These policies and procedures were prepared for use by ADB staff and are not necessarily a complete treatment of the subject. This Operations Manual is issued by the Strategy, Policy and Partnerships Department with the approval of the President, and is subject to compliance review. Questions may be directed to Director, Strategy, Policy and Business Process Division, Strategy, Policy, and Partnerships Department.

SMALL EXPENDITURE FINANCING FACILITY

A. Scope

1. The small expenditure financing facility (SEFF) assists ADB in responding quickly and responsively to the small financing needs of its developing member countries (DMCs). Once the facility has been established, the borrower can propose eligible Activities for financing under the facility, and ADB can fund them, as and when needed, through a simplified business process.

2. Each SEFF will have its own legal agreement, and a short-form agreement will cover each Activity under the SEFF.

B. Eligible Expenditures

3. Expenditures that are eligible for SEFF support are:

(i) Consulting services—to prepare or support the implementation of ADB-financed projects, such as a detailed engineering design, feasibility studies, safeguard assessments, capacity building, and surveys for an impact assessment;

(ii) non-consulting services, works, and goods—to support ADB-financed projects, such as pilot testing, rehabilitation, post-disaster early recovery, and operation and maintenance services; and

(iii) a total estimated contract value not exceeding $15 million per activity.¹

C. Facility Size and Structure

4. The size of each facility is agreed with the borrower, subject to the following general ceilings and the estimated financing needs. A DMC can establish multiple facilities, and these ceilings apply to the sum of all facilities in the country.

(i) For facilities funded with regular ordinary capital resources (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 value is smaller.

¹ An SEFF generally finances only consulting services and works and equipment that are unlikely to be categorized A for environmental impact, involuntary resettlement, or indigenous peoples, in line with ADB’s Safeguard Policy Statement (2009) and OM Section F1/OP. Should an activity under an SEFF have a category of A for environmental impact, involuntary resettlement, or indigenous peoples, Board approval is required for a major change in scope of the SEFF, and for such activity.
For facilities funded with concessional ordinary capital resources (COL) or the Asian Development Fund (ADF), the size should not exceed 20% of the average annual performance-based allocation (PBA) of COL—or ADF—for the country.

To ensure a reasonable facility size in small DMCs with small resource allocations, an 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 PBA, as per items (i) and (ii), is less than $10 million.

5. For DMCs with access to different financing sources, the facility size funded with each financing source will be subject to the ceilings in para. 4. For example, if a DMC has access to concessional OCR loans and ADF grants, the facility size funded with concessional OCR loans (or ADF grants) should be limited to 20% of PBA of concessional OCR loans (or ADF grants).

6. **Revolving facility.** When funded with regular OCR or COL, the SEFF, at the request of the borrower, may be a revolving facility. ADB may make new commitments as long as the total net commitments (i.e., total cumulative commitments minus total cumulative repayments) do not exceed the facility size. As the principals are repaid, more funds will become available for new commitments. When funded with ADF grants, the SEFF will be a facility without revolving funds.

D. **Financing Terms**

7. Standard financing terms will apply to activities funded by COL or ADF. When funded by regular OCR, the following financing terms apply:

   (i) **Tenor.** Each activity will have a 5-year tenor from the commitment of each subloan with a bullet repayment (i.e., all principals and interest of each activity will be repaid in the 5th year from the commitment of the activity).

   (ii) **Interest.** Each activity will have interest based on that for a regular OCR loan less 20 basis points for a shorter tenor.

   (iii) **Other charges.** No commitment fee applies, but a front-end fee of 15 basis points on the facility amount.

8. **Refinancing.** When an SEFF activity is funded by regular OCR or COL, it can be refinanced by (i) an ensuing loan to the same borrower or (ii) surplus loan proceeds from an ongoing loan to the same borrower.

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3 The contractual spread is 50 basis points, implying that the net contractual spread is 30 basis points.

4 The front-end fee is payable upon effectiveness of the facility and each subsequent rollover.

5 This requires a change in scope of the ongoing project. ADF funds may not be used for refinancing. Alternatively, the borrower may continue to make repayments in accordance with the repayment schedule in the activity subloan agreement.
E. Facility Availability Period

9. The SEFF has a fixed facility period of 5 years for a new commitment. At the end of the 5-year availability period, the SEFF can be rolled over for an additional term of 5 years subject to Board approval.

10. The facility size may be amended based on the annual commitment or PBA at the time of rollover.\(^6\)

F. Approval Authority and Board Reporting

11. The business process of an SEFF begins with the processing of the facility, including appraisal, Board approval, and a facility agreement with the borrower. The facility agreement specifies the facility's framework. Within the agreed framework, individual Activities will be identified and appraised through simplified business processes. ADB and the borrower will confirm the funding of Activities through a short-form agreement. Management will provide the Board with an annual summary of SEFF operational statistics.

Basis:


\(^6\) The spread may be updated when the SEFF is rolled over by using the effective spread at the time of rollover.