ADB

Policy Paper

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ADB’s Comprehensive Response to the COVID-19 Pandemic

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
APDRF	–	Asia Pacific Disaster Response Fund
APFS	–	audited project financial statement
CDF	–	contingent disaster financing
COL	–	concessional ordinary capital resources lending
COVID-19	–	coronavirus disease
CPRO	–	COVID-19 Pandemic Response Option
CSF	–	Countercyclical Support Facility
DMC	–	developing member country
DRF	–	Disaster Response Facility
FAST	–	Faster Approach to Small Nonsovereign Transactions
FI	–	financial intermediary
GDP	–	gross domestic product
IDA	–	International Development Association
IMF	–	International Monetary Fund
IPSA	–	initial poverty and social analysis
LIBOR	–	London interbank offered rate
MFI	–	microfinance institution
MFP	–	Microfinance Risk Participation and Guarantee Program
NPL	–	nonperforming loan
OCR	–	ordinary capital resources
PBL	–	policy-based loan
PFI	–	partner financial institution
PFO	–	precautionary financing option
RRP	–	report and recommendation of the President
SCFP	–	Supply Chain Finance Program
SIDS	–	small island developing states
SPD	–	Strategy, Policy and Partnerships Department
SPS	–	Safeguard Policy Statement
TA	–	technical assistance
TASF	–	Technical Assistance Special Fund
TFP	–	Trade Finance Program
UN	–	United Nations
WHO	–	World Health Organization

NOTE

In this report, "$" refers to United States dollars.

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CONTENTS

I. INTRODUCTION

1. The coronavirus disease (COVID-19) pandemic has become a major global crisis that requires country, regional, and global intervention, as well as collaboration to mitigate damage to economies and people's health. The Asian Development Bank (ADB) has provided several targeted interventions to support its developing member countries (DMCs) from the early stages of this emergency and is collaborating closely with the World Health Organization (WHO) and other development partners. However, the scope and scale of the ongoing crisis make it imperative for ADB to step up support to its DMCs in combating the effects of the COVID-19 pandemic.

2. ADB has approved several technical assistance (TA) and Asia Pacific Disaster Response Fund (APDRF) grants, as well as various nonsovereign operations, for immediate and rapid response. The bank is in close discussions with DMCs to develop appropriate solutions, including emergency assistance lending, to mitigate the impact of the crisis. On 18 March 2020, ADB announced a $6.5 billion initial package to address the immediate needs of its DMCs as they respond to the COVID-19 pandemic. ADB is now proposing to expand its response by making available additional regular ordinary capital resources (OCR) resources up to $13 billion to finance countercyclical expenditures and to allocate additional grant and TA resources. This will increase the total size of ADB's response package to about $20 billion. To ensure these resources immediately address the social and economic consequences of the pandemic, ADB is proposing several special policy variations and response measures to support activities that respond directly to, or address the economic impacts of, the COVID-19 pandemic.[1] These measures will enable existing financing instruments and resources to provide faster, more tailored, and impactful responses to the COVID-19 pandemic. In addition, new projects and expanded nonsovereign facilities are proposed to enable ADB to scale up its support for private entities as well as individuals impacted by the COVID-19 pandemic. All special policy variations and response measures are proposed for an initial period of 15 months from Board approval of this paper, and may be extended for up to 2 years from such approval subject to the outcome of a review and prior Board approval (para. 16).

II. BACKGROUND: ECONOMIC AND SOCIAL IMPACT OF THE PANDEMIC

3. The ongoing COVID-19 pandemic is having a severe impact on developing Asian and Pacific economies through numerous channels, including sharp declines in consumption and investment, lower tourism and exports, disruptions in trade and production, and adverse effects on health.[2]

4. The magnitude of the economic losses will depend on how the outbreak evolves, which remains highly uncertain. ADB's most recent assessment, released on 3 April, estimates a global impact of $2.0 trillion–$4.1 trillion in losses, equal to 2.3%–4.8% of global gross domestic product (GDP). Developing Asia is expected to incur 22%–36% of these losses with aggregate impacts of 1.0%–2.2% of combined GDP.[3]

[1] Eligibility criteria are discussed in Appendix 2.
[2] The Group of 20 Leaders' Statement on COVID-19, issued on 26 March 2020, articulates the strong commitment of the global community to address these. This statement pledged global leaders to do whatever it takes and to use all available policy tools to minimize the economic and social damage from the pandemic, restore global growth, maintain market stability, and strengthen resilience.
[3] ADB. 2020. *What Drives Innovation in Asia? Special Topic: The Impact of the Coronavirus Outbreak—An Update*. *Asian Development Outlook*. Manila.

5. Because of its large expected impact on global and regional economic growth, the COVID-19 pandemic has rattled financial markets globally. Some DMCs have suffered from capital outflows, resulting in large currency depreciation. If the crisis continues to deepen, DMCs relying on international and domestic capital markets to finance public expenditures could face difficulties in accessing sufficient resources, as well as rising interest rate spreads on government bonds. A decline in domestic demand is likely to be the most important economic impact in economies with serious outbreaks, or in economies that implement strong containment policies. Travel bans, border closures, and reduced demand for travel will affect tourism, transport, and trade. This will be important for economies that are more open and dependent on tourism. Weaker demand in one sector can spill over to other sectors, both domestically and internationally, through production and trade links.

6. Beyond the economic challenges, COVID-19 has also become a global health crisis with significant human costs that are rising at an alarming rate. Without a vaccine to address the virus, countries have been left with little choice but to contain its spread by introducing measures such as travel restrictions, quarantines, community lockdowns, and school and business closures. These will have far-reaching social and economic implications that could push many households back into poverty or further into poverty. The immediate short-term effects for families affected by the virus include rising health care costs as well as lost employment and income, and a decline in wages. The disproportionate impact on poor and vulnerable groups—women, children, and youth; older persons; people with disabilities; migrants; and ethnic and caste groups—requires a range of resilience-building interventions with an explicit focus on these groups.

7. Timely social protection support to minimize the economic impact on affected individuals is essential to help livelihood recovery and prevent the adoption of negative coping strategies. Targeted assistance will support poor and vulnerable households, as well as those most likely to be affected by a crisis that leaves many without work, sufficient income, or savings to survive an economic downturn. For those laid off, unemployment insurance can be temporarily enhanced. Publicly funded subsidies for health coverage and health insurance may also become necessary to help the most vulnerable. Support to enterprises that serve these populations, coupled with increasing financial and technical support to organizations and private entities that provide social services and care, can extend further protection. In poor and vulnerable households, women will be among the target groups to receive such crisis response support. Evidence from past crises indicates the need to address as early as possible, not as an afterthought, the following: (i) increased risks of gender-based violence (particularly domestic violence); (ii) reduced access to reproductive health; (iii) heavier burden of unpaid care and domestic work; and (iv) gender inequalities in intra-household cash transfer allocation and access to livelihoods, jobs, and financial (including insurance) services.

III. PROPOSED RESPONSE

A. Rationale

8. Unless the crisis is addressed properly, conditions could lead to large-scale declines in development expenditure and substantial backtracking in health and education gains. At the same time, the potential for severe recession in many economies is growing. This would hurt the poor and vulnerable the most and risks reversing the impressive reduction in poverty in Asia and the Pacific. Adverse impacts from sluggish exports and declining domestic demand have already been reflected in labor markets, creating a need for additional expenditures for social safety nets. Sustaining public expenditure is particularly important during an economic downturn, not only as a long-term investment but also for stimulating the aggregate demand and creating jobs in the

short run. The economic and financial consequences of the COVID-19 pandemic on the private sector will be equally profound and widespread. Nonsovereign support will be required to (i) provide short-term working capital to companies involved as frontline responders to the pandemic; and (ii) extend financing more broadly as the private sector faces lower demand, constrained supply chains, and reduced access to finance from banks and the capital markets. A comprehensive response that address the needs of DMCs and the private sector is required. The package of proposed measures represents ADB's comprehensive response to the first phase of the pandemic. Once Asia and the Pacific moves into the economic recovery phase, additional measures and different instruments are likely to be required within ADB's planned lending volumes. These measures will require more targeted approaches and rely on existing project, program, and TA modalities. In the recovery phase, it is expected that additional support to the private sector will also be a priority, so the share of nonsovereign lending should increase, subject to ADB's nonsovereign operations capacity and risk management.

B. Resources for ADB's COVID-19 Response

9. ADB's initial commitment to the comprehensive response to COVID-19 totaled $6.5 billion. ADB is now proposing to make available additional regular OCR resources up to $13 billion for countercyclical expenditure financing. This is the bank-wide ceiling for COVID-19 Pandemic Response Option (CPRO) financing. Further, ADB is proposing to make available an additional $130 million in grant financing, including technical assistance special fund (TASF) resources and APDRF resources (para. 12). These resources would expand ADB's COVID-19 response package to about $20 billion (Table 1). ADB will make available total concessional resources of $2.2 billion, including $396 million in Asian Development Fund (ADF) grants.

Table 1: Summary of the Available Resources to Support COVID-19 Response

Financing Sources		Sovereign Operations	Nonsovereign Operations
(i)	Mobilizing additional resources including:	$13,754 million (ADF, COL, regular OCR, TASF, APDRF)	
	(a) Regular OCR	$13,000 million[a]	
	(b) Concessional resources	$704 million, of which • $100 million (ADF) • $604 million (COL)	
	(c) Grant resources	$50 million, of which • $40 million (TASF)[a] • $10 million (APDRF)[a]	
(ii)	Re-programming of 2020 pipeline projects and programs	$3,721 million, of which • $2,710 million (regular OCR) • $800 million (COL) • $130 million (ADF) • $81 million (TASF)[a]	$1,640 million, of which • $800 million (TFP) • $840 million (from other projects and programs)
(iii)	Re-allocation of existing resources from ongoing projects	$366 million[b], of which • $343 million (COL)[a] • $22.7 million (ADF)[a]	$200 million (SCFP)
(iv)	Savings and cancellations of ongoing projects	$281 million, of which • $115 million (COL) • $166 million (ADF)	
(v)	Making available existing grant resources	$38.4 million, of which $17.3 million (TASF) $21.1 million (APDRF)	
Total		**$18,160 million**	**$1,840 million**

Total Package	$20,000 million

ADF = Asian Development Fund, APDRF = Asia Pacific Disaster Response Fund, COL = concessional ordinary capital resources lending, OCR = ordinary capital resources, SCFP = Supply Chain Finance Program, TASF = Technical Assistance Special Fund, TFP = Trade Finance Program.
[a] Denotes resources additional to ADB's initial $6.5 billion package.
[b] Estimated and ongoing process.
Source: Asian Development Bank.

10. **Initial $6.5 billion package.** The initial $6.5 billion package includes more than $3.6 billion in sovereign operations (freed up from reprogramming of the 2020 pipeline) for a range of responses to the health and economic consequences of the pandemic. These are funded by regular OCR, concessional OCR lending (COL), and ADF grants. As of March 2020, ADB had planned to reprogram about 20% of the 2020 program: $2.7 billion in regular OCR, $800 million in COL, and $130 million in ADF grants. On top of this amount, ADB is also mobilizing about $1 billion in additional concessional resources, which include ADF grants and COL from the reallocation of existing resources from ongoing projects and from disaster response contingencies. ADB is making available about $166 million in ADF grants and $115 million in COL resources from existing projects to support the COVID-19 response in group A and group B countries.[4] In addition, the remaining $100 million in ADF grants and $604 million in COL from the Disaster Response Facility (DRF) under ADF 12 will be rescoped to support COVID-19 response in group A countries (paras. 29−30).[5] This initial package includes about $40 million in TASF grant resources and quick-disbursing grants from the APDRF. ADB continues to seek concessional resources through the "spring cleaning" of ongoing projects.

11. The initial amount also includes about $1.8 billion in nonsovereign operations through (i) increases in existing programs, such as the Trade Finance Program (TFP) and the Microfinance Risk Participation and Guarantee Program (MFP); (ii) reallocations within existing programs, such as the Supply Chain Finance Program (SCFP); and (iii) tailor-made projects and financial intermediation loans that address and mitigate the impacts of COVID-19, including activities that improve access to health care and relief, and restore income-generating activities.[6]

12. **Additional resources.** ADB will make available an additional $13 billion in regular OCR resources in countercyclical expenditure financing to support CPRO in order to help DMCs counter the severe macroeconomic impacts of the COVID-19 pandemic. ADB is further proposing to make available an additional $130 million in grant financing, including an additional $40 million TASF resources and $10 million APDRF resources through net income allocation, as well as about $80 million in TASF resources from reprogramming of the 2020 TA pipeline and reallocations of existing TASF resources from ongoing TA operations. These resources, together with proposed special policy variations, will enable ADB to provide a rapid and sequenced approach to supporting DMCs' COVID-19 pandemic response. Immediate assistance will be focused on the provision of emergency countercyclical fiscal support given pressing need for DMCs to finance urgent measures to lower the transmission of infections and to mitigate the social and economic costs of the pandemic. This support will then transition into more targeted social and economic assistance measures using ADB's existing project, program and technical assistance modalities.

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[4] ADB uses a three-tier DMC classification system: group A (concessional assistance-only countries), group B (OCR blend countries), and group C (regular OCR-only countries). ADB. 2019. Classification and Graduation of Developing Member Countries. *Operations Manual*. OM A1. Manila.
[5] The ADF donors have endorsed the proposed change of scope based on a waiver of the concessional assistance policy on 31 March 2020.
[6] Resources of about $600 million will be allocated to these COVID-19 response activities.

13. **Administrative resources.** Assistance under the proposed special policy variations will be implemented by existing staff resources and within the approved 2020 budget. To deliver the program, significant flexibility in the use of resources will be undertaken, including staff sharing and redeployment of staff positions. Temporary increases in the work program can also be met by a range of measures, including use of the budget carryover and more flexible use of staff consultants, where necessary.[7]

14. **Coordination and partnerships**. In formulating country-level responses, ADB will continue to prioritize close collaboration with international financial institutions including the International Monetary Fund (IMF), World Bank, and other relevant bilateral and multilateral development partners. These partnerships will seek to identify cofinancing opportunities for individual projects and at a strategic level to strengthen common approaches to address the COVID-19 pandemic. With respect to private sector operations, ADB will continue to work in close collaboration with the International Finance Corporation, the European Bank for Reconstruction and Development, and other development finance institutions (as applicable). Through TFP, ADB is in monthly communication with the International Finance Corporation and the European Bank for Reconstruction and Development. Frequency of communication has been stepped up during the COVID-19 pandemic to coordinate and exchange information concerning the market, pricing, and business flows. ADB will also utilize its well-established strategic partnerships with specialized United Nations (UN) agencies working in Asia and the Pacific, including WHO, to share information and ensure strong alignment with global approaches to addressing the COVID-19 pandemic.

C. Special Policy Variations and Response Measures

15. The unprecedented scale and scope of the COVID-19 pandemic has revealed several constraints in ADB's policies and business processes that limit the bank's ability to respond rapidly and effectively to the global pandemic. These constraints include (i) limitations of ADB's current products and modalities to respond in a calibrated manner to the impacts of a health emergency such as COVID-19; (ii) inability to use concessional resources available for disaster response pursuant to the DRF under ADF 12 for COVID-19 because the facility excludes health emergencies; (iii) limited ability of ADB financing to procure more broadly critical goods and materials required for COVID-19 response, such as personal protective equipment for medical personnel, because of ADB member country procurement eligibility restrictions; (iv) lack of scale, flexibility, and responsiveness of ADB's existing frameworks, facilities, and programs for nonsovereign operations to support the private sector and individuals impacted by COVID-19; and (v) inability to attract additional contributions to the APDRF because donors cannot earmark contributions for COVID-19 response.

16. An explanation of these constraints and requests for special policy variations to mitigate them are set out in paras. 17−67. The special policy variations are proposed for an initial period of 15 months from the Board's approval of this paper. An initial review of ADB's COVID-19

[7] ADB's strength is in its people. Staff bring a breadth of skills and experience as One ADB across sectors and themes, experience in sovereign and nonsovereign operations, and knowledge of different country conditions. Drawing from knowledge and lessons learned from previous operations (e.g., the response to the 2008 global financial crisis and the regional response to severe acute respiratory syndrome outbreak), ADB will prepare multidisciplinary One ADB teams, pooling all available expertise across the entire organization, to assist DMCs in fighting the pandemic and reducing its future social and economic effects. Effectively and efficiently assisting DMCs in the COVID-19 response will require enhanced cross-department and cross-sector collaboration, efficient resource reallocation, and streamlined business processes for sovereign and nonsovereign operations. Following approval of the proposed special policy variations, the Strategy, Policy and Partnerships Department (SPD) will issue detailed guidelines to enhance internal procedures for the formation and operation of One ADB teams.

response efforts will be conducted within 8 months of Board approval. Based on the findings, ADB will submit to the Board of Directors an assessment of whether an extension of the special policy variations beyond the initial 15-month period is necessary and appropriate.[8] If an extension is considered warranted, a proposal will be formulated for Board of Directors consideration recommending extension of all, or a portion of, the special policy variations for up to a total of 2 years from approval of this paper. Otherwise, the special policy variations will expire at the end of the initial 15-month period.[9]

1. Facilitate Critically Needed Fiscal Stimulus through the Establishment of a COVID-19 Pandemic Response Option under the Countercyclical Support Facility

17. **Constraint.** The Countercyclical Support Facility (CSF)[10] was established in 2009[11] and mainstreamed in 2011;[12] its access criteria were modified in 2016.[13] The CSF provides budget support to DMCs undertaking fiscal stimulus for growth in the form of countercyclical development expenditures. It is an exceptional instrument reserved for addressing severe crises at the macroeconomic level.

18. To be eligible for CSF support, a DMC needs to (i) have experienced, or be likely to experience, a severe decline in economic growth; (ii) have an effective countercyclical development expenditure/policy program to be supported by the CSF and be committed to its implementation; (iii) have a monetary policy that addresses price stability as one of its core objectives, controlled inflation, and sound public finances; (iv) be taking credible steps to address the underlying structural issues, where the DMC has structural weaknesses that increase its vulnerability to exogenous shocks; (v) have its debt sustainability, including potential impacts of the prospective CSF assistance, confirmed; and (vi) have held constructive consultations with the IMF. ADB also needs to secure an IMF assessment letter confirming the soundness of the DMC's macroeconomic management and other policies before Board consideration of the proposed assistance (additional details are in Appendix 1).

19. Only regular OCR-eligible (group B and group C) countries or graduated countries have access to CSF lending. As such, some of ADB's most vulnerable DMCs (group A countries) do not have access to CSF lending to counter the severe effects of the COVID-19 pandemic. CSF support is available at a minimum interest rate spread of 200 basis points over the London interbank offered rate (LIBOR), for a tenor of 5–8 years (including a grace period of up to 3 years), with a commitment charge of 75 basis points per year on the undisbursed loan balance. These terms may impose an undue fiscal and debt burden on DMCs during a time of such severe crisis. CSF pricing is also based on the occurrence of a purely exogenous economic shock. However, the COVID-19 pandemic has created severe economic and domestic public health and welfare challenges in addition to purely exogenous economic shocks.

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[8] Additional financing is requested for several nonsovereign facilities including the TFP, MFP, and SCFP. These additional resource allocations are for short-term revolving facilities that do not require ongoing regular OCR resource allocations. Increases in the approved amount will be temporary and will align with the approval period noted in para. 16.

[9] ADB may propose further extension of all, or a portion of, the special policy variations beyond 2 years for consideration by the Board of Directors at the end of the 2-year period. ADB will provide regular updates to the Board of Directors on the implementation progress of its COVID-19 response measures.

[10] As CSF is processed under emergency procedures, no change in processing steps would be required.

[11] ADB. 2009. *Enhancing ADB's Response to the Global Economic Crisis—Establishing the Countercyclical Support Facility.* Manila.

[12] ADB. 2011. *Review of ADB's Policy-Based Lending*. Manila.

[13] ADB. 2016. *Review of ADB's Lending Instruments for Crisis Response*. Manila.

20. Given the rapid spread of COVID-19 across borders, ensuring that all DMCs have the necessary resources to act quickly and finance critical development expenditures will generate a substantial regional public good. The unprecedented risks posed by the COVID-19 pandemic, combined with the need for DMCs to finance urgent measures to lower the transmission of infections and to mitigate the social and economic costs of the pandemic, provide a strong rationale for expanding CSF access to all DMCs and for making CSF terms and conditions less onerous. A DMC's commitment to generating these regional public goods should be demonstrated through its approval of a COVID-19 pandemic response plan. The government should also have in place an effective pro-poor countercyclical expenditure program to be supported by the CPRO, which clearly identifies measures taken to mitigate impacts of the COVID-19 pandemic on vulnerable groups. In preparing a proposed operation, ADB should work closely with its counterparts at the IMF and other relevant partners, including the World Bank, to determine that the financing is appropriate, even in the absence of an IMF program.

21. **Proposed change.** To ensure that the CSF can help DMCs counter the severe macroeconomic impacts stemming from the COVID-19 pandemic, the following are proposed:

(i) establish CPRO under the CSF;[14]
(ii) establish a refined set of access criteria for CPRO, including the requirement for a DMC to implement a COVID-19 pandemic response plan (Appendix 1);[15]
(iii) expand the eligibility of CPRO to include group A DMCs, provided they meet the refined set of access criteria and subject to debt sustainability for group A DMCs eligible for COL;[16]
(iv) allow group B DMCs to access CPRO financing from both COL and regular OCR country allocations, subject to debt sustainability;[17]
(v) establish a country limit for the size of CPRO for all DMCs based on thresholds equal to 0.5% of the country's nominal GDP (Table 2) with a maximum amount of \$1.5 billion for group C DMCs, \$500 million for group B DMCs, and \$250 million for group A DMCs;
(vi) allow DMCs with an access limit below \$20 million to access up to \$20 million, subject to debt sustainability for DMCs eligible for COL and regular OCR;[18]
(vii) waive the CSF lending terms and conditions under the 2011 policy paper, and approve CPRO terms and conditions equivalent to those applicable to conventional policy-based loans (PBLs) for (a) group A DMCs up to a maximum

[14] ADB will call for DMCs' requests for financial assistance under CPRO and will report to the Board of Directors within 1 month of Board approval of CPRO. Like the CSF, operations approved under CPRO will not be counted towards the annual ADB-wide caps for new program loans.
[15] A DMC's COVID-19 pandemic response plan may include a wide range of measures to address either the health or economic impacts of the emergency. All DMCs accessing CPRO should be able to demonstrate that they are proactively mitigating the current and potential future economic impact of the COVID-19 threat. DMCs which have graduated from ADB assistance are not eligible to access CPRO.
[16] Group A DMCs will be able to use available country allocations, ADF's DRF and COL reserve for disaster response, or concessional resources freed up from reprogramming or reallocation to finance their CPRO. The debt sustainability assessment continues to apply to group A DMCs in CPRO financing, i.e., group A DMCs at low risk of debt distress are eligible for COL financing, group A DMCs at moderate risk of debt distress are eligible for a blend of ADF grants and COL financing, and group A DMCs at high risk of debt distress are eligible for ADF grant financing. Given the scarcity of ADF resources and to ensure that sufficient grants remain available for additional COVID-19 response efforts, a maximum amount of \$100 million in ADF grants may be applied for financing an individual CPRO operation.
[17] For group B DMCs, a maximum amount of \$250 million in COL will be applied for CPRO financing.
[18] The proposed floor of \$20 million is aligned with ADB's contingent disaster financing under the PBL instrument. The IMF reports that, on average, the annual cost of disasters for small states is nearly 2% of GDP, four times that for larger states. IMF. 2016. *IMF Policy Paper: Small States' Resilience to Natural Disasters and Climate Change – Role of the IMF.* Washington, DC.

amount of $100 million in ADF grants and $250 million in COL, subject to respective resource eligibility; and (b) group B DMCs up to a maximum amount of $500 million with up to a maximum amount of $250 million in COL;[19]

(viii) approve group C lending terms for loans at or below $500 million to comprise interest rates set at a spread of 50 basis points over LIBOR, a rebate or surcharge reflecting the cost of funds, maturity of 10 years including a grace period of up to 3 years, and a commitment charge of 15 basis points per year on the undisbursed loan balance;

(ix) approve group C lending terms for incremental loan amount above $500 million to comprise interest rates set at a spread of 50 basis points over LIBOR, a rebate or surcharge reflecting the cost of funds, maturity of 5 years including a grace period of up to 3 years, and a commitment charge of 15 basis points per year on the undisbursed loan balance; and

(x) allow DMCs to access support under CPRO once, but to allow deferred and multiple disbursements of the approved amounts based on DMCs' COVID-19 response financing needs.[20]

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[19] Under CPRO, group C DMCs can use regular OCR; group B countries can use regular OCR and/or COL; group A countries at low risk of debt distress and International Development Association (IDA) gap countries (COL-only) can use COL; group A countries at moderate risk of debt distress (ADF blend) can use a blend of ADF grants and COL; and group A countries at high risk of debt distress (ADF-only) can use ADF grants. In this exceptional emergency context, the proportion of COL for financing CPRO in group A countries at moderate risk of debt distress (ADF blend) may be higher or lower than 50%, subject to resource availability. Such an option should be agreed in coordination with the government, the IMF, and World Bank. IDA gap countries have gross national income per capita above the operational cutoff for IDA eligibility for more than 2 consecutive years and are assessed as such by IDA. The operational cutoff is $1,175 (2018 prices). DMCs that have graduated from ADB assistance are not eligible to access CPRO. Because India does not have access to concessional assistance, for the purposes of the CPRO proposal, it will be eligible for the terms and conditions and country ceilings offered to group C DMCs.

[20] Approved and committed amounts would be subject to applicable commitment fees. DMCs may request deferred disbursement or avail themselves of the precautionary financing option under CPRO. The precautionary financing option would enable DMCs to mobilize a CSF in anticipation of major economic impacts occurring as a result of COVID-19 pandemic or DMCs' declaration of the state of emergency or enforced quarantine because of COVID-19, subject to mutually agreed disbursement triggers between ADB and the DMC. Group B and group C DMCs that have not prepared a COVID-19 emergency response plan but have incurred substantial fiscal and economic costs from COVID-19 from lower trade, tourism flows, and other impacts will be eligible for regular CSF lending or fast-track PBLs. Group A DMCs that have not prepared a COVID-19 emergency response plan will be eligible for fast-track PBLs.

Table 2: Indicative Financing Resources

Country Ceiling Criteria	
0.5% of 2018 Nominal GDP ($)	**Country Ceiling**
>$1 billion	$1.5 billion
$500 million–$1 billion	$1 billion
$250 million–$500 million	$500 million
$100 million–$250 million	$250 million
$50 million–$100 million	$100 million
$20 million–$50 million	$50 million
<$20 million	$20 million
Indicative Financing Ceiling by Funding Source	
Funding Source	**Maximum CPRO Amount**
Regular OCR	$1.5 billion
COL	$250 million
ADF grants	$100 million

ADF = Asian Development Fund, COL = concessional OCR, CPRO = COVID-19 Pandemic Response Option, GDP = gross domestic product, OCR = ordinary capital resources.
Note: Group A developing member countries will be able to use the Disaster Response Facility, available country allocations, and concessional resources freed up from reprogramming or reallocation, to finance their CPRO. The debt sustainability assessment continues to apply to group A countries in CPRO financing, i.e., group A countries at low risk of debt distress are eligible for COL financing, group A countries at moderate risk of debt distress are eligible for a blend of Asian Development Fund (ADF) grants and COL, and group A countries at high risk of debt distress are eligible for ADF grant financing.
Source: Asian Development Bank.

22. **Bank-wide ceilings and resourcing.** To finance CPRO operations and support COVID-19 response in DMCs, ADB will make an additional $13 billion in regular OCR resources available. The majority of ADB's $20 billion package is expected to support CPRO financing, including $740 million for DMC's in fragile and conflict-affected situations and $570 million for small island developing states (SIDS). In the event that DMCs do not make full use of the CPRO country ceilings, the remaining headroom of the regular OCR resources can be used to finance COVID-19 response measures using ADB's existing lending project and program modalities, with priority to concessional assistance countries, fragile and conflict-affected situations, and SIDS. CPRO financing in COL and ADF grants will be supported by (i) immediately available ADF grant and COL resources in the ADF 12 DRF and COL reserve for disaster response (paras. 29–30); (ii) country allocations; (iii) reallocations of existing resources from ongoing projects; and (iv) "freed up" resources from reprogramming of the 2020 pipeline where project delays and slippage are envisaged to take place because of the COVID-19 outbreak, travel restrictions, lockdowns in many cities, and DMCs' urgent needs for COVID-19 response, whenever possible. With consideration of the bank-wide ceilings for CPRO financing and continuing to apply 20% PBL ceiling, it is expected that quick disbursement operations for COVID-19 response will be managed within 50% of 2020 operational level.

23. A DMC's access to CPRO financing indicated by their country ceiling is not automatic. Eligibility requires satisfactory demonstration of all relevant access criteria and due diligence requirements, referred to in more detail in Appendix 1. Unless stated otherwise, all relevant terms and conditions applicable to CSF lending are applicable to CPRO. CPRO interventions and their results frameworks should clearly identify specific targeting of countercyclical expenditure programs at the poorest and most vulnerable groups, including women and girls. Targeting under CPRO should be enhanced by other complementary modalities wherever possible. ADB and DMCs should reach mutual agreement when determining individual CPRO financing amounts

within each country limit. Priority will be given to poor and vulnerable countries and those with limited access to alternative sources of capital.

2. Facilitate Budget Support for COVID-19 Response by Expanding Scope of Contingent Disaster Financing under Policy-Based Lending to include Health-Related Emergencies

24. **Constraint.** Contingent Disaster Financing (CDF) was mainstreamed in 2019[21] as a financing option under the PBL policy to expand ADB's toolkit for stepping up disaster preparedness and response. Under CDF, loan processing and essential DMC policy dialogue and reforms are completed before a natural hazard occurs, with disbursements made upon satisfaction of pre-agreed disbursement conditions. Such an arrangement enables ADB to engage in up-front and in-depth policy dialogue on disaster resilience and preparedness in collaboration with DMCs, and quickly provide necessary budgetary resources following a disaster. In the immediate aftermath of a disaster when time and flexibility are of the essence, CDF serves as an effective tool to provide immediate budgetary support to DMCs.

25. However, CDF only covers disasters triggered by natural hazards as defined in the Disaster and Emergency Assistance Policy,[22] e.g., typhoons, floods, earthquakes, droughts, and tsunamis. Further, disbursements are triggered after a disaster is confirmed by the DMC's declaration of a state of emergency, or its equivalent. The 2019 policy is more restrictive than the Disaster and Emergency Assistance Policy and does not cover health-related emergencies such as the COVID-19 pandemic. Additionally, a DMC's state of emergency triggering disbursement of funds does not include national health-related emergencies. As a result, several DMCs[23] have taken proactive measures to establish CDFs to assist during emergencies, but these cannot be used to support their COVID-19 responses.

26. **Proposed change.** To help DMCs enhance their future financial and institutional preparedness for health-related emergencies, and to enable DMCs that have taken proactive measures to establish CDFs to leverage them for COVID-19 response,[24] the following changes are proposed to the 2019 policy:

(i) expanding the eligibility criteria for new CDF operations to include health-related emergencies, in addition to the current focus on disasters triggered by natural hazards;[25] and
(ii) expanding the scope of a DMC's declaration of a state of emergency, or its equivalent, to include national health-related emergencies.

27. If requested by DMCs, these changes will be retroactively applied to approved CDF operations and contingent disaster-linked PBL operations so that they may be immediately used for the COVID-19 response.

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[21] ADB. 2019. *Contingent Disaster Financing under Policy-Based Lending in Response to Natural Hazards*. Manila.
[22] ADB. 2004. *Disaster and Emergency Assistance Policy*. Manila.
[23] Countries with active contingent disaster-linked PBLs and CDF operations include Cook Islands ($10 million, regular OCR), Solomon Islands ($6 million, COL and ADF), Marshall Islands ($6 million, ADF), Federated States of Micronesia ($6 million, ADF), Palau ($15 million, regular OCR), Tonga ($6 million, ADF), and Samoa ($6 million, COL and ADF).
[24] These revisions to the CDF policy were originally proposed to be introduced 3 years after the introduction of the CDF option, which was approved by the Board of Directors in August 2019.
[25] This proposal is aligned with the recommendations made in ADB. 2019. *Review of the 2004 Disaster and Emergency Assistance Policy*. Manila.

3. Expand the Scope of the ADF 12 Disaster Response Facility and the Concessional Ordinary Capital Resources Reserve under the ADF 12 Period to Provide Response in Case of Health Emergencies

28. **Constraint.** Under the ADF 12 framework, ADB has $704 million immediately available for responding to disasters and emergencies: (i) $100 million in ADF grant resources from the ADF 12 DRF and (ii) $604 million in COL from the COL reserve established during the ADF 12 period to fund response to disasters and emergencies in COL and consequences of changes in DMCs' debt distress classification. The additional remaining amount of $116 million in the ADF 12 DRF and the additional remaining amount of $221 million in the ADF 12 debt distress reserve are proposed to be released and used for the ADF 13 replenishment to reduce ADF 13 donors' contribution for a total amount of $337 million. The existing policy limits disaster response under ADF 12 to disasters triggered by natural hazards (excluding health emergencies). Accordingly, the DRF cannot be used to support group A countries severely affected by the COVID-19 pandemic and its consequences.

29. **Proposed change.** Waiving the requirement under the Concessional Assistance Policy[26] that limits utilization of DRF resources to natural hazards would unlock additional concessional resources for the COVID-19 response. ADF donors endorsed this proposal based on a waiver of the concessional assistance policy on 31 March 2020. This proposal would make available an additional $100 million of ADF grant resources and $604 million of COL from the COL reserve to support group A countries severely affected by the COVID-19 pandemic and its consequences. The country eligibility and allocation for DRF will continue to be guided by the risk of debt distress and the existing DRF policy under ADF 12. Group A countries at high risk of debt distress will receive the disaster response in the form of ADF grants, group A countries at moderate risk of debt distress will receive the disaster response in the form of a blend of ADF grants and COL, and group A countries at low risk of debt distress will receive disaster response in the form of COL.

30. The DRF resources will be available for financing CPRO. DRF resources will be allocated in line with the concessional assistance policy. Requests for DRF support (including ADF DRF and COL reserve for disaster response) will be made within 1 month of Board approval of the policy paper (footnote 16). In allocating DRF ADF grants and COL, ADB will consider the need to spread the resources across countries with access to concessional resources. SIDS eligible for ADF grants will be prioritized to access the ADF DRF for CPRO financing, given their limited available resources from country allocations. Subject to resource availability, group A countries eligible for ADF grants with larger country allocations will finance CPRO operations by a combination of ADF DRF funds and their country allocations.

4. Expedite Procurement of Critical Medical and Other Equipment and Supplies for COVID-19 Response by Removing Member Country Procurement Eligibility Restrictions

31. **Constraint.** In financing the procurement of goods and services with OCR or Special Funds established by ADB (such as the ADF and TASF), ADB follows the member country procurement eligibility restrictions set out in para. 7 of ADB's Procurement Policy: Goods, Works, Nonconsulting, and Consulting Services (2017, as amended from time to time). Procurement of goods and services with ADF resources is also subject to Section 4.03 of the Regulations of the

[26] ADB. 2016.*Concessional Assistance Policy*. Manila.

Asian Development Fund.[27] TASF procurement is subject to Section 3.04(a)(iii) of the Regulations of the Technical Assistance Special Fund.[28] Absent Board approval of a waiver of ADB's member country procurement eligibility restrictions for a specific ADB operation, the ability to apply universal procurement is generally limited to certain types of OCR and ADF cofinanced operations, for which the Board has previously approved blanket waivers.[29]

32. For the COVID-19 pandemic, ADB financing is being used to procure items including virus detection equipment, medicines and vaccines, personal protective equipment for health care personnel, and digital health software and hardware. While such items normally can be procured economically and efficiently from ADB member countries, the current global demand has placed supply lines under extreme pressure, requiring procuring parties to look beyond normal channels. Furthermore, because various UN and other international agencies have stronger links to the supply market for such goods, it is often more efficient for ADB to direct procurement through these agencies during the pandemic, in accordance with arrangements acceptable to ADB. However, as these agencies are typically mandated to apply universal procurement eligibility, the application of ADB member country procurement eligibility restrictions creates obstacles to working with UN and other international agencies on procurement.

33. **Proposed change.** Applying universal procurement for ADB's COVID-19 response operations will both support procurement of goods and services more broadly and permit procurement to be directed through UN and other international agencies that are mandated to apply universal procurement eligibility. Accordingly, it is proposed to waive the procurement eligibility restrictions set out in the Procurement Policy, ADF regulations, and TASF regulations to permit the procurement of goods, works, and services from ADB member and nonmember countries. The waiver would apply to all ongoing and future ADB sovereign and nonsovereign operations that are supporting the COVID-19 response. Box 1 presents procurement in emergency situations under ADB's Procurement Policy.

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[27] ADB. 2017. *Regulations of the Asian Development Fund.* Manila

[28] ADB. 1981. *Regulations of the Technical Assistance Special Fund.* Manila.

[29] ADB. 2013. *Blanket Waiver of Member Country Procurement Eligibility Restrictions in Cases of Cofinancing for Operations Financed from Asian Development Fund Resources.* Manila; and ADB. 2015. *Enhancing the Operational Efficiency of the Asian Development Bank*. Manila.

Box 1: Procurement in Emergency Situations

The Asian Development Bank's (ADB) Procurement Policy (2017) allows for greater flexibility to facilitate more responsive mobilization in case of emergency situations. This policy recognizes the need to differentiate procurement approaches according to country conditions using a fit-for-purpose approach. It is accompanied by the Procurement Regulations and a series of guidance notes, which explain and elaborate on the provisions of the procurement policy.

In case of emergency situations, efficient procurement is highly important essential as time is often of the essence. Therefore, the nature and capacity of local industries, the capacity of local public administrations, and the usual stringent requirements imposed on contractors, suppliers, and service providers, all require careful adjustments balancing the need to mitigate commercial and technical risks with a supply chain that is constrained by the emergency. ADB permits use of simplified bidding documents, accelerated and longer bid preparation times, and higher advance payments to contractors and suppliers. In addition, simplified selection methods and market approaches can be used to procure goods, works, and services including use of national procurement procedures. ADB can also provide greater support to supplement the capacity of the executing agency during procurement and contract management through use of procurement agents or other entities to support implementation.

The Policy and framework that allow for increased use of direct contracting, subject to justification, to leverage pre-existing contractual arrangements of borrowers and other development partners. An example of this is ADB's agreement with UNICEF which permits ADB and its clients to finance contracts through UNICEF's pre-existing supply arrangements. Another example would be the financing of transactions which utilize a borrower's own framework of contracts such as those found in catalogues. This is of relevance in ADB's response to the COVID-19 pandemic.

ADB allows increased flexibility in the design of procurement arrangements, with more flexible packaging arrangements, initiation of projects before the completion of full procurement planning, increased flexibility in the use of bidding methods with national advertising and the use of direct selection. During processing of procurement transactions, ADB assists with start-up processing of consultant selection through expanding or adjusting existing contracts rather than create new ones, permits lower minimum bidder qualification, performance security or advance payment security requirements, as well as increased allowance for advance payments.

Source: ADB. 2018. *Fragile, Conflict Affected, and Emergency Situations: Guidance Note on Procurement.* Manila. https://www.adb.org/sites/default/files/procurement-fragile-situations.pdf

5. Expand ADB Support to Private Sector for COVID-19 Response by Increasing Framework Limit and Extending the Pilot Period of the Faster Approach to Small Nonsovereign Transactions

34. **Constraint.** The Board approved the Faster Approach to Small Nonsovereign Transactions (FAST) in March 2015 as a 5-year pilot framework with an initial aggregate limit of $200 million.[30] FAST was designed to improve ADB's operational efficiency by shortening the processing time for smaller private sector transactions that produce significant development impact but come with higher up-front risks and costs. Under this framework, the approval authority for financing eligible small nonsovereign transactions is delegated to the President. In December 2018, the Board approved a $100 million increase for the framework limit to $300 million while maintaining all other parameters, including eligibility criteria and the pilot period.[31] The Board

[30] ADB. 2015. *Faster Approach to Small Nonsovereign Transactions.* Manila.
[31] ADB. 2018. *Faster Approach to Small Nonsovereign Transactions: Review of Implementation and Proposed Increase of Aggregate Approval Limit.* Manila.

approved the following changes to the framework in January 2020: (i) the aggregate framework limit was increased by $100 million to $400 million; (ii) the utilization metric for the aggregate framework limit was changed from approvals to commitments; and (iii) the pilot period was extended from 31 March 2020 to 31 December 2020.[32]

35. The COVID-19 pandemic continues to evolve rapidly, and the ultimate fallout is difficult to predict. However, the economic and social impacts of COVID-19 will last well beyond the immediate pandemic and will be felt particularly acutely in markets that FAST was intended to target: companies in lower-income countries and frontier economies, and sectors that generate high development impact, such as agribusiness, health and microfinance. Nonsovereign operations will require flexibility to respond quickly in order to improve the environment for the post-COVID-19 pandemic recovery in the region. The demand for small-scale financing to support these efforts is strong. Accordingly, it is proposed to expand the FAST framework to enhance ADB's ability to respond to the COVID-19 pandemic. Box 2 presents additional private sector facilities for COVID-19 response.

36. **Proposed change.** To assist the immediate and growing needs of the private sector's COVID-19 response, the following changes are proposed to the FAST framework:

(i) increasing the aggregate framework limit from $400 million to $700 million to support projects that respond directly to, or address the economic impacts of, the COVID-19 pandemic;[33] and

(ii) extending the FAST pilot period to the end of 15 months from approval by the Board of Directors of this paper (instead of 31 December 2020).

6. Expand ADB Support to Private Sector for COVID-19 Response by Increasing Framework Limit of the Trade Finance Program

37. **Constraint.** ADB's TFP reduces market gaps for trade finance by (i) providing guarantees and loans to banks in support of trade; and (ii) delivering knowledge products, services, and solutions. The TFP was established in 2003 with a $150 million limit.[34] In 2009, the program limit was expanded to $1 billion;[35] in 2012, the Board approved the mainstreaming of TFP with a maximum 3-year reporting requirement.[36] In 2018, the Board endorsed an expansion of the TFP limit to $1.35 billion.[37]

38. The unfolding COVID-19 pandemic is having a significant adverse impact on the global economy, including on trade. The TFP serves as an excellent crisis response vehicle, as demonstrated during the global financial crisis. Active agreements with hundreds of banks in DMCs and globally provide TFP with a vast network through which to act immediately to lend support through local banking systems and mobilize cofinancing. However, TFP lacks financial

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[32] ADB. 2019. *Faster Approach to Small Nonsovereign Transactions: Review of Implementation and Proposed Increase of Aggregate Approval Limit and Extension of Pilot Period.* Manila.

[33] Of the existing $400 million FAST aggregate framework limit, $368.57 million has been utilized, including (i) a CNY 130 million ($18.6 million) loan to Jointown Pharmaceutical Group Co., Ltd. (February 2020), and (ii) a $20 million loan to China Gas Capital Management Ltd. (March 2020), both of which were COVID-19 response projects. Upon approval of the increase of the FAST aggregate framework limit by the Board, $38.6 million of the $300 million increase will be deemed to have been applied to the aforementioned projects.

[34] ADB. 2003. *Report and Recommendation of the President for the Establishment of the Trade Finance Program*. Manila.

[35] ADB. 2009. *Major Change in Scope: Trade Finance Program*. Manila.

[36] ADB. 2012. *Major Change in Program: Trade Finance Program.* Manila.

[37] ADB. 2018. *Proposed Guarantees, Loans, and Risk Participation Products for Additional Financing Trade Finance Program.* Manila.

headroom to mount a robust response. In addition, because the program is restricted to supporting transactions that are category C for the environment, TFP is not able to address market demand for transactions that are category B for the environment, which often involve capital goods, including those required to fight COVID-19, and other types of equipment important for economic growth and development.[38] Furthermore, DMCs have hard currency exposures that represent undue risk to their economies, particularly when local currency depreciates, including during times of crisis. Offering local currency support for domestic transactions that are unlikely to generate hard currency is particularly important. In addition, cross-border trade, especially between DMCs, should be supported by local currency when appropriate also to reduce undue risk and dependency of DMCs on hard currency and related risks. Based on transaction volumes and weekly calls with major banks around the globe to exchange information related to the pandemic's impact on the economy and finance sector, demand for TFP is straining the current program limit.

39. **Proposed changes.** To assist the immediate and growing needs of the private sector and enable companies to access more finance in the wake of the COVID-19 pandemic, the following changes to TFP are proposed:

(i) increase the aggregate TFP limit from $1.35 billion to $2.15 billion to support projects that respond directly to, or address the economic impacts of, the COVID-19 pandemic;
(ii) enable TFP to support domestic and cross-border trade when an emergency is declared by a national government or an officially recognized international body such as the WHO;[39]
(iii) enable TFP to support transactions involving goods in projects that are category B for the environment; and
(iv) enable TFP to use local currency for loans and guarantees issued under the program.

7. Facilitate Flow of Private Capital through the Ongoing Microfinance Risk Participation and Guarantee Program to Support Emergency Access to Health Care and Rebuild Household Income for Post-Pandemic Recovery

[38] The transactions supported by TFP are the shipment of goods and services which by their nature are classified as C for environment. However, TFP is requested to support transactions that involve the trade of goods and commodities that comprise a material part of a physical project classified as B for environment under ADB's Safeguard Policy Statement (2009). Examples include the supply of capital equipment required to produce COVID-fighting goods such as N95 masks and ventilators, as well as other equipment such as solar panels that are part of a solar power plant. In such cases, the underlying project forms the basis for the classification rather than the goods themselves and therefore the trade transaction is also classified as B for environment. Consequently, the transaction cannot currently be supported by TFP. Including transactions that are category B for environment in TFP will result in TFP partner banks enhancing their due diligence capacity to ensure a sustainable approach to these types of transactions, which will have a positive developmental impact.

[39] The TFP's impact will be even greater if permitted to support domestic as well as cross-border transactions in times of emergency. The TFP is currently restricted to supporting cross-border trade.

40. **Constraint.** The aim of MFP[40] is to sustain the flow of wholesale finance by partner financial institutions (PFIs)[41] so that selected microfinance institutions (MFIs)[42] can continue their onlending operations, service their debt obligations, and serve the targeted segments, specifically in the pandemic- and calamity-impacted regions. Under normal conditions, MFP extends up to 50% risk coverage on the default risk arising from loans made by selected PFIs to specified MFIs. However, in periods of social and economic duress triggered by systemic shocks like a pandemic, this level of risk coverage is inadequate to meaningfully encourage private lenders and capital providers to remain engaged.[43] This results in a further widening of gaps in access to fair and transparent finance for the poor and under-served segments of DMCs. This is particularly acute at a time when their meager household savings and income streams have dwindled significantly and greater risk coverage is required to support PFI operations, which in turn will enable MFIs to continue to operate and service their clients' needs. Expanding MFP risk-coverage would help mitigate the impact of weakening macroeconomic condition and the supply-and-demand shocks that have been triggered by the COVID-19 pandemic.

41. The lead time for normalcy to return and for private capital to flow back to underserved low-income borrowers during times of economic shock is substantial and is expected to be even longer in the current circumstances. Amid signs of an economic slowdown, the banking sector in several large microfinance markets, such as India, is burdened with high nonperforming loans (NPLs) and lower risk tolerance. Gross NPLs in India's banking system have risen from 4.2% of gross assets in 2016 to 9.1% in 2019.[44] The higher level of NPLs will reinforce the banking sector's natural defensive response to curtail lending to MFIs, which are often perceived to be higher risk borrowers. Additional resources are required to increase the flow of financing to MFIs that (i) support activities that help meet direct healthcare expenses; and (ii) support rural household incomes and living conditions of the poor by providing finance for activities of microenterprises and small farm-based businesses, as well as for end-uses such as water and sanitation loans. It would also help soften the stress brought to these vulnerable borrowers from the wider impacts of COVID-19.

42. **Proposed change.** To help sustain the momentum towards economic recovery in DMCs, strengthen the wholesale lender-to-microborrower link for COVID-19 recovery, support MFIs dealing with overall pandemic-related impacts, the following changes are proposed to the MFP:

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[40] The MFP was approved in December 2010 with an initial size of $250 million (ADB 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Microfinance Risk Participation Program*. Manila). Over the years, with expanding coverage in the DMCs, MFP limits have been increased to $340 million (ADB 2017. *Proposed Guarantee and Unfunded Risk Participation Products for Additional Financing: Microfinance Risk Participation and Guarantee Program.* Manila). As of February 2020, the MFP had supported $1.26 billion equivalent in local currency financing to MFIs in the DMCs and had reached almost 6.2 million borrowers (about 95% of whom are women living in rural and peri-urban areas). No claim has been made on ADB's guarantees since the program's inception.

[41] PFIs are international banks such as Standard Chartered PLC UK and onshore banks such as Kotak Mahindra Bank India.

[42] The Private Sector Operations Department independently selects MFIs, which are approved under a risk-acceptance framework by the Office of Risk Management. In addition to the credit risk-parameters, aspects such as adoption of fair lending practices, presence in rural settings, usage of digital means to channel loans, and sensitivity to gender issues, are critically evaluated in this process.

[43] MFIs in the DMCs had seen this trend through several calamity-triggered credit shocks, such as the Andhra Pradesh crisis in 2010, typhoon Haiyan in Philippines in 2013, and demonetization in India in 2016. Despite maintaining their credit profiles, MFIs were unable to onlend because access to wholesale funding was curtailed; and the repayments from micro-loans were directed to repay their bank debts.

[44] Reserve Bank of India. 2020. *Financial Stability Reports*. https://www.rbi.org.in/Scripts/FsReports.aspx.

(i) increase the aggregate MFP limit from $340 million to $600 million to support MFIs that respond directly to, or address the economic impacts of, the COVID-19 pandemic; and
(ii) increase the risk coverage provided by ADB up to 80% on wholesale loans provided to MFIs and directed at microborrowers in DMCs impacted by the COVID-19 pandemic.

8. Enhance the Capacity of the Supply Chain Finance Program to Address the Rapid Drop in Domestic and Global Trade as a Result of the COVID-19 Pandemic

43. **Constraint.** The COVID-19 pandemic has severely strained supply chains throughout Asia, including companies manufacturing and distributing medical products and equipment. The SCFP was established in 2012 with a program limit of $200 million to enhance access to working capital by small and medium-sized enterprises.[45] The program limit was increased in 2018 to $300 million.[46] Under the SCFP, ADB provides funded and unfunded risk participations and guarantees to PFIs engaged in supply chain finance transactions with suppliers and distributors in DMCs, as well as loans directly to suppliers in DMCs. A new equitable assignment product is sought to be added to the SCFP's product suite. Under this product, ADB would purchase trade receivables, trade credits, and trade-related loans by way of an equitable assignment. Many large multinational PFIs in the market prefer this product because it enables them to treat the purchased amount of the underlying transaction as "off balance sheet" for accounting purposes, thereby lowering a bank's capital commitment requirements. The equitable assignment model is advocated by the Bankers Association for Finance and Trade[47] and has been adopted in its model form participation agreement for supply chain finance transactions. The addition of an equitable assignment to the SCFP product suite would enable the SCFP to work with large multinational PFIs as part of their COVID-19 response.

44. ADB's Investment Committee must approve PFIs before they are allowed to work with the SCFP. This can often be a time-consuming process. Given the urgent need to mobilize funds to support supply chains, a temporary waiver of the selection and accreditation process for PFIs under the SCFP where the PFI is already working with the TFP is proposed, subject to ADB's Office of Risk Management approval of SCFP limits on the existing TFP PFI.

45. With the current state of supply chains across DMCs, exacerbated by the impacts of COVID-19, innovative interventions by the SCFP are expected to be required. The market may benefit from the SCFP's support through unfunded risk participation for working capital loans (such as pre-shipment loans and export loans) and non-funded facilities (such as letters of credit and bank guarantees) made available by PFIs to buyers and suppliers in DMCs, which is not permitted within the scope of the SCFP's current approvals. To enable the SCFP to be more responsive to the needs of buyers and suppliers in DMCs during this time stress, an expansion of the SCFP's scope of its products is proposed.

46. Further, demand for the SCFP to provide direct lending to buyers and suppliers in DMCs is expected to increase. While the SCFP currently has $30 million earmarked for such financing,

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[45] ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Supply Chain Finance Program*. Manila.
[46] ADB. 2018. *Report and Recommendation of the President to the Board of Directors: Proposed Supply Chain Finance Program: Additional Financing*. Manila.
[47] The Bankers Association for Finance and Trade is the leading industry body for organizations engaged in international transaction banking, including trade and supply chain finance.

an increase to $75 million would enable a more comprehensive response by ADB. This increased amount will be used to provide support for pre-shipment and post-shipment finance directly for buyers and suppliers in DMCs.[48]

47. **Proposed change.** To enable the SCFP to support strained supply chains and respond directly to, or address the economic impacts of, the COVID-19 pandemic, the following changes are proposed:

(i) approval for the SCFP to enter into equitable assignments of trade receivables, trade credits, and trade-related loans to bring the SCFP's product offering up to date with the current market and enable the SCFP to transact with large multinational PFIs that will be vital in supporting supply chains across DMCs during the COVID-19 pandemic;
(ii) waiver of the requirement for Investment Committee approval of, and the eligibility criteria for, PFIs to work with the SCFP where such PFI is already an approved PFI under the TFP; this will enable faster business processes and faster mobilization of support by the SCFP during the COVID-19 pandemic;
(iii) approval for the SCFP to risk participate on an unfunded basis to guarantee working capital loans (such as pre-shipment loans and export loans) and non-funded credit lines by PFIs to buyers and suppliers in DMCs to allow PFIs to provide higher limits required to fund larger working capital requirements of buyers and suppliers as necessary; no working capital loans and non-funded facilities will exceed a tenor of 6 months; and
(iv) approval for the increase from $30 million to $75 million to provide direct debt financing to corporate and small and medium-sized enterprises suppliers and distributors to meet anticipated demand.

9. Facilitate Contributions to the Asia Pacific Disaster Response Fund by Allowing Contributors to Tie Contributions to COVID-19 Response

48. **Constraint.** The APDRF was established in April 2009[49] as a special fund to provide rapid grants for the restoration of life-saving services in response to major disasters.[50] It provides quick-disbursing grants of up to $3 million, which are available to any DMC, augmenting humanitarian aid provided by other development partners. The President approves the grants within a target period of 72 hours following satisfaction of the APDRF's conditions of assistance. ADB provides grants directly to governments. Contributions can be received from bilateral, multilateral, and individual sources, including companies and foundations. Contributions to the fund are required to be made on an untied grant basis and may not be subject to any conditions in relation to which types of natural disasters the contribution may be applied to. Contributions are made through instruments of contribution executed by the APDRF contributors in the form attached to the paper.

[48] The $75 million is a portfolio-wide cap, and there may be multiple such loans to obligors. ADB's Office of Risk Management will assess and approve each obligor.
[49] ADB. 2009. *Establishment of the Asian Pacific Disaster Response Fund.* Manila.
[50] The APDRF was originally established in 2009 with a tranche of $40 million that was transferred to the APDRF from uncommitted resources of the Asian Tsunami Fund (which in turn was supported by ADB, Australia and Luxembourg). In May 2015, the APDRF received a replenishment of $20 million from ADB's 2014 net income. The APDRF received a further replenishment of $20 million in May 2017 from ADB's 2016 net income.

49. Based on its purpose and features, the APDRF could be an effective tool to respond to the spread of COVID-19.[51] The rapid approval and quick-disbursing nature of APDRF grants enable DMCs to quickly acquire potentially life-saving goods and services, such as essential medical equipment for detection and personal protection, at a time when available financial resources may be severely constrained. Recognizing this, potential contributors have indicated an interest in making new or additional contributions to APDRF, provided they can be assured that their commitments will be channeled for the COVID-19 response.

50. **Proposed change.** To facilitate new or additional contributions by donors to the APDRF for the COVID-19 response, it is proposed to waive the requirement in the APDRF establishment paper that ADB may only accept untied contributions and that contributions should not be subject to any conditions. Accordingly, upon approval of the waiver of these requirements, ADB would be able to accept contributions to APDRF on the condition that they be used only for responding to COVID-19. Instruments of contribution submitted by donors could indicate that such contributions may only be used for COVID-19.

Box 2: Additional Private Sector Facilities for COVID-19 Response

In addition to the policy variations and response measures to be approved by the Board of Directors under this R-Paper, as part of the private sector COVID-19 response package, the Asian Development Bank (ADB) will propose additional programs in the near future. Much of the adverse economic impact from the COVID-19 pandemic is expected to be in the micro, small and medium-size enterprise sector of ADB's DMCs. To support these vulnerable borrowers, and provide immediate and direct support to healthcare equipment and service providers crucial for combatting the COVID-19 pandemic, the Private Sector Operations Department will seek Board approval for a COVID-19 Response Program for Financial Institutions that will be offered to financial institutions in ADB's DMCs for the purposes of supporting: (i) micro, small, and medium-size enterprises; and (ii) healthcare-related companies. The Private Sector Operations Department will also propose a new Healthcare Pandemic Resilience Facility, as a regional facility, that will provide loans and/or equity investment to help private sector healthcare companies improve infrastructure, invest in technology and develop capacity to address future outbreaks of communicable diseases. These new facilities will be processed through separate report and recommendation of the President.

Source: Asian Development Bank.

D. Management Actions

51. In parallel to the special policy variations and response measures proposed for Board of Directors approval, ADB Management will also approve several measures under its authority to (i) enhance the capacity of existing instruments to provide effective COVID-19 response and (ii) provide an extension in the submission deadline for audited project financial statements (APFS) for all DMCs impacted by the COVID-19 pandemic. Similar to the special policy variations and response measures for Board approval, these Management measures are proposed for an initial period of 15 months from the Board's approval of this paper. ADB will undertake a review of its COVID-19 response efforts prior to conclusion of this initial period and formulate a proposal for extending or retiring the approved measures.

[51] ADB has approved several APDRF grants to help support DMCs in responding to the COVID-19 crisis, including to the Philippines, Indonesia, Maldives, Mongolia, and Pakistan. Additional APDRF grants to other DMCs for COVID-19 response are expected.

1. Apply Fast-Track Business Processes for Sovereign Projects and Programs to Support a Quicker COVID-19 Response

52. **Constraint.** Under current business processes for sovereign operations,[52] an operations department is required to prepare a project or program concept paper to initiate processing. The concept paper sets out the rationale for the project or program, the proposed financing amount, the basic design and implementation arrangements, and risk categorization. The concept paper must be reviewed by relevant departments and approved by Management, which can take several months. This business process must be completed before the quality assurance meeting can occur and before the report and recommendation of the President (RRP) can be submitted for approval. Decision-making can be expedited by using a One ADB approach and by adopting fast-tracked business processes similar to those applicable to emergency assistance loans, including abbreviated time periods for consideration of the project or program by the Board and Management.

53. In addition, Board approval is required for a major change in a project under certain sovereign financing modalities,[53] major change in a program, and additional financing under certain circumstances. Business processes could be fast-tracked where such a major change or additional financing is sought to provide financing support for the COVID-19 response, including procurement of works, goods, services, and other eligible expenditures, or where an exception to an ADB policy is sought.

54. **Proposed change.** Management may apply the following fast-tracked business processes to expedite the preparation and approval of new sovereign projects and programs, or the approval of major changes to existing sovereign projects or programs,[54] in each case that respond directly to, or address the economic impacts of, the COVID-19 pandemic:[55]

(i) the operations department may omit (a) processing of a project or program concept paper and any attachments thereto,[56] and proceed straight to due diligence and fact-finding (with signed aide-memoire or memorandum of understanding), followed by preparation of the RRP and linked documents, provided that, where a transaction TA is required for project or program preparation, it will be processed taking into account the fast-track TA business processes described in para. 63; and (b) interdepartmental review of the RRP and its linked documents in exchange

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[52] ADB. 2017. Sovereign Operations. *Operations Manual*. OM D11. Manila; and ADB. 2017. *Staff Instruction on Business Processes for Sovereign Operations*. Manila.

[53] ADB. 2018. Change in Loan Projects. *Project Administration Instructions*. PAI 5.02. Manila (Table 1).

[54] Because of their enhanced due diligence and preparation requirements, multitranche financing facilities and results-based lending are not eligible for fast-track processing. In the case of additional financing for well-performing projects, the *Staff Instruction on Business Processes for Additional Financing (Sovereign Operations*) (2018) already substantially shortens the processing period by replacing concept paper preparation with a memo to be approved by the director general of the relevant operations department, without interdepartmental review. This requirement would be maintained under the fast-track procedures. A stand-alone program, a new programmatic approach, and the first subprogram are eligible for the fast-track process. In addition, subsequent or additional subprograms under an existing programmatic approach are also eligible for the fast-track process.

[55] Fast-track business processes shall be applied only to projects and programs satisfying the criteria set out in Appendix 2. SPD, in consultation with the relevant operations department, will determine the eligibility of projects and programs to use the fast-track business processes.

[56] ADB. 2010. Incorporation of Social Dimensions into ADB Operations. *Operations Manual*. OM C3. Manila. An initial poverty and social analysis (IPSA) is required for all loan- and grant-based investment projects and programs to identify social issues. For preparation of sovereign projects and programs, the IPSA is attached to the concept paper and posted on ADB's website upon approval. The operations department may omit the IPSA and move straight to preparation of the summary poverty reduction and social strategy, which is linked to the RRP.

for forming a One ADB team with representatives from all relevant departments who assume responsibility for ensuring due diligence and procedural requirements are followed;[57] and

(ii) where Board approval is required to approve a new sovereign project or program or additional financing, or to approve a major change in project, program, or an exception to an ADB policy, in each case to provide financing support for projects or programs that respond directly to, or address the economic impacts of, the COVID-19 pandemic, a special abbreviated Board consideration period of 1 week after circulation of the RRP or Major Change in Project paper (as applicable) will apply.[58]

55. The fast-track business processes are expected to shorten the processing time for projects and programs that respond directly to, or address the economic impacts of, the COVID-19 pandemic, including support for targeted sector-based investments, additional financing for ongoing projects or conditional cash transfer projects, or support for targeted policy measures that enhance the COVID-19 response and provide critical budget resources to directly address the fiscal impact of the COVID-19 crisis.[59] All project and program due diligence and safeguards requirements established in the Safeguard Policy Statement (SPS) (2009) will remain in place, noting that the SPS provides flexibility to use a framework approach in emergency situations. In addition, interventions may follow the enhanced procurement flexibilities allowed for in emergency situations under the Procurement Policy (2017).[60] Gender mainstreaming efforts will continue by engaging ADB gender specialists early as part of the One ADB project or program team. Box 3 presents safeguard in emergency situations under ADB's SPS.

2. Apply Fast-Track Business Processes for Nonsovereign Projects and Programs to Support a Quicker COVID-19 Response

56. **Constraint.** To enable ADB to efficiently process projects or programs that respond directly to, or address the economic impacts of, the COVID-19 pandemic, ADB can expedite decision-making and adopt fast-tracked business processes, including abbreviated time periods for consideration of the project or program by the Board.

57. **Proposed change.** Where Board approval is required to approve a new nonsovereign project or program that responds directly to, or addresses the economic impacts of, COVID-19, a special abbreviated Board consideration period of 1 week after circulation of the RRP will apply.[61]

[57] SPD will maintain its quality review function for all COVID-19 response loan and grant proposals. This function will be facilitated through One ADB team members from SPD. For any complex or high-risk projects following the risk categorization set out in para. 5 of the *Staff Instruction on Business Processes for Sovereign Operations (2017),* the Office of Anticorruption and Integrity should be invited to be a team member. The Office of Anticorruption and Integrity should also be invited to the One ADB team for processing any projects related to COVID-19 that require integrity due diligence pursuant to the *Staff Instruction on Integrity Due Diligence for Sovereign Operations and Cofinancing* (2015), regardless of their risk categorization.

[58] All existing thresholds for full Board consideration of each proposed operation would be maintained.

[59] For example, this could include providing additional resources to support a scaling up of the ongoing *Philippines Social Protection Support Project* to provide targeted financial relief for vulnerable populations.

[60] ADB. 2018. *Fragile, Conflict Affected, and Emergency Situations: Guidance Note on Procurement.* Manila. https://www.adb.org/sites/default/files/procurement-fragile-situations.pdf

[61] SPD will determine eligibility of projects and programs to use the fast-track business processes in consultation with the relevant operations department.

58. The abbreviated Board consideration period is expected to shorten the processing time for projects and programs that respond directly to, or address the economic impacts of, COVID-19. Further, Management will work on additional measures to streamline business processes to fast-track COVID-related activities. All project and program due diligence (including credit underwriting standards) and safeguards requirements will remain in place. Gender mainstreaming efforts will continue by engaging ADB gender specialists early as part of the One ADB project or program team.

Box 3: Safeguard in Emergency Situations

The Asian Development Bank's (ADB) Safeguard Policy Statement (SPS) (2009) highlights that for investment lending in emergency situations the completion of standard environmental assessments, environmental management plans, resettlement plans, and Indigenous Peoples plans may not be possible before Board of Directors approval. In such cases, the SPS provides that in lieu of such assessments, safeguard frameworks may be prepared.

The purpose of a safeguard framework is to ensure that the subprojects or project components implemented under the framework comply with ADB safeguard objectives, principles, and requirements. Safeguard frameworks (including environmental assessment and review frameworks, resettlement frameworks, and Indigenous Peoples planning frameworks) need to be in place prior to project approval and provide necessary details on the screening and categorization, assessment, public disclosure and meaningful consultation, planning, institutional arrangements, and processes to be followed for subprojects or components after Board approval. Impact assessments and safeguard plans are also prepared during subproject or component preparation in conformity with the safeguard frameworks agreed to by ADB and the client.

To determine whether the application of safeguard frameworks is appropriate, ADB assesses the client's capacity to manage environmental and social impacts and risks and to implement national laws and ADB's requirements. If gaps exist between ADB's requirements and countries' laws, or where gaps in borrowers' capacity are apparent, the safeguard frameworks include the details of the specific gap-filling requirements to ensure that policy principles and safeguard requirements are achieved. These frameworks require that project components or subprojects developed after Board approval will meet safeguards requirements 1−3 established in the SPS.

The need for robust public disclosure and meaningful consultation is maintained under the framework approach. Meaningful consultation should begin early in the preparation of project components and subprojects and should be carried out on an ongoing basis throughout the project cycle. Meaningful consultation should be gender inclusive and responsive, and tailored to the needs of disadvantaged and vulnerable groups.

For policy-based lending (then called program lending), a matrix of potential impacts of each policy action, together with appropriate mitigation measures, is prepared, with a qualitative indication of the likely order of magnitude of each impact, and brief reasons for the judgment. Strategic environmental assessment may be usefully applied where appropriate.

For projects involving investment of ADB funds to or through financial intermediaries (FIs), ADB conducts safeguard due diligence to assess the potential environmental and social impacts and risks associated with the FI's existing and likely future portfolio, and its commitment and capacity in social and environmental management. All FIs are required to demonstrate that their investments are in compliance with applicable national laws and regulations and will apply ADB's SPS and prohibited investment activities list to subprojects financed by ADB[a]

[a] The prohibited investment activities list is in Appendix 5 of ADB Safeguard Policy Statement.
Source: ADB. 2009. *Safeguard Policy Statement*. Manila.

3. Apply Fast-Track Technical Assistance Business Processes Quicker COVID-19 Response

59. **Constraint.** Under current TA business processes, the processing department is required to prepare a TA concept paper, particularly for knowledge and support TA. The TA concept paper sets out the rationale, risk categorization and proposed design, financing amount, and implementation arrangements. The concept paper must be reviewed by relevant reviewing departments and approved by Management. This process can take a few weeks before the TA report can be prepared and submitted for approval. The TA report describes the final TA design, financing, and implementation arrangements, as agreed with the government or recipient (as appropriate). It may replicate some of the information contained in the TA concept paper. To support a rapid COVID-19 response, the processing department could move straight to due diligence (and, if applicable, fact-finding), followed by preparation of the TA report.

60. After TA approval and before any activity in a DMC can start, the processing department is required to obtain government concurrence to the TA. For sovereign, single-country TA, concurrence is through the issuance of a TA letter giving its no-objection to the TA upon the expiry of the period specified in the letter. The TA letter also refers to the TA framework agreement and informs the government of TA approval.[62] For nonsovereign TA, ADB can seek the government's no-objection to the TA at any time before activities begin in the territory of a DMC.[63]

61. Under current business processes, a sovereign, single-country TA becomes effective upon ADB's receipt of the signed TA letter or upon the expiration of the period specified in the TA letter (usually 21 days). To enable TA funds to be committed immediately upon TA approval and used for rapid support for the COVID-19 response, the TA letter could be waived as a condition for effectiveness.[64]

62. Under existing business processes, Board approval (based on the no-objection procedure with a circulation period of 21 calendar days) is required where (i) a proposed new TA financed by ADB's Special Funds exceeds $5 million or requires exception to an ADB policy; (ii) a proposed new TA financed by ADB-administered funds is in any amount subject to specific criteria;[65] (iii) an increase in the TA budget amount results in the cumulative TA amount financed from ADB's Special Funds exceeding $5 million or requires an exception to an ADB policy; or (iv) an increase in TA budget amount financed from ADB-administered funds is in any amount subject to a specific criteria.[66] For rapid TA support for COVID-19 response, fast-tracked business processes could be adopted for items (i) to (iv).

63. **Proposed change.** To facilitate a swift response to requests for TA support for the COVID-19 response, Management may apply the following streamlined business processes to expedite the preparation and approval of new TA projects, or increases in TA budget amount for existing TA projects that require Board approval, and are provided for COVID-19 response:[67]

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[62] For regional sovereign TA, a government's concurrence is obtained either in the signed aide memoire, memorandum of understanding, or other written agreement after it is approved. Unlike single-country TA, regional TA is effective upon approval.
[63] Nonsovereign TA becomes effective upon ADB's receipt of the signed TA agreement.
[64] For ADB-administered (non-delegated) TA, retroactive financing is highly discouraged to avoid incurrence of legal obligations to pay expenditures before the TA becomes effective.
[65] The guidance on administration of cofinancing that requires Board approval through no-objection is set out in the Operations Manual section L4. ADB. 2017. No Objection Procedure. *Operations Manual*. OM L4. Manila.
[66] ADB. 2015. *Enhancing Operational Efficiency of the Asian Development Bank.* Manila.
[67] Fast-track business processes shall be applied only for TA operations satisfying the criteria in Appendix 2.

(i) for knowledge and support TA, waiving the preparation and approval of a concept paper, and proceeding to due diligence (and, if applicable, fact finding), followed by preparation of a TA report;
(ii) waiving the requirement for interdepartmental review of the TA and its linked documents in exchange for forming a One ADB team with representatives from all relevant departments who assume responsibility for ensuring due diligence and procedural requirements are followed;
(iii) for single-country sovereign TA, waiving the TA letter as a condition for effectiveness, thereby allowing the TA to become effective upon approval by ADB, provided that the confirmed aide-memoire, signed memorandum of understanding, or other written agreement on the proposed TA (a) contains an unconditional confirmation from the government of its concurrence to the TA on a no-objection basis, (b) refers to the relevant TA framework agreement, and (c) informs that the TA will become effective upon approval by ADB;
(iv) for new TA requiring Board approval because (a) the TA amount financed by ADB's Special Funds exceeds $5 million or requires an exception to an ADB policy or (b) the TA amount financed by ADB-administered funds is subject to a specific criteria, a special abbreviated Board consideration period of 1 week after circulation of the TA paper will apply; and
(v) for a TA budget increase requiring Board approval because (a) the cumulative TA amount financed by ADB's Special Funds exceeds $5 million or requires an exception to an ADB policy or (b) the increase in TA budget amount financed from ADB-administered funds is subject to a specific criteria, a special abbreviated Board consideration period of 1 week after circulation of the major change in TA paper will apply.

4. Allow Technical Assistance Resources to Be Used for Procurement of Goods and Equipment for the COVID-19 Response

64. **Constraint.** Under the current TA policy, TASF resources are used to finance the cost of expert services and related facilities required for TA or related operational activities (including training and development for DMCs) to be carried out by ADB. Procurement of TA-related facilities, which includes goods and equipment, is allowed if such are necessary to achieve development objectives. In practice, for ADB's regular TA operations, a major share of TA resources is used for expert consulting services. While expert services remain a necessary part of a comprehensive COVID-19 response, DMCs are seeking to use ADB resources to procure equipment such as virus detection equipment, medicines and vaccines, personal protective equipment for health care personnel, and digital health software and hardware. This is consistent with ADB's existing TA policies but would require a significantly larger focus on goods and equipment than ADB's regular TA operations.[68]

[68] ADB. 1981. *Regulations of the Technical Assistance Special Fund.* Manila: specified that TASF can be used for financing the cost of expert services and related facilities required for technical assistance or related operational activities (including staff training and development for DMCs; (ii) ADB. 1986. *R42-86 Technical Assistance Operations and Funding Arrangements*. Manila: defined TA as the provision of consulting services, training and equipment to help DMCs achieve specific development objectives; (iii) ADB. 1997. *Review of the Bank's Technical Assistance Operations.* Manila: reaffirmed the definition of TA in the earlier papers, and further clarified that TA can include a component for "pilot-testing", provided it is limited to 30% of total TA value; and (iv) ADB. 2004. *Disaster and Emergency Assistance Policy*. Manila: reaffirmed that TA funds can be used for procuring critical equipment and supplies for basic services.

65. **Proposed change.** Management may apply flexibility in the use of TA resources to allow up to 100% of the ADB-financed TA amount to be used to purchase goods and equipment necessary to respond to the COVID-19 pandemic. This will particularly apply to initial COVID-19 response TA where immediate procurement of medical equipment and supplies is required to meet urgent DMC needs.

5. Allow a Blanket 6-Month Extension of Deadline for Submission of Audited Project Financial Statements for Which the Submission Due Date Falls Between 31 March and 31 December 2020.

66. **Constraint.** Many of ADB's DMCs are facing unprecedented disruption, high-risk health environments, extensive travel restrictions, and quarantine arrangements. This is constraining the implementation of ADB-funded sovereign projects, including in the completion of annual audits of sovereign projects. ADB requires APFS to be submitted within 6 months of the end of the executing or implementing agency's fiscal year.[69]

67. **Proposed change.** A blanket extension of 6 months is recommended for all audited project financial statements with due dates falling on any date from 31 March to 31 December 2020 on an exceptional basis. Any further extension to the due date for such projects will be at the discretion of management, requiring prior approval of the director general, Procurement, Portfolio, and Financial Management Department.

IV. RECOMMENDATION

68. The President recommends that the Board of Directors of the Asian Development Bank approve the policy variations described in paras. 16, 21−23, 26−27, 29−30, 33, 36, 39, 42, 47, and 50 of this paper, each of which will be considered to be approved separately.

[69] ADB. 2015. Project Financial Reporting and Auditing. *Operations Manual:* OM J7. Manila. para. 2; and ADB. 2018. Financial Reporting and Auditing of Loan- and Grant-Financed Projects. Project Administration Instructions. PAI 5.07. Manila. para. 16.

COUNTERCYCLICAL SUPPORT FACILITY AND COVID-19 PANDEMIC RESPONSE OPTION: COMPARISON OF ELIGIBILITY, PROCEDURES, AND REQUIREMENTS

1. **Purpose and eligibility.** The Countercyclical Support Facility (CSF) was established in 2009 and mainstreamed in 2011 as an exceptional instrument reserved for addressing severe macroeconomic crises. Its access criteria were refined in 2016. The CSF provides budget support to Asian Development Bank's (ADB) developing member countries (DMCs) undertaking fiscal stimulus for growth in the form of countercyclical development expenditure.[1] Macroeconomic policy dialogue and assessment are essential for CSF operations. A description of access criteria[2] for DMCs to avail CSF assistance and proposed adjustments in relation to the COVID-19 Pandemic Response Option (CPRO) is provided below.

(i) **Adverse impact of exogenous shocks.**[3] The DMC has experienced, or is likely to experience, a severe decline in growth.[4] While it is difficult to specify a strict threshold for this decline, the experience of those earlier crises may be referenced as a guide to determine eligibility for CSF operations. Whereas a severe decline in growth would be the main criterion for the CSF lending, the following additional indicators tailored to specific country contexts could also be part of the justification: (a) the DMC may be facing, or is likely to face, substantial fiscal stress, such as actual or projected fiscal deficit and lower revenue collections; (b) for DMCs relying on international capital markets to finance public expenditures, a rise in the spread on government bonds could disrupt their access at favorable terms;[5] and/or (c) for DMCs relying on exports and/or remittances, exogenous factors can cause a sharp decline in those inflows.

In the case of the CPRO, the DMC should demonstrate that, as a result of the COVID-19 pandemic, it has experienced, or is likely to experience: (i) a severe decline in growth; and (ii) fiscal and financial sector stress. This may be demonstrated through the economic, and health and population impacts of the COVID-19 pandemic, with a focus on poor or vulnerable groups.

(ii) **Countercyclical development expenditures.** The government has an effective countercyclical development expenditure/policy program to be supported by the CSF; and is committed to its implementation. The program includes social protection measures targeting the poor or vulnerable groups.[6]

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[1] A loan from the CSF is aimed at making up for lost aggregate demand at the time of economic crisis and containing its adverse impacts on growth.
[2] An assessment of the access criteria may involve a degree of judgment, and flexibility might be needed. The assessment should take into account the diversity in DMCs' circumstances and the uncertainties underpinning economic projections.
[3] Because these broader exogenous shocks can disrupt growth, mitigating such adverse impacts is in line with ADB's institutional mandate. If such shocks lead to a serious balance of payments crisis requiring International Monetary Fund's (IMF) intervention, ADB should mobilize special policy-based loan under IMF's leadership. However, when such impacts are limited primarily to slower growth, the CSF would be the right instrument.
[4] In addition to data from relevant national authorities and ADB data and publications, such as the Asian Development Outlook, its Update, and Supplement, macroeconomic analysis should be sourced from IMF's staff report on Article IV consultation and other IMF reports.
[5] Alternatively, the credit default swap spread could be referenced.
[6] A development policy letter is required to be attached to the Report and Recommendation of the President which should indicate the government's countercyclical development expenditure program for fiscal stimulus and its commitment to implementation.

In the case of the CPRO, the DMC's countercyclical development expenditure/policy program should also include measures that directly address COVID-19 related impacts with an emphasis on poor or vulnerable groups.[7] The development policy letter should describe the government's countercyclical expenditure/policy program including its COVID-19 relates measures and its commitment to implement such a program.

(iii) **Pre-shock record of generally sound macroeconomic management.** Monetary policy addresses price stability as one of its core objectives, and inflation is controlled. Public finances are sound, as shown by recent fiscal balances in relation to the economy's cyclical position, the quality of any adjustment measures being planned, and an overall sound institutional budgetary framework.[8]

In the case of the CPRO, the instrument's broader eligibility across all DMCs should be considered when assessing the pre-shock record of macroeconomic management. In particular, because of narrow production and export bases, small states and fragile and conflict-affected situations will typically exhibit greater vulnerability to external shocks and will have experienced more macroeconomic volatility than peers. In these cases, a careful assessment should be made to demonstrate that the quality and size of the planned adjustment measures being pursued under the countercyclical expenditure program, are being conducted within a sound budgetary framework. This should include the presentation of fiscal response measures that are comprehensive, but which are within a broadly sustainable macroeconomic framework. DMCs with debt sustainability issues will be required to closely follow the requirements set out in para. 1(v).

(iv) **Structural reforms.** Where structural weaknesses substantially increase vulnerability to exogenous shocks, there need to be assurances that the country is taking credible steps to address the underlying structural issues. To enhance the effectiveness of such reforms, the country may engage with ADB to negotiate conventional PBL to address these weaknesses.

In the case of the CPRO in place of the emphasis on structural reforms, the DMC should demonstrate that credible and proactive steps are being taken to address the spread of COVID-19 and mitigate its economic impacts on the population, particularly on poor and vulnerable groups. The DMC's COVID-19 pandemic response plan may include a wide range of measures to address the public health or economic impacts of the pandemic. Where relevant, reference may also be made to medium and longer-term public health and preventative measures that the DMC plans to adopt, particularly those which are intended to receive support from conventional PBL.

(v) **Debt sustainability.** The borrower's debt sustainability, including potential impacts of prospective CSF assistance, should be confirmed. International reserves are determined to be adequate, taking into account the imports coverage ratio and the short-term external debt financing requirement. Relevant indicators

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[7] The proposed impacts of the countercyclical development expenditure program on poor and vulnerable groups should be clearly articulated in the design and monitoring framework.

[8] In addition to data from relevant national authorities and ADB data and publications, such as the Asian Development Outlook, its Update, and Supplement, macroeconomic analysis should be sourced from IMF's staff report on Article IV consultation and other IMF reports.

may be based on the debt sustainability analysis by the International Monetary Fund (IMF) and the World Bank, or a similar assessment when such a joint analysis is not conducted.

In the case of the CPRO, the expansion of eligibility to include group A DMCs means that many will be at high or moderate risk of debt distress. To be eligible for CPRO support, all DMCs must be able to demonstrate that the assistance provided by ADB will be integrated into a fiscal framework that does not jeopardize the borrower's debt sustainability or exacerbate weaknesses in fiscal sustainability. Specific reference should be made to the size of the CPRO assistance relative to the borrower's debt sustainability. Reference to support being received from other development partners should also be made.

(vi) **Coordination with the International Monetary Fund.** If the IMF is not involved in crisis response, ADB will ensure that the country has had constructive consultations with the IMF, such as recently completed or ongoing Article IV consultations.[9] For both CSF and CPRO, ADB should secure an assessment letter from the IMF confirming the soundness of the government's macroeconomic management and other policies before the Board of Directors considers the proposed assistance. ADB should work closely with its counterparts at the IMF to determine that the CSF or CPRO and any related conventional PBL are appropriate, despite the absence of an IMF program.[10]

2. **Features.** While CSF lending takes the form of a single-tranche operation, disbursement may be immediate or deferred under certain conditions, such as a deterioration of market conditions. The precautionary financing option (PFO) may be exercised when it is highly likely that the impacts of an exogenous shock will reach the recipient country but have not fully materialized at the time of ADB's financing commitment. PFO enables a borrower to postpone drawing down the funds once the loan agreement has been declared effective until such time that the prescribed drawdown conditions have been satisfied. DMCs are also eligible to utilize the PFO under the CPRO provided that they have met all of the access criteria listed in para. 1 above. Disbursement triggers for the CPRO should be mutually agreed between ADB and the DMC and may include a range of measures, including, but not limited to, reducing the number of COVID-19 infections or rate of increase in infections, or the size of economic, fiscal or financial sector shocks.

3. **Business Processes.** Fast-track business processes and documentation requirements similar to those applicable to emergency assistance lending are adopted for CSF and CPRO. A formal request for support from the DMC, typically in the form of a letter, should precede processing of the CPRO. Unless the Management advises otherwise, concept clearance is not required. Following an official request from a DMC government, processing teams will conduct due diligence and fact-finding (the understandings reached during fact-finding will be documented in a signed aide-memoire or memorandum of understanding) Thereafter, processing team will prepare the report and recommendation of the President (RRP). An initial poverty and social analysis is required to be prepared in lieu of the damage and needs assessment. An informal Board seminar should be organized at an early stage of loan processing (either before or after

9 This requirement applies for ADB operations in IMF member countries.

10 Consultation with the IMF and other international financial institutions is critical for both CSF and CPRO. ADB should involve IMF staff through regular and active policy dialogue during preparation of the operation. Similar engagement with other international financial institutions should also be adopted as needed.

fact-finding), but before the Management review meeting. Special abbreviated Board consideration procedures will be applied typically within 1 week after the RRP circulation.

4. **Report and Recommendation of the President template.** The RRP for both CSF and CPRO broadly follow the RRP for conventional PBLs except that it does not require a set of policy actions. The RRP is expected to be concise on account of the time-pressing crisis situation. Therefore, it should be written in a manner that will allow assessment of the DMC's compliance with access criteria listed in para. 1 above and summarized in Table 1 below. All of the access criteria listed in para. 1 above should be clearly assessed in the RRP. The RRP should also include the mechanism for monitoring and reporting of such a reform program. When PFO under CSF or CPRO is proposed to be exercised, the conditions for drawing down should be articulated in the RRP.

5. **Linked documents.** The CSF and CPRO require the following linked documents: (i) debt sustainability analysis, reflecting potential impacts of CSF borrowing for countries accessing a CPRO in COL or regular ordinary capital resources; (ii) IMF assessment letter; (iii) summary poverty reduction and social strategy; (iv) list of ineligible items; (v) development coordination matrix; (vi) sector assessment (optional, if applicable); (vii) country economic indicators (as link to the Program at a Glance table); and (viii) risk assessment and risk management plan.[11]

Table 1: Summary Eligibility Criteria for Countercyclical Support Facility and COVID-19 Pandemic Response Option[a]

Eligibility Criteria (Summary)	Existing CSF	Proposed CPRO
Adverse impact of exogenous shock	The DMC has experienced, or is likely to experience, a severe decline in growth and fiscal stress.	The DMC has experienced, or is likely to experience, a severe decline in growth and fiscal stress as a result of the COVID-19 Pandemic
Countercyclical development expenditure	The government has an effective pro-poor countercyclical expenditure program to be supported by the CSF	The government has an effective pro-poor countercyclical expenditure program to be supported by the CPRO which clearly identifies measures taken to address the impacts of the crisis on vulnerable groups
Pre-shock record of generally sound macroeconomic management	Pre-shock record of generally sound macroeconomic management. The quality of adjustment measures being planned, is within a sound budgetary framework	The quality of adjustment measures being planned, is within a sound budgetary framework
Structural reforms	Country is taking credible steps to address underlying structural issues that contributed to the crisis	Country is taking credible steps to address the spread of COVID-19 and to mitigate its economic impacts on the population
Debt sustainability	The borrower's debt sustainability, including potential impacts of the prospective CSF assistance, is confirmed	The borrower's debt sustainability, including potential impacts of the prospective CPRO assistance, is confirmed

[11] The contribution to ADB's results framework document is not required but the program's linkage to the corporate results framework will be done post-approval by the Strategy, Policy and Partnerships Department.

IMF Coordination	Constructive consultations with the IMF, and other relevant partners. ADB should secure an assessment letter from the IMF confirming the soundness of macroeconomic management before Board approval	Constructive consultations with the IMF, and other relevant partners. ADB should secure an assessment letter from the IMF confirming the soundness of macroeconomic management before Board approval[b]

ADB = Asian Development Bank, CPRO = COVID-19 Pandemic Response Option, CSF = countercyclical support facility, DMC = developing member country, IMF = International Monetary Fund.

[a] The full description of eligibility criteria is in para. 1.

[b] Processing teams will be requested to show evidence of their request for an IMF Assessment Letter from the IMF. If approved by the IMF, a recent (within 6 months) IMF Article IV assessment or Public Information Notice may be used in lieu of an Assessment Letter.

Source: Asian Development Bank.

6. **Financing terms.** The lending terms for CSF loans comprise interest rates set at a minimum spread of 200 basis points over LIBOR, a rebate or surcharge reflecting the cost of funds, maturity of 5–8 years including a grace period of up to 3 years, and a commitment charge at 75 basis points per year on the undisbursed loan balance.

7. The pricing for CSF was based on three main considerations prevalent at the time of establishing the instrument.[12] First, the facility aimed to alleviate the financial burden resulting from the dramatic increase in DMCs' funding costs in international capital markets as a result of the 2009 global financial crisis. The proposed pricing was chosen to generally reflect the pre-crisis credit spread on dollar-denominated offshore bonds of Asian issuers. Second, the proposed pricing considered ADB's more constrained risk-bearing capacity prior to combining the lending operations of the bank’s Asian Development Fund with its ordinary capital resources OCR balance sheet. Third, the higher pricing was designed to contain demand and rationalize the provision of emergency support to each DMC out of the limited CSF pool. As a result of these more onerous financing terms and conditions and the need to ensure debt sustainability of borrowers, the CSF was only made available to regular ordinary capital resources eligible DMCs.

8. Given the unprecedented risks posed by the COVID-19 pandemic, the pressing need for DMCs to finance urgent measures to lower the transmission of infections and to mitigate the social and economic costs of the pandemic, the CPRO adopts modified CSF terms and conditions. The CPRO also makes the facility available to groups A, B, and C DMCs on that basis. A DMC’s commitment to generating the regional public goods associated with implementing appropriate COVID-19 mitigation measures will be demonstrated through meeting the access criteria listed in para. 1 above. A summary of proposed financing terms and conditions of CSF, CPRO, and regular ADB lending is provided in Table 2.

Table 2: Comparison of Countercyclical Support Facility Terms with other Modalities[a]

Financing source	Modality	Grace period	Term	Interest
Regular OCR[b]	EAL	8 years	32 years	LIBOR+50 bps contractual spread +surcharge/rebate
	Project loan	variable	Variable[c]	LIBOR+50 bps contractual spread +surcharge/rebate
	Policy-based loan (Group B, C)	3 years	15 years	LIBOR+50 bps contractual spread +surcharge/rebate

[12] ADB. 2009. *Enhancing ADB’s Response to the Global Financial Crisis*. Manila.

	CSF - Regular	3 years	5-8 years	LIBOR+200bps contractual spread (minimum) +surcharge/rebate
	CPRO, at or below $500 million (Group C)	3 years	10 years	LIBOR+50 bps contractual spread +surcharge/rebate
	CPRO, incremental above $500 million (Group C)	3 years	5 years	LIBOR+50 bps contractual spread +surcharge/rebate
Concessional OCR (Group A)	EAL	10 years	40 years	1%
	Project loan	8 years	32 years	1% during grace period; 1.5% after
	Policy-based loan / CPRO	8 years	24 years	1% during grace period; 1.5% after
Concessional OCR (Group B)	EAL	10 years	40 years	1%
	Project loan	5 years	25 years	2%
	Policy-based loan / CPRO	5 years	25 years	2%

ADB = Asian Development Bank, CPRO = COVID-19 Pandemic Response Option, CSF = countercyclical support facility, EAL = emergency assistance loan, LIBOR = London interbank offered rate, OCR = ordinary capital resources.

[a] Under the CPRO, group C countries can use regular OCR; group B countries can use regular OCR and/or concessional OCR lending (COL); group A countries at low risk of debt distress and International Development Association (IDA) gap countries (COL-only) can use COL; group A countries at moderate risk of debt distress (ADF blend) can use a blend of Asian Development Fund (ADF) grants and COL; while group A countries at high risk of debt distress (ADF-only) can use ADF grants. In this exceptional emergency context, the proportion of COL for financing a CPRO in group A countries at moderate risk of debt distress (ADF blend) may be higher or lower than 50%, subject to resource availability. Such an option should be agreed in coordination with the government and the International Monetary Fund and World Bank. IDA gap countries have gross national income per capita above the operational cutoff for IDA eligibility for more than 2 consecutive years and are assessed as such by IDA. The operational cutoff is $1,175 (2018 prices).

[b] Commitment charges and maturity premiums (if applicable) apply to all OCR loans.

[c] Average loan maturity should be less than 19 years.

Source: Asian Development Bank.

ELIGIBILITY OF PROJECTS AND PROGRAMS TO APPLY POLICIES AND PROCEDURES APPROVED IN ADB'S COMPREHENSIVE RESPONSE TO THE COVID-19 PANDEMIC

1. Limited special policy variations and fast-track business processes under "ADB's Comprehensive Response to the COVID-19 Pandemic" will make existing ADB instruments and resources faster and more impactful in responding to the COVID-19 pandemic. In addition, new projects and expanded nonsovereign facilities are proposed to enable ADB to scale up its support for private sector entities as well as individuals impacted by the COVID-19 pandemic. Country level operations should be **tailored to the specific context and epidemic status of the country.**

2. Policy variations and fast-track business processes apply only for projects, programs, and technical assistance that respond directly to, or address the economic impacts of, the COVID-19 pandemic. The following guidance can assist processing teams to determine whether an operation may avail of the policy variations and fast-track business processes described in the R-Paper. Final eligibility of projects and programs will be determined by the Strategy, Policy and Partnerships Department in consultation with the relevant operations department.

3. Following are illustrative examples of projects and programs which **address the direct impacts** of the COVID-19 pandemic:

(i) support urgent response measures required by DMCs to prepare for, or control the health-related impacts of the COVID-19 pandemic;[1]
(ii) enhancing disease detection and response capacities;
(iii) strengthening institutions and platforms for policy development and coordination of prevention and preparedness;
(iv) supporting forecasting of prevention and preparedness requirements of infrastructure, equipment, reagents and commodities;
(v) strengthening monitoring and evaluation of prevention and preparedness, building capacity for clinical and public health surveillance on the COVID-19 pandemic, and sharing of information and knowledge related to effective COVID-19 pandemic response across and within countries;
(vi) building systems for real-time community-based disease surveillance;
(vii) funding working capital needs and enhancing emergency storage/distribution facilities for medical supplies; and
(viii) providing investments to purchase goods, equipment, and services critical to mitigating the impacts of the COVID-19 pandemic.

4. Following are illustrative examples of projects and programs which **address the economic impacts** of the COVID-19 pandemic:

(i) addressing the financial impact of COVID-19 on individuals, including through the payment of direct compensation or subsidies to select groups adversely impacted by the pandemic;
(ii) addressing the labor market impacts of the crisis by providing income generating opportunities, including in tourism, retail, transport, and agricultural industries;
(iii) providing access to finance to individuals, micro, small, and medium enterprises;
(iv) ensuring sufficient trade and supply chain financing is available as the global economy experiences a major economic shock from the pandemic; and
(v) supporting the banking sector to ensure it remains robust and capable of supporting economic activity during the COVID-19 pandemic.

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[1] Policy-based lending that provides resources to fill development financing gaps but does not include policy measures that directly address preparedness for, or mitigate the impact of, the COVID-19 pandemic will not be considered eligible for fast-track processing.