ADDITIONAL FINANCING

A. Introduction

1. The Asian Development Bank (ADB) may provide additional financing to an ongoing project. The objectives of additional financing are to enlarge the range of ADB's financing instruments, reduce incremental transaction costs, improve responsiveness and services to developing member countries (DMCs), and enhance development effectiveness.

B. Application

2. All forms of public and private sector projects can receive additional financing, e.g., stand-alone investment projects, project components of sector lending, investment components of sector development programs, equity investments, guarantees, multitranche financing facilities, disaster and emergency assistance, and technical assistance loans. Additional financing does not apply to program lending.

3. Additional financing may be provided either in the form of new financial assistance or by reallocating unutilized loan proceeds from ongoing loans,2 will require different types of due diligence depending on the nature of the project, and will have terms and conditions that are determined independently of those of the original loan. 3

C. Eligibility Criteria

4. ADB may provide additional financing beyond the amount specified in the original financial assistance agreement for investment operations. Additional financing will only support projects that remain technically feasible, economically viable, and financially sound; are accorded high priority by the government; are consistent with the project’s development objectives, and are consistent with the current country partnership strategy (CPS).

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2 ADB. 2003. Use of Surplus Loan Proceeds. Operations Manual. OM H6. Manila. Also see the relevant project administration instructions for guidance on procedures for reallocating surplus loan proceeds.
3 The terms “original loan”, “original project”, or “original operation” in this OM section, including both bank policies and operational procedures, refer to the original loan(s), grant(s), other financing sources, or the proceeding additional financing project(s).
4 This includes either the original objectives or revised objectives as part of operation restructuring to align with the current country partnership strategy; or to improve project design and implementation. A project’s development objectives are reflected in the project’s outcome statement.
5. The additional financing should be approved by the Board on or before the loan closing date of the original loan.

D. Scope

6. Additional financing can be used to (i) scale up projects that are performing well, (ii) finance changes in project scope, (iii) meet cost overruns and financing gaps, or (iv) finance a combination of these.

7. Scaling up projects that are performing well. Additional financing can be used to expand a project’s outcome or outputs.

8. Change in scope. Additional financing can be used to support changes in project scope that lead to financing requirements exceeding the original financial allocation. These can be divided broadly into two categories: (i) modification of projects that are performing well, and (ii) restructuring of projects that are not performing well.

9. Meeting cost overruns and financing gaps. Cost overruns refer to the project expenditures incurred or expected to be incurred by the borrower above the project's cost estimate as originally approved by the ADB Board of Directors. Financing gaps refer to the shortfalls or expected shortfalls caused by changes in financing arrangements between financiers.

E. Operational Restriction

10. Projects facing cost overruns and financing gaps that are provided with additional financing should be completed within three years of the current closing date of the original operation.

F. Priority for Additional Financing

11. In considering additional financing, ADB gives priority to projects that:
   (i) are performing well;
   (ii) have a high degree of project readiness in such areas as design, implementation capacity, and safeguards; or
   (iii) have innovative features in design and/or implementation.

G. Financing

12. The source of additional financing may include all financing sources of ADB, such as ordinary capital resources (OCR), Asian Development Fund (ADF) loans, ADF grants, other grants; ADB-administered cofinancing; and other sources. The specific source of additional financing depends on the eligibility status of the DMC concerned in accordance with the lending

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5 The term 'borrowers' in this OM refers to a generally term which also includes grant recipients.
arrangements prevailing when the additional financing is processed.\textsuperscript{6} If financed from OCR, the interest and commitment charge on an additional financing loan will be the same as those for a new OCR loan\textsuperscript{7} at the time of approval of the additional loan. Eligibility for additional financing from ADF grant resources is guided by the ADF grant framework, and the ADF additional financing loan will carry the standard interest charge.\textsuperscript{8} The pricing, e.g., a guarantee fee and interest rate, of guarantees and nonsovereign additional financing loans are determined according to established rules and procedures as applicable.\textsuperscript{9}

13. Additional financing may include interest and other charges on the financial assistance during construction\textsuperscript{10} where applicable, if ADB considers such financing appropriate.

H. Additional Financing and Change in Project Scope

14. Additional financing can be provided to support changes in project scope that lead to the financing requirement exceeding the original allocation. When additional financing is required to fund a change in project scope, the policy and procedures for additional financing must be followed, and not the project administration instructions on change in scope of loan and/or grant funded projects. Change in the scope and implementation arrangements that do not need additional financing will be processed in accordance with the applicable project administration instructions.

I. Compliance with ADB policies

15. Unless modified in this OM section and/or the related policy papers, the preparation, processing, and implementation of additional financing projects will be governed by the applicable ADB policies and operational procedures prevailing at that time.

Basis: This OM section is based on:


This OM section is to be read with OM Section H5/OP.

**Compliance:** This OM section is subject to compliance review.

**For inquiries:** Questions may be directed to the Director, Strategy, Policy and Interagency Relations Division, Strategy and Policy Department.
ADDITIONAL FINANCING

A. Introduction

1. This section describes the procedures for processing and implementing additional financing for Asian Development Bank (ADB) projects. Additional financing will follow a two-tracked business process: (i) a simple business process for projects that are performing well, and (ii) a strict business process for projects that are not performing well. The business process described in this section applies to sovereign operations. Additional financing for nonsovereign operations will be treated as new nonsovereign transactions, subject to the process described in the Operations Manual section D10.1

2. The additional financing procedures for sovereign operations are aligned with the business processes for sovereign operations. Future changes in the business processes for sovereign operations may necessitate adjustments to the additional financing business procedures.

B. Business Process for Projects Performing Well

1. Definition of Projects Performing Well

3. For the purposes of this OM section, a project is performing well if it meets the following standards:
   (i) **Delivery of expected outputs.** This will be measured against the output indicators set in the project’s design and monitoring framework (DMF). While the focus should be on outputs, discussing whether the project is on track to meet its outcome is encouraged, especially for projects that are at an advanced stage of implementation;
   (ii) **Satisfactory implementation progress.** The examination of the implementation progress will pay particular attention to the contract awards and disbursements. Cumulative contract awards and disbursements S-curves may be used to gauge the progress against the time passed;
   (iii) **Satisfactory compliance with safeguard policy requirements.** The project should comply with the applicable safeguards policy or policies in its design and implementation;
   (iv) **Successful management of risks.** The project should have managed or mitigated the risks identified during processing and implementation. As such, the successful implementation of the project is not threatened by major risks; and
   (v) **On track rating.** The project should be rated on track in the project performance rating (PPR).2

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2 The PPR rating system has been changed after the approval of the additional financing policy. The requirement in
4. While projects may experience problems, these should have been addressed and the project should be performing well for at least 12 months before the cross-departmental circulation of the report and recommendation of the President (RRP).

2. Scope of Application

5. A simple business process will be applied for scaling up, modifying, or meeting cost overruns and financing gaps; or a combination of these aspects for projects that are performing well.

   a. Scaling Up Projects That Are Performing Well

6. Scaling up of projects that are performing well may be needed, for example, to cover additional geographical areas, increase project beneficiaries, replicate outside the original locations, or meet greater than anticipated demand and absorptive capacity of existing beneficiaries.

   b. Modifying Operations That Are Performing Well

7. Additional financing can be used to support changes in project scope that lead to financing requirements exceeding the original financial allocation. Modification of a project that is performing well may be needed, for example, to accommodate changing circumstances, reflect project implementation conditions, incorporate experience gained and lessons learned, or respond to innovations. All changes in project scope should be consistent with government priorities, the development objectives\(^3\) of the project, and the country partnership strategy (CPS).

   c. Meeting Cost Overruns and Financing Gaps

8. The major reasons for cost overruns when a project’s scope and size are unchanged include the following:
   
   (i) specific input price increases or overall inflation,
   (ii) exchange rate fluctuations,
   (iii) increases in taxes and/or duties,
   (iv) underestimated costs, and
   (v) delays and other implementation issues.

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the additional financing policy is "a rating of highly satisfactory or satisfactory" in the PPR. The additional financing policy anticipated this change and provided scope to make the operations manual consistent with the revised project administration instructions (footnote 23, p.11). Information in the PPR should be kept up to date to enable timely assessments.

\(^3\) This includes either the original objectives or revised objectives as part of operation restructuring to align with the current country partnership strategy; or to improve project design and implementation. The same applies to other similar references of project objectives in this OM section. A project's development objectives are reflected in the project's outcome statement.
9. Other related reasons may include (i) unanticipated legal or regulatory changes that affect the development and operation of the project; (ii) changing risks and compliance requirements that may necessitate additional insurance or guarantees for the project; (iii) changing market conditions that lead to higher interest rates and volatility in other credit indexes, which increase the overall cost of the project during operation and construction (e.g., because of capitalization of interest); and (iv) force majeure, such as natural disasters, war, and strike.

10. Factors that are beyond the control of the project are designated as exogenous reasons. Factors that relate to underestimated costs, and delays and other implementation problems, are termed implementation issues. A combination of exogenous and design and implementation issues is considered as mixed reasons.

11. Financing gaps can be caused by changes in the contributions from the original financing parties, such as governments, sponsors, and cofinancers.

12. Regardless of the reasons for the financing gap, additional financing can be provided only to projects that remain technically feasible, economically viable, and financially sound, are accorded high priority by the government, and are consistent with the project’s development objectives and the current CPS.

13. When a project is performing well and cost overruns are caused by exogenous reasons, the project needs to demonstrate three things when applying for additional financing:
   (i) it is performing well based on the criteria described in paragraph 3;
   (ii) the reasons for cost overruns are beyond the control of the project; and
   (iii) these reasons were difficult to forecast during project preparation and why these were difficult to foresee.

14. When a project is performing well but cost overruns are caused by implementation issues or mixed reasons, the project needs to fulfill the following conditions when requesting additional financing:
   (i) the design and implementation problems have been fully and satisfactorily addressed; and
   (ii) the project is performing well based on the criteria described in paragraph 3 for at least 12 months before the cross-departmental review of the RRP for additional financing.

15. Additional financing can be provided using the procedures for operations that are performing well upon demonstration that these two conditions have been met.

16. Projects facing cost overruns and financing gaps that are provided with additional financing should be completed within three years of the current closing date of the original

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operation. This restriction applies to additional financing that is purely for meeting cost overruns and/or financing gaps.

d. Combination of Reasons

17. The simple business process will be applied to process additional financing projects to deal with a combination of the reasons for projects that are performing well. The combination of reasons includes scaling up, modification, and cost overruns or financing gaps.

3. Business Processes

a. Identification

18. The operations department will identify the need for additional financing for an ongoing project at the request of, or in consultation with, the DMC. The need may be identified at any point during project implementation, but should be as early as possible to facilitate planning. Midterm reviews provide a good opportunity to examine whether additional financing is needed. Additional financing should be integrated with the CPS and country operations business plan (COBP) to the extent possible. The inclusion in the COBP will demonstrate the government’s request for additional financing. Another alternative is for the government to use an aide memoire or memorandum of understanding to request additional financing. The government can also send a letter to the operations department requesting additional financing. The relevant director general is responsible for forming the project team and allocating its budget.

19. The project team carries out initial assessments of the suitability of the project for additional financing against the criteria set out in this Section B. These will include (i) the reasons for additional financing; (ii) the consistency between the additional financing and the project development objectives, government priorities, and the CPS; (iii) procedural or other time and cost savings compared to new projects; and (iv) the financial and economic justifications for the additional financing. The team also assesses the implications of the proposed changes for compliance with the applicable safeguard policies and/or procedures, and whether any impacts can be addressed within the ongoing or additional financing projects.

20. In cases of cost overruns and financing gaps, the team also assesses whether (i) the project can meet its development objectives without additional financing, (ii) possible risks have been addressed, and (iii) the project, if provided with additional financing, can be completed within 3 years of the current loan closing date.

21. The initial examinations will help to determine whether additional financing is a suitable instrument before significant resources are used to process the additional financing project.

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5 The results of a midterm review assessment of the likelihood of achieving the project’s outcome should be drawn on to support the application for additional financing.

b. Concept Clearance

22. For a project that is performing well, the inclusion of proposed additional financing in the COBP will serve as the concept clearance. The vice-president will approve a concept paper if the additional financing is not included in the COBP. Similarly, a concept paper is required if the additional financing requires project preparatory technical assistance. The concept paper

(i) summarizes the project’s implementation record and results,
(ii) identifies the reasons for the proposed additional financing project, and
(iii) describes the proposed additional financing project.

23. The concept paper requirement is described in the concept paper template under the streamlined business process.

24. The departmental meeting, and the cross-departmental review and sector-focused review of the concept paper are not mandatory. In all other respects, standard business procedures for concept clearance of stand-alone projects apply.

c. Project Preparation and Readiness

25. A reconnaissance mission may not be required as additional financing projects should be identified as a part of the project review and supervision processes. Fielding of a fact-finding mission is not required for projects that are performing well if the government has confirmed processing of the additional financing project. A fact-finding mission can be combined with a review mission to improve efficiency if such a mission is required.

26. The preparation of an additional financing project should take advantage of the established capacity and work done. It can use the original loans, grants, and/or cofinancing to finance feasibility studies, detailed designs, capacity expansion, safeguard requirements, consulting services, procurement, and/or other necessary aspects to achieve a high degree of project readiness.\(^7\) Necessary approval for the utilization of such finance for these activities should be obtained if they were not included in the original project.

27. Proposed additional financing projects with a high degree of project readiness in areas such as design, safeguards, implementation capacity, procurements, and consulting services will be given priority.

d. Due diligence

28. Due diligence for additional financing projects depends on the nature of the project and the purpose of the additional financing.

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29. **Scaling up and/or modifying projects that are performing well.** When additional financing is required to scale up or modify a project, due diligence will involve technical, economic, financial, governance, social and poverty, and safeguards aspects for the added or changed components. The due diligence should make use of the work done under the existing loans by retaining, revising, and updating the assessments, frameworks, plans, and so on as appropriate. Due diligence may also involve new assessments and related work, for example in cases where a project is extended or replicated beyond its original geographical areas. Safeguards due diligence requirements for project expansion and modification should be carried out in compliance with the ADB’s Safeguard Policy Statement (2009) and the related OM section.\(^8\)

30. **Cost overruns within the existing scale and scope.** When additional financing is provided to bridge cost overruns within the existing project scale and scope, only financial and economic analyses are required to confirm the project’s economic viability and financial sustainability.

31. **Financing gaps.** When additional financing is provided only to cover a shortfall resulting from a change in financing arrangements, only a financial analysis is needed to confirm the project’s financial sustainability in light of the changed terms and conditions of financing.

### e. Project Classification

32. **Scaling up and/or modifying projects that are performing well.** Sectors, thematic areas, and safeguards should generally be the same as those in the original loans, grants, or cofinancing. However, additional financing can refine these and differences may be introduced by changing, raising, or lowering the classifications. Additional financing should encourage innovations through its ability to change project scope and pilot innovative operations.

33. **Cost overruns and financing gaps without changing project scale or scope.** Sectors, thematic areas, and safeguards should be the same as those in the original loans, grants, or cofinancing.

### f. Documentation

34. The project team prepares a concise RRP for an additional financing project. The RRP should describe the performance of the project, including summarizing the project’s implementation results against expected project outputs—a discussion of whether the project is on track to meet its outcome is encouraged, especially for projects at an advanced stage of implementation;

(a) implementation progress, particularly cumulative contract awards and disbursements;

(b) safeguard compliance;

(c) management of risks; and

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(e) PPR rating;
(ii) identify the reasons for additional financing: a financing gap or cost overrun, scaling up, and/or changes in scope;
(iii) confirm that the eligibility criteria for additional financing by ADB have been met;
(iv) describe the suitability of using the additional financing modality;
(v) describe the changed, additional, or expanded outputs; summarize the expected outcome; and/or describe cost overruns and financing gaps; and describe implementation arrangements;
(vi) describe or update the cost estimates and financing plan;
(vii) specify the financial terms and conditions for the additional financing;
(viii) describe the due diligence;
(ix) summarize risks and mitigating measures; and
(x) update or develop the linked documents as appropriate.

35. Linked documents for additional financing projects depend on the nature of additional financing and modality of the project. The linked documents can be developed by retaining and updating the documents developed under the original or preceding additional financing projects, or developing new documents. For example, a new PAM does not have to be developed as the existing one can be updated. The RRP template reflects the RRP and linked document requirements for additional financing.

g. Review and Negotiation

36. As with new projects, the draft RRP for additional financing will undergo cross-departmental and sector-focused reviews. A staff review meeting chaired by the director general will be required for all additional financing projects. Other steps will be the same as those under the streamlined business processes.

37. Negotiations of the finance documents (e.g., the loan agreement, grant agreement, financing agreement, project agreement, guarantee agreement, and other documents, as applicable) may be undertaken through a formal meeting with the borrower or through electronic communication (e.g., videoconferencing, or transmitting signed and scanned documents via e-mail or facsimile machine). Other aspects of the negotiation will follow the streamlined business processes.

h. Approval

38. Additional financing projects will be submitted to the Board of Directors for approval following standard ADB rules and procedures. Proposals may be submitted for Board consideration under summary procedure if they meet the eligibility criteria.ō

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C. Business Process for Projects That Are Not Performing Well

1. Definition of Projects That Are Not Performing Well

A project that is not performing well is encountering one or more of the following problems:

(i) Expected outputs are not being delivered. This will be measured against the output indicators set out in the project’s DMF.

(ii) Implementation progress is unsatisfactory. For example, contract awards and disbursements are significantly behind schedule. Cumulative contract award and disbursement S-curves can be used to gauge whether the progress is satisfactory against the time passed.

(iii) Compliance with safeguard policy requirements is unsatisfactory. The project suffers from significant safeguard problems.

(iv) Management of risks is unsuccessful. Significant risks threaten the successful delivery of outputs and meeting timelines.

(v) The project is suffering from other significant implementation problems that are impeding the delivery of the required quality and/or quantity of outputs.

(vi) The PPR rated the project as having potential or actual problems.

2. Scope of Application

A strict business process will be applied to additional financing for projects that are not performing well. The major areas of application include restructuring projects that are not performing well, meeting cost overruns and financing gaps for projects that are not performing well, or a combination of these.

a. Restructuring Projects That Are Not Performing Well

Additional financing can support the restructuring of a project that is not performing well. The restructuring may entail a change in project scope and implementation arrangements to address the problems. Additional financing can be used to support changes that lead to financing requirements exceeding the original financial allocation. Project restructuring should be consistent with government priorities, the development objectives of the project, and the CPS.

b. Meeting Cost Overruns and Financing Gaps

Major reasons for cost overruns are described in paragraphs 8-10, and for financing gaps are reflected in paragraph 11 of this section of Operational Procedures. There is not a direct correlation between cost overruns and the performance of a project. A project may not be performing well even if the cost overruns are caused by exogenous reasons.

When a project faces cost overruns and financing gaps and is not performing well, ADB and the borrower evaluate options, including scaling down, full cancellation, or restructuring the project. Additional financing can be considered where the benefits of restructuring and
completing the project outweigh those of other options. For example, original investment could become a deadweight loss for lumpy investment if these remain uncompleted. Examples of incomplete lumpy investments include a missing roof of a school building, an incomplete bridge on a highway, and the last few miles of an uncompleted transmission or distribution network. The table below outlines the different business processes for projects incurring cost overruns.

### Business Processes for Additional Financing for Cost Overruns

<table>
<thead>
<tr>
<th>Project Performance</th>
<th>Exogenous Factors</th>
<th>Design and Implementation Issues</th>
<th>Mixed Reasons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performing well</td>
<td>Simple process</td>
<td>Simple process if the design and implementation problems were addressed at least 12 months before cross-departmental circulation of the RRP</td>
<td>Simple process if the design and implementation problems were addressed at least 12 months before cross-departmental circulation of the RRP</td>
</tr>
<tr>
<td>Not performing well</td>
<td>Strict process</td>
<td>Strict process</td>
<td>Strict process</td>
</tr>
</tbody>
</table>

RRP = report and recommendation of the President.

44. Projects facing cost overruns and financing gaps that are provided with additional financing should be completed within three years of the current closing date of the original operation. This restriction applies to additional financing that is purely for meeting cost overruns and/or financing gaps.

**c. Combination of Reasons**

45. Projects that are not performing well and require additional financing because of a combination of reasons will undergo a strict business process.

3. Business Processes

a. Identification

46. The operations department will identify the need for additional financing for an ongoing project that is not performing well at the request of, or in consultation with, the borrower. This process is similar to that described in section B. However, when considering additional financing for projects that are not performing well, the risks that have undermined project performance need to be addressed.

47. The project team makes initial assessments of the suitability of additional financing, including (i) the reasons for cost overruns and financing gaps; (ii) the reasons and scope for the
restructuring; (iii) the consistency between the additional financing project and the project’s objectives, the CPS, and government priorities; (iv) whether there are good financial and economic justifications for the additional financing; and (v) whether the proposed changes raise the safeguard categories and, if so, whether these can be addressed within the context of the ongoing or additional financing projects.

48. In cases of cost overruns and financing gaps, the team also assesses the ability of the project to meet the project’s objectives without additional financing, whether possible risks have been addressed, and whether the project can be completed within 3 years of the current loan closing date.

b. Concept Clearance

49. Based on available information and subject to due diligence, the purpose of the concept review for additional financing for a project that is not performing well is to ensure that the proposed additional financing is an optimal solution before significant resources have been assigned or expended. Staff will prepare a concept paper that will clearly indicate that this project is not performing well and describe the rationale for requesting additional financing. The concept paper will compare the options for implementing the project using the original financing, partial cancellation, full cancellation, and providing additional financing. The concept paper
   (i) summarizes the project’s implementation record and results;
   (ii) identifies the reasons for the proposed additional financing project;
   (iii) describes the proposed additional financing project;
   (iv) demonstrates that the project remains technically feasible, economically viable, and financially sound; is accorded high priority by the government; and is consistent with the project’s development objectives and the current CPS;
   (v) assesses whether the net benefits of providing additional financing to restructure and/or complete the project outweigh those of other options; and
   (vi) demonstrates that the risks that have contributed to the project’s poor performance have been addressed.

50. The concept paper template provides details on the concept paper requirements.

51. Except as expressly stated otherwise in this OM Section, the processing of additional financing for projects that are not performing well will be the same as for projects that are performing well.

52. The risk category will be either low risk or complex. In determining the risk category, particular attention will be paid to whether the problems that have undermined project implementation have been or will be eliminated or significantly reduced. The risk categorization covers the additional financing.

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c. Project Preparation and Project Readiness

53. A reconnaissance mission may not be required as the additional financing projects should be identified as a part of the project review and supervision processes. A fact-finding mission is required to prepare additional financing for a project that is not performing well. The fact-finding mission can be combined with a review mission to improve efficiency. The other aspects are the same as the process described in paragraphs 25-27.

d. Due Diligence

54. Due diligence requirements for additional financing for projects that are not performing well will be the same as those described in section B. However, due diligence for these projects will assess in particular whether the factors hindering project performance have been addressed and the risk for continued poor performance has been minimized.

e. Other Aspects

55. Project classification, documentation, review, negotiation, and approval will be the same as described in section B. The documentation requirement is reflected in the RRP template under the streamlined business processes.

D. Linking with Related Policies and Procedures

1. Links with Emergency Assistance

56. Additional financing and emergency assistance are linked in two ways. First, additional financing can be provided to ongoing emergency assistance projects. Processing in this case will follow the emergency assistance policy and procedures.11 Second, additional financing may also be provided to ongoing nonemergency projects as emergency assistance in the wake of an emergency. Two options are available in this latter case:

(i) Only the additional financing portion of the project will constitute the emergency assistance, and the ongoing project will remain as nonemergency assistance. The processing and the financing terms of the additional financing will follow the emergency assistance policy and procedures.12

(ii) In addition to providing the emergency additional financing through the ongoing nonemergency project, the ongoing original project will be fully or partially converted into emergency assistance. The approach on how to apply the

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12 The additional financing will also apply to emergency assistance projects funded by the Asia Pacific Disaster Response Fund. The procedures will follow the fund procedures. See ADB. 2009. Establishment of the Asia Pacific Disaster Response Fund. Manila; and ADB. 2009. Asia Pacific Disaster Response Fund. Implementation Guidelines. Manila.
financing terms on the undisbursed amount of the original loan will be determined in consultation with the Controller’s Department.\textsuperscript{13}

57. The due diligence required for providing the emergency assistance through linking additional financing with ongoing nonemergency assistance will focus on the suitability of using the ongoing project as an anchor for the emergency assistance, and the capacity of the project to deliver the emergency assistance. Other due diligence aspects, and an assessment of whether the project is performing well, are not mandatory.

58. The operations department will propose to the Board for consideration and approval the specific links between the emergency assistance and the ongoing project. The project documents will specify, and the Board will be asked to approve, the financing terms and conditions for the additional financing, as well as the part of the ongoing project that is to be converted into emergency assistance.

2. Additional Financing with ADB-Administered Cofinancing

59. ADB-administered cofinancing can be used as a source of additional financing. As the cofinancing for additional financing may be provided to a project that is new, the requirement that a project has a track record of good performance may not apply. Different processing steps and approving authorities will be applied to additional financing funded by ADB administered cofinancing depending on the relative sizes of the financing. Management may approve cofinancing up to an amount equal to 15\% of the original loan, grant, and/or ADB-administered cofinancing amount. The Board approves an amount exceeding 15\% of the original loan, grant, and/or ADB-administered cofinancing amount.

60. The steps for processing additional financing from ADB administered cofinancing exceeding 15\% of the total original loan, grant, and/or ADB-administered cofinancing amount are as follows:

(i) The operations department, in consultation with the Office of Cofinancing Operations, prepares a Board paper;
(ii) The operations department circulates the draft Board paper through cross-departmental and sector-focused reviews;
(iii) The director general of the operations department submits the revised Board paper to the vice-president;
(iv) The vice-president approves the paper and submits it to the President;
(v) The President submits the paper to the Board with the recommendation; and
(vi) The Board approves the paper on a no-objection basis.

61. The steps for processing additional financing from ADB administered cofinancing up to 15\% of the total original loan, grant, and/or ADB-administered cofinancing amount are as follows:

\textsuperscript{13} The disbursed amount will not be affected for the ongoing original project. Only the undisbursed amount can be converted into emergency assistance.
(i) The operations department, in consultation with the Office of Cofinancing Operations, prepares a memorandum;
(ii) The operations department circulates the memorandum through cross-departmental and sector-focused reviews;
(iii) The director general submits the revised memorandum to the vice-president;
(iv) The vice-president approves the memorandum and submits it to the President;
and
(v) The President approves the memorandum.

62. The Board paper or memorandum to the President will
   (i) describe the background of the project, including implementation status;
   (ii) describe the rationale for additional financing;
   (iii) describe the cofinancing modality, and specify the financial terms and conditions;
   (iv) describe the changed, additional, or expanded activities; summarize the expected outputs and outcome; and confirm their consistency with the project’s development objectives, government priorities, and the current CPS;
   (v) confirm that due diligence has been undertaken for the additional financing;
   (vi) revise the project’s cost estimates, financing plan, contract awards, and disbursement projection S-curves; and the procurement plan; and
   (vii) revise the DMF.

63. The revised cost estimate, financing plan, contract awards, and disbursement projection S-curves; procurement plan, as well as the DMF, can be appended to the Board paper or memorandum. The project team should also update the PAM, although this may not be required as a part of the submission to Management or the Board.

3. Changes in Scope

64. Additional financing can be used to support changes in project scope\textsuperscript{14} that lead to financing requirements exceeding the original financial allocation. When additional financing is combined with a change in project scope or implementation arrangements, the additional financing policy and procedures for additional financing must be followed, and not the project administration instructions on change in scope of loan and/or grant funded projects. Changes in scope and implementation arrangements within the existing financing amounts will follow relevant project administration instructions.

E. Multitranche Financing Facilities

65. Additional financing can be provided for multitranche financing facilities (MFFs). The need for additional financing for an MFF will arise when the funding requirements from ADB exceed the original allocation to the overall MFF. Board approval will be required for additional financing beyond the overall allocation of an MFF, following the process described in this OM section.

\textsuperscript{14} The additional financing policy distinguishes "scaling up" and "change in project scope," while both of these are referred to as change in project scope under the project administration instructions.
66. When additional funding is provided for individual tranches within the overall allocation of an MFF approved by the Board, a concept paper is not required and the approval process will depend on whether or not the additional financing will change the outcome and the target values of outcome indicators of the MFF.

   (i) If the additional financing for a tranche will not change the outcome and the target values of the outcome indicators of the MFF, the President will approve the additional financing for the tranche. The documentation needed is a memorandum rather than an RRP. However, the substance of the memorandum will be largely the same as for a regular additional financing project to reflect the due diligence and documentation requirements in this OM section.

   (ii) If the additional financing for the tranche will alter the outcome and the target values of outcome indicators of the MFF, Board approval is required and the process for additional financing with a change in project scope will be followed.

F. Financing Terms and Conditions

67. The terms and conditions of additional financing will be independent of those of the original loan(s). The repayment schedules of the additional financing loan(s) and the original loan(s) do not have to be synchronized. The borrower, in coordination with the ADB, will decide whether to synchronize the repayment schedules.

68. Retroactive financing may be included in the additional financing. Retroactive financing should comply with the time and amount limits specified in OM Section H4 on retroactive financing. The RRP for the additional financing project describes the project components and financing ceilings being recommended for retroactive financing. Using retroactive financing is encouraged to improve project readiness.

G. Implementation

69. Implementation of additional financing projects will use existing, updated, and/or changed procurement, consulting services, disbursement, safeguards, and other implementation arrangements, as appropriate, to promote economy, efficiency, and client responsiveness. For example, depending on the specifics of the project and the capacity of the administrator of the imprest account, it may be possible for the additional financing to use the same imprest account when the source of financing is the same as the original financing, if this helps to reduce transaction costs. Similarly, procurement and consulting services contracts may be varied and/or extended following applicable project administration instructions, if appropriate, to accommodate supply, construction, or consulting activities under additional financing projects if such an approach increases economy and efficiency. The closing dates for the original and additional financing projects may be synchronized if this helps improve efficiency. Upon completion of the project, a single project completion report will be prepared, covering the original and additional financing parts of the project. For additional financing, a new loan number should be assigned to the additional financing, unless the funding source and terms of the additional financing are the same as the original financing.
70. Efficient processing and implementation of additional financing also requires the simplification of the borrowers’ processing procedures and harmonization with ADB. The project team should explore the scope for such simplification and harmonization in consultation with the borrowers.

H. Effectiveness

71. On 15 December 2010, the Board of Directors approved the paper Additional Financing: Enhancing Development Effectiveness,\(^\text{15}\) which will supersede the 2005 Review of the Policy on Supplementary Financing: Addressing Challenges and Broader Needs. The additional financing policy becomes effective on 15 February 2011. Projects that have completed the Management Review Meeting or Staff Review Meeting at the time of the effective date will be subject to the application of ADB’s 2005 supplementary financing policy.

72. This OM section is effective immediately upon the effectiveness of the additional financing policy. All additional financing projects that begin processing after the issuance of this OM section shall comply with this OM section.

Basis: This OM section is based on OM Section H5/BP and the documents cited therein.

Compliance: This OM section is subject to compliance review.

For inquiries: Questions may be directed to the Director, Strategy, Policy and Interagency Relations Division, Strategy and Policy Department.

24 February 2011

Prepared by the Strategy and Policy Department and the Office of the General Counsel and issued by the Strategy and Policy Department with the approval of the President.

This supersedes OM Section H5/OP issued on 26 March 2009.