PROJECT READINESS FINANCING

A. Scope

1. The technical assistance loan is refined by incorporating streamlined features of the project design facility and renamed as the project readiness financing.

2. Project readiness financing, in the form of a loan,\(^1\) finances project preparation and design activities for investments that are expected to be financed under one or more ensuing ADB-financed projects. Eligible expenditures include:

   (i) Consulting services for project preparation, such as detailed engineering design, feasibility study, and capacity building for future projects, and limited project start-up activities; and

   (ii) Pilot testing of project designs, including the cost of equipment and works.

3. ADB may also consider project readiness financing for the preparation of a series of projects. The specific projects in such a series may be finalized after loan approval and do not need to be confined to a particular sector.

4. The following are not within the scope of project readiness financing and are processed as project loans in accordance with Operations Manual section D11 (Sovereign Operations): (i) stand-alone capacity building activities unrelated to the preparation of one or more ensuing ADB-financed projects; and (ii) project preparation for one or more ensuing projects that are not expected to be financed by ADB.

B. Financing Terms

5. Project readiness financing may be financed by regular ordinary capital resources (OCR), concessional ordinary capital resources (COL), Asian Development Fund (ADF) grants, or cofinancing sources. The financing terms for project readiness financing are standardized as follows:

   (i) a 15-year amortization period, including a 3-year grace period for regular OCR loans, with no commitment charge;

   (ii) standard COL terms for COL loans; and

   (iii) standard ADF grant terms for ADF grants.

6. A project readiness loan may be refinanced by (i) an ensuing ADB loan to the same borrower; or (ii) surplus loan proceeds from an ongoing ADB loan, to the same borrower, in lieu

---

\(^1\) The term 'loan' also includes Asian Development Fund grants, and ADB-administered grant cofinancing.
of loan cancellation. A project readiness loan may not be refinanced under an ensuing or ongoing project that is financed by an ADF grant.

C. Approval Authority and Board Reporting

7. Approval authority is differentiated by the total project readiness financing amount. The Board approves project readiness financing proposals with a value exceeding $15 million. If eligible, the no-objection procedure may be used for the proposal in accordance with Operations Manual section L4 (No-Objection Procedure). The President is authorized to approve small-scale project readiness financing proposals with a value not exceeding $15 million, under a total annual commitment authority not exceeding $100 million. The President has further delegated such approval authority to the relevant vice-presidents.

8. Management will inform the Board of approval of each small-scale project readiness financing proposal through circulation of an information paper, setting out a summary of such small-scale project readiness financing proposal following approval. Management will also provide the Board with an annual summary of the approved small-scale project readiness financing proposals, which may be consolidated with other operational statistics for reporting purposes.

D. Procedure

9. A change in a project readiness loan is considered major if the proposed change fundamentally alters the overall objective of such financing, otherwise the change is considered minor. Major changes to a project readiness loan are submitted to the Board for approval, generally on a no-objection basis, whereas minor changes to a project readiness loan are approved by the director general of the relevant regional department. Major changes to a small-scale project readiness loan are approved by the relevant vice-president, whereas minor changes to a small-scale project readiness loan are approved by the director of the relevant division.

10. Board approval is required to increase the project readiness loan amount in accordance with the Operations Manual section H5 (Additional Financing). However, as an exception to processing additional financing to increase the amount of a project readiness loan, one or more small-scale project readiness loans may be provided for the same project up to a maximum cumulative amount of $15 million.

Basis: This OM is based on: