ADDITIONAL FINANCING

A. Scope

1. Additional financing policy applies to any financing instrument or modality\(^1\) provided from Asian Development Bank (ADB) or ADB-administered resources to an ongoing investment project.\(^2\) Additional financing does not apply to policy-based lending.

2. Additional financing may be provided to finance
   (i) changes in the scope of an ongoing project (for scaling up and/or restructuring);
   (ii) cost overruns, which may be caused by exogenous factors\(^3\) or design and implementation problems;\(^4\) 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 ongoing emergency or nonemergency projects. In such cases, the additional financing either will be considered emergency assistance or the ongoing project will be converted into emergency assistance in addition to providing emergency additional financing.

B. Eligibility Criteria

4. Additional financing may only support 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 (CPS).

C. Project Performance

5. The following measures will be used to determine whether an ongoing project is performing well:
   (i) the delivery of expected outputs,

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\(^1\) Including a loan, grant, equity, guarantees, and credit enhancement products.

\(^2\) “Project” refers to any stand-alone investment projects, sector loans, investment components of sector development programs, financial intermediation, equity investments, guarantees, multitranche financing facilities, disaster and emergency assistance, and technical assistance loans. “Ongoing project” refers to such project together with its past additional financing (if any).

\(^3\) Price increases of specific inputs or overall inflation, currency movements, or increases in taxes and/or duties.

\(^4\) Underestimation of cost, delays, or other implementation problems.
(ii) satisfactory implementation progress,
(iii) satisfactory compliance with safeguard policy requirements,
(iv) successful management of risks, and
(v) a rating of *highly satisfactory or satisfactory* in the project performance ratings.5

6. The performance of an ongoing project will be evaluated by the relevant operations department and interdepartmentally reviewed. Any problems being faced by the ongoing project will have been addressed and such project will have been performing well for a reasonable period of time before the approval of additional financing.

D. Operational Priorities and Restrictions

7. Priority will be given to projects that meet project readiness criteria, including the preparation of feasibility and detailed engineering designs. Additional financing should be used to enhance development results and encourage innovations through its ability to change the project scope and pilot innovative operations.

8. Additional financing to projects that are performing well will use a more streamlined business process.

9. Additional financing provided for cost overruns and financing gaps in well-performing projects should be completed within 3 years of the ongoing project’s closing date.

10. Additional financing to projects that are not performing well will be subject to a stricter business process and 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.

11. For projects that are not performing well, additional financing may only be provided when:
   (i) the benefits of providing additional financing to complete or restructure the projects facing cost overruns, and/or financing gaps, outweigh those offered by other options, such as scaling down or cancellation; and
   (ii) the causes that undermine project performance will have been fully addressed by the additional financing, and the risk of committing more funds to a failing project has been minimized.

E. Financing Sources

12. Additional financing may be financed by ADB’s ordinary capital resources, special funds, and/or ADB-administered funds, including by reallocation of surplus loan proceeds from another approved project.

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5 The current policy on additional financing adopts the 2008 project performance rating system.
F. Financing Terms and Repayment Schedule

13. The terms and conditions of additional financing will be independent of those provided to the ongoing project. The repayment schedules of the loan(s) for additional financing and the original loan(s) may be synchronized upon borrower’s request.

G. Applicability of Other ADB Policies

14. Unless specified in this Operations Manual and the related Staff Instruction, the preparation, processing, and implementation of additional financing will be governed by the other relevant operation manuals and related staff instructions.

H. Due Diligence

15. Due diligence requirements will 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 on technical, economic, financial, safeguard, capacity, social, and poverty aspects for the added and/or changed components will be required.
   (ii) **Financing gaps.** Only a financial analysis to confirm the project’s financial sustainability in light of the changed terms and conditions will be required.
   (iii) **Cost overruns within the existing scale and scope.** Financial and economic analyses to confirm the project’s economic viability and financial sustainability will be required, along with an analysis of the causes of the cost overruns.
   (iv) **Cost overruns and financing gaps with restructuring.** Due diligence under both items (i) and (iii) will be required.
   (v) **Use of ongoing nonemergency projects in an emergency.** In addition to complying with the Disaster and Emergency Assistance Policy (2004), due diligence on (a) the suitability of using a nonemergency project as an anchor for emergency additional financing and (b) the capacity of such ongoing project to deliver the emergency assistance will be required.

I. Approval

16. Approval of additional financing to sovereign operations will follow Operations Manual section D11 (sovereign operations) except as provided in para. 17 below. Approval of additional financing for nonsovereign operations will follow any additional requirements of Operations Manual section D10 (nonsovereign operations). Approval of additional financing under a multitranche financing facility will follow Operations Manual section D14 (multitranche financing facility).

17. For additional financing financed by ADB-administered cofinancing, the President will approve the administration of cofinancing unless Board consideration is required in accordance with Operations Manual section L4 (no-objection procedure).
18. Approval of additional financing to an ongoing emergency assistance project constitutes part of the overall emergency assistance, and the emergency assistance policies and procedures will be followed.\(^6\)

**Basis:** This OM is based on:


**For other background information and references:**


\(^6\) *Operations Manual* section D7 (Disaster and Emergency Assistance).