

OPERATIONS MANUAL POLICIES AND PROCEDURES

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

ADDITIONAL FINANCING

A. Scope

1. The Additional Financing policy (endnote i) applies to any financing instrument or modality¹ provided from Asian Development Bank (ADB) or ADB-administered resources to an ongoing project.² Additional financing does not apply to policy-based lending.

2. Additional financing should be used to enhance development results and encourage innovations through its ability to change the project scope and pilot-test innovative operations. Additional financing may be provided to finance

- (i) changes in the scope of an ongoing project (for scaling up a well-performing ongoing project³ and/or restructuring an ongoing project);
- (ii) cost overruns, which may be caused by exogenous factors⁴ or design and implementation problems;⁵ and/or
- (iii) financing gaps, which may be caused by changes in the financing contributions from the original financing parties (e.g., governments, sponsors, and cofinanciers).

3. Following an emergency, additional financing may support an ongoing emergency assistance project or a nonemergency project. For nonemergency projects, either (i) only the additional financing will be considered emergency assistance or (ii) part or all of the ongoing project will be converted to emergency assistance along with providing emergency additional financing.

B. Eligibility Criteria

4. Additional financing may only support ongoing projects that
- (i) remain technically feasible, economically viable, and financially sound;
 - (ii) are accorded high priority by the government;
 - (iii) are consistent with the project's development objectives; and
 - (iv) are consistent with the country partnership strategy.

¹ Including a loan, grant, equity, guarantees, and credit enhancement products.

² "Project" refers to any stand-alone investment project, sector loan, investment component of a sector development program, financial intermediation loan, equity investment, guarantee, multitranches financing facility, results-based lending for programs, emergency assistance loan, and project readiness financing. "Ongoing project" refers to such a project together with its past additional financing, if any.

³ "Scaling up" includes expanding the scope of a well-performing project.

⁴ Price increases of specific inputs or overall inflation, currency movements, or increases in taxes and/or duties.

⁵ Underestimation of cost, delays, or other implementation problems.

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C. Project Performance

5. The following criteria are used to determine whether an ongoing project is performing well:
- (i) the delivery of expected outputs,
 - (ii) satisfactory implementation progress,
 - (iii) satisfactory compliance with safeguard policy requirements,
 - (iv) successful management of risks, and
 - (v) an *on track* rating in the project performance rating system.
6. The relevant department evaluates the performance of an ongoing project and it will be reviewed during the quality assurance process. Any problems the ongoing project faces have to be addressed and the project has to be performing well for a reasonable period before additional financing is approved.

D. Business Processes and Restrictions

7. Additional financing for projects that are performing well uses a streamlined business process, provided that any cost overruns were caused by (i) exogenous factors beyond the control of the project that would have been difficult to predict during project preparation and/or (ii) design and implementation problems that have already been overcome with any related risks to project performance minimized.
8. If the additional financing (i) is for scaling up the scope of a well-performing project loan, sector loan, or financial intermediary loan; (ii) does not involve a *category A* safeguard classification; and (iii) does not exceed 100% of the project base cost or \$200 million, whichever value is smaller (endnote ii), a shortened Board paper will also be used.
9. Additional financing for cost overruns and financing gaps of a well-performing ongoing project should be completed within 3 years of the ongoing project's closing date.
10. Additional financing proposed to be fully sourced from ADB-administered cofinancing follows a more streamlined business process. If additional financing fully sourced from ADB-administered cofinancing is proposed to scale up an ongoing project that is still new, and such additional financing was not confirmed before approval by ADB's Board of Directors because of a mismatch in processing schedules between the cofinancier and ADB, the requirement for the ongoing project to be performing well may not apply. This generally occurs within a few months of ADB loan approval.
11. Additional financing for an ongoing project that is not performing well may only be provided when
- (i) the benefits of providing additional financing to complete or restructure a project facing cost overruns and/or financing gaps outweigh those offered by other options, such as scaling down or cancellation; and
 - (ii) the additional financing fully addresses the causes that undermine project performance, and the risk of committing more funds to a failing project has been minimized.

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12. Additional financing for an ongoing project that is not performing well is subject to the following operational restrictions:

- (i) additional financing may not be provided more than twice for the project;
- (ii) the aggregate amount of the additional financing may not exceed the amount of the original financing approved by ADB; and
- (iii) the additional financing should be completed within 3 years of the ongoing project's closing date.

E. Financing Sources

13. Additional financing may be provided from ADB's ordinary capital resources, Special Funds resources, and/or ADB-administered funds, including by reallocating surplus loan proceeds from another approved project.

F. Financing Terms and Repayment Schedule

14. The terms and conditions of additional financing are independent of those for the ongoing project. The repayment schedules of the loan(s) for additional financing and the original loan(s) may be synchronized upon the borrower's request.

G. Applicability of Other ADB Policies

15. Unless specified in this *Operations Manual* section and the related staff instruction, the preparation, processing, and implementation of additional financing are governed by other relevant ADB policies, including related *Operations Manuals* sections and staff instructions.

H. Due Diligence

16. Due diligence requirements vary depending on the purpose of the additional financing. Existing assessments, frameworks, plans, and implementation structure and capacity under the ongoing project may be retained, revised, or updated, as appropriate:

- (i) **Change in project scope (for scaling up and restructuring).** Due diligence is required on technical, economic, financial, procurement, safeguard, capacity, social, poverty, and gender equality aspects for the added and/or changed components.
- (ii) **Financing gaps.** A financial analysis is required to confirm the project's continuing financial sustainability and viability considering the changed terms and conditions.
- (iii) **Cost overruns within the existing scale and scope.** Financial and economic analyses are required to confirm the project's economic viability and financial sustainability, along with an analysis of the causes of the cost overruns.
- (iv) **Cost overruns and financing gaps with restructuring.** Due diligence described under both (i) and (iii) is required.
- (v) **Use of ongoing nonemergency projects in an emergency.** In addition to complying with the Disaster and Emergency Assistance Policy (2021) (endnote iii) and Emergency Assistance Loan Policy (endnote iv), due diligence is required on (a) the suitability of using a nonemergency project as an anchor for emergency

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additional financing and (b) the capacity of the ongoing project to deliver the emergency assistance.

I. Approval

17. Approval of additional financing for sovereign operations follows the *Operations Manual* section on sovereign and sovereign-guaranteed financing,⁶ except as provided in para. 18. Approval of additional financing for nonsovereign operations follows the requirements of the *Operations Manual* section on nonsovereign operations.⁷ Approval of additional financing for a multitranche financing facility follows the *Operations Manual* section on the multitranche financing facility.⁸

18. For additional financing provided through ADB-administered cofinancing, the President approves the administration of cofinancing unless Board consideration is required in accordance with the *Operations Manual* section on the no-objection procedure (endnote v).⁹

19. Because approval of additional financing for an ongoing emergency assistance project constitutes part of the overall emergency assistance, the emergency assistance policies and procedures are followed.

Bases

- i ADB. 2010. *Additional Financing: Enhancing Development Effectiveness*. Manila (R255-10).
- ii ADB. 2018. *Proposal for ADB's New Products and Modalities*. Manila (R56-18).
- iii ADB. 2021. *Revised Disaster and Emergency Assistance Policy*. Manila (R95-21).
- iv ADB. 2021. *Revised Emergency Assistance Loan Policy*. Manila (R96-21).
- v ADB. 2015. *Enhancing Operational Efficiency of the Asian Development Bank*. Manila (R167-15).

Other background information and references

ADB. 1973. *Cost Overruns of Bank-financed Projects and Supplementary Loans*. Manila (R86-73).
ADB. 1983. *Review of the Bank's Policy on Supplementary Financing of Cost Overruns of Bank-financed Projects*. Manila (R115-83).
ADB. 1988. *Review of Policy on Supplementary Financing of Cost Overruns of Bank-financed Projects*. Manila (R17-88).
ADB. 2005. *A Review of the Policy on Supplementary Financing: Addressing Challenges and Broader Needs*. Manila (R303-05).

⁶ ADB. 2023. Sovereign and Sovereign-Guaranteed Financing. *Operations Manual*. OM D11. Manila.

⁷ ADB. 2016. Nonsovereign Operations. *Operations Manual*. OM D10. Manila.

⁸ ADB. 2023. Multitranche Financing Facility. *Operations Manual*. OM D14. Manila.

⁹ ADB. 2023. No-Objection Procedure. *Operations Manual*. OM L4. Manila.