supporting activities that anticipate and mitigate the likely impact of disasters that might occur. The policy has provided the assistance instruments of: (i) portfolio restructuring and use of loan savings; (ii) Emergency Assistance Loans (EAL); (iii) normal development loans; and (iv) technical assistance for disaster and emergency.
- 11.14 The disaster management cycle is composed of four major components or phases: (i) development of prevention phase; (ii) disaster; (iii) emergency response or transition phase; and (iv) recovery.

Emergency Assistance Loans

- 11.15 The EAL emphasizes rapid approval of short-term and small loans to help rebuild high-priority physical assets and restore economic, social, and governance activities after emergencies.

Terms and Conditions

- 11.16 EAL should have a specified time frame for implementation and a completion period normally of up to 2 years for natural disaster and 3 years in post-conflict situation, exceptionally extended for, at most, 2 additional years when the destruction and dislocation are deemed extreme, taking into account the DMC's weakened absorptive capacity.
- 11.17 EALs will carry interest of 1% per year and a maturity of 40 years, including a grace period of 10 years, with repayment of principal at 2% a year for the first 10 years after the grace period and 4% a year thereafter. For OCR loans, in particular to DMCs in Group C, a grace period of up to 8 years and maturity of up to 32 years will apply. If the borrower's request is justified, total interest for the grace period and the front-end fee and commitment charge, if applicable, can be estimated and included in the loan amount. The estimated total interest for the entire grace period and the front-end fee and commitment charge, if applicable, can be allocated under the interest during construction category in the loan allocation. ADB financing may exceed the country's cost-sharing limit because of exceptional circumstances.

Disbursement

- 11.18 EALs may include quick-disbursing components; however, they are not program loans. Quick-disbursing components of an EAL should only be used to finance a list of imports identified as necessary for an effective recovery program. Disbursements should be allowable up to 100% of eligible project costs. Imprest accounts should be used wherever possible to

² R71-04, dated 6 May 2004.

expedite disbursements, and specific increase in ceilings on imprest funds should be allowed given that immediate and large disbursement are key to effective and timely emergency assistance. SOE procedure may also be used subject to the conditions for using the procedure.

Retroactive and Supplementary Financing

- 11.19 For immediate emergency responses, no more than 30% of loan proceeds should be used for retroactive financing of expenditures. Expenditures must have been incurred and paid for after the emergency occurred. In the case of reallocations of existing loans, expenditures will have to be incurred before the effective date of the reallocation for reimbursement by ADB. Supplementary financing may be required if ongoing ADB projects experience serious damage from a disaster. If several projects are affected, a new rehabilitation project could effectively handle damage to all such projects together with damage sustained elsewhere.