

## OPERATIONS MANUAL POLICIES AND PROCEDURES

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These policies and procedures were prepared for use by Asian Development Bank (ADB) staff and are not necessarily a complete treatment of the subject. This *Operations Manual* was prepared by the Economic Research and Development Impact Department (ERDI) and issued by the Strategy, Policy, and Partnerships Department with the approval of the President. Questions may be directed to the director, Economic Analysis and Operational Support Division of ERDI.

### ECONOMIC ANALYSIS OF PROJECTS

#### A. Scope

1. The Agreement Establishing the Asian Development Bank (the Charter) requires ADB to take measures necessary to ensure that the proceeds of any loan made, guaranteed, or participated in by ADB are used with due attention to considerations of economy and efficiency. It also requires that all decision making in ADB be based only on economic considerations.

#### B. Procedures

2. Before a loan<sup>1</sup> is granted, the Charter requires a written report regarding the proposal to be presented to the Board of Directors, together with the President's recommendations on the basis of a staff study (endnote i). Such staff study includes, amongst others, project justification based on economic analysis in a report and recommendation of the President (endnote ii).<sup>2</sup>

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#### Bases

- i ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila (Article 14 and Article 36.2).
- ii ADB. 1992. *Streamlining Board Document on Project Loan and Technical Assistance*. Manila (R212-92).

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<sup>1</sup> The terms "lending" and "loan(s)" include Asian Development Fund grants.

<sup>2</sup> The economic analysis is carried out generally to assess (i) the economic rationale for the project in terms of the market or nonmarket failures that are to be addressed; (ii) the economic viability of a project in the context of a country's development and macroeconomic conditions and the relevant sector's goals, performance, and development plan; (iii) the economic efficiency of all technically feasible alternative ways of achieving a project's objectives to identify the most efficient option as the preferred alternative; and (iv) the costs and benefits of the preferred alternative. Methodological details are provided in ADB. 2017. *Guidelines for the Economic Analysis of Projects*. Manila.