SOVEREIGN LENDING AND GRANT MODALITIES AT A GLANCE

**PROJECT LOAN (p. 3)**
The project loan supports investments with a clear scope; tangible outputs; and the estimated cost of goods, works, and services needed to complete the project. ADB is highly involved and uses its own procedures in preparing and administering project loans.

**SECTOR LOAN (p. 4)**
The sector loan finances numerous, smaller subprojects within a sector. ADB appraises sample subprojects before the sector loan is approved. The borrower selects and appraises more subprojects during implementation.

**FINANCIAL INTERMEDIATION LOAN (p. 5)**
Under the financial intermediation lending modality, the sovereign borrower onlends ADB funds to eligible financial intermediaries, like local banks or other financial institutions, which then provide smaller loans at their own credit risk to sub-borrowers.

**EMERGENCY ASSISTANCE LOAN (p. 6)**
The emergency assistance loan helps rebuild high-priority physical assets and restore economic, social, and governance activities after disasters and emergencies. Designed for quick response from ADB, the modality allows for abbreviated business processes.

**MULTITRANCHE FINANCING FACILITY (p. 7)**
The multitranche financing facility supports complex projects that require a larger investment and longer commitment than a regular project loan could provide. ADB provides a series of tranches when the investments are ready and the borrower requests financing.

**POLICY-BASED LENDING (p. 8)**
The policy-based lending modality transfers loan amounts to the government's general budget instead of paying for explicit project costs. This helps countries that may be facing a financing gap in their annual budget, and may need additional funds to pay for general development expenditures.

**PROJECT READINESS FINANCING (p. 11)**
Project readiness financing is a fast and flexible modality that supports activities expected to generate at least one ADB-funded project. It ensures high project readiness and minimizes startup delays during the initial phase of project implementation.

**SMALL EXPENDITURE FINANCING FACILITY (p. 12)**
The small expenditure financing facility provides quick and responsive support to clients' small financing needs that are linked to ADB-financed projects. The total estimated contract value of each activity should not exceed $15 million.

**PUBLIC–PRIVATE PARTNERSHIP STANDBY FINANCING FACILITY (p. 13)**
The public–private partnership standby financing facility supports timely government payments to private concessionaires. It consists of a framework agreement covering up to 15 years.

**TECHNICAL ASSISTANCE (p. 14)**
Technical assistance supports the preparation, financing, and execution of development projects and programs. Generally grant-based, it helps increase borrower capacity to make better use of their development resources.
SOVEREIGN LENDING AND GRANT MODALITIES

QUICK GUIDE
ABOUT THIS QUICK GUIDE

The Asian Development Bank (ADB) helps its developing member countries (DMCs) achieve economic growth, reduce poverty, and address development challenges through its various financing instruments including loans, grants, and technical assistance.

This quick guide offers brief information on the different lending and grant modalities that ADB offers to DMCs. It describes the purpose, key features, financing, disbursement, and implementation arrangements of each modality so clients could explore the most suitable options for their development needs.

When processing actual ADB operations, please refer to ADB’s Operations Manual Section D and related policy papers for complete details on the various modalities included in this guide.

In addition, all ADB modalities—while considering economy and efficiency—must comply with ADB policies and procedures on:
(i) anticorruption,
(ii) combating money laundering and the financing of terrorism,
(iii) cost sharing and expenditures eligibility,
(iv) gender,
(v) governance,
(vi) poverty reduction,
(vii) procurement and the use of consultants, and
(viii) safeguards.

This quick guide serves as a learning tool and is not a substitute for ADB-approved policies and procedures. For questions and concerns, please contact the Strategy, Policy, and Business Process Division Director in ADB’s Strategy, Policy, and Partnerships Department.

MORE INFORMATION

• ADB’s Lending and Grant Modalities page on ADB.org includes animated explainer videos about the modalities, as well as links to relevant policies and sections of the ADB Operations Manual. adb.org/what-we-do/public-sector-financing/lending-grant-modalities

• An e-learning course on ADB’s sovereign modalities is available at: https://elearn.adb.org/enrol/index.php?id=306.
**ABBREVIATIONS**

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<th>Abbreviation</th>
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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>CDF</td>
<td>contingent disaster financing</td>
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<td>COL</td>
<td>concessional OCR loan</td>
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<td>CSF</td>
<td>countercyclical support facility</td>
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<td>DMC</td>
<td>developing member country</td>
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<td>EA</td>
<td>executing agency</td>
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<td>EAL</td>
<td>emergency assistance loan</td>
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<td>FIL</td>
<td>financial intermediation loan</td>
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<td>KSTA</td>
<td>knowledge and support technical assistance</td>
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<td>MFF</td>
<td>multitranche financing facility</td>
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<td>OCR</td>
<td>ordinary capital resources</td>
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<td>PBG</td>
<td>policy-based guarantee</td>
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<td>PBL</td>
<td>policy-based loan/policy-based lending</td>
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<td>PFI</td>
<td>participating financial intermediary</td>
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<td>PPP</td>
<td>public–private partnership</td>
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<td>PPPSFF</td>
<td>public–private partnership standby financing facility</td>
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<td>project readiness financing</td>
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<td>results-based loan/results-based lending</td>
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<td>SDP</td>
<td>sector development program</td>
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<td>SEFF</td>
<td>small expenditure financing facility</td>
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<td>TA</td>
<td>technical assistance</td>
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<td>TRTA</td>
<td>transaction technical assistance</td>
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PROJECT LOAN

PURPOSE
The project loan finances a stand-alone investment with a defined scope and tangible outputs. It provides direct financial assistance to sovereign projects as well as eligible privately held, state-owned, or subsovereign entities.

KEY FEATURES
The project loan is simple, upfront, and clear. What the loan will be financing is known and fully appraised before approval. ADB is strongly involved in safeguards assessments and plans, so the modality is appropriate for Category A investments (projects that have been classified as likely to have significant adverse environmental impacts that are irreversible, diverse, or unprecedented, according to ADB’s 2009 Safeguard Policy Statement).

A project loan is appropriate when:
(i) the project needs to rely on ADB systems, and
(ii) the project is classified Category A under ADB’s 2009 Safeguard Policy Statement.

A project loan is less suitable when:
(i) the borrower is an upper middle-income country with its own systems,
(ii) significant institutional or policy reforms are needed, and
(iii) appraisal will take too much time.

WHAT IT PAYS FOR
Project expenditures (goods, works, and services) that support the delivery of project outputs.

REQUIREMENTS
ADB’s general policy requirements.

HOW IT IS PROVIDED
The project loan is provided as a loan or grant.

HOW IT IS DISBURSED
The borrower withdraws amounts from the loan account to cover project expenditures.

REFERENCES
SECTOR LOAN

PURPOSE
By financing a part of the sector investment that has been planned by the borrowing government, the sector loan assists in the development of a specific sector or subsector in DMCs. The modality is expected to improve sector policies and strengthen institutional capacity.

KEY FEATURES
Only sample subprojects are appraised before ADB board approval. Candidate subprojects are appraised by the executing agency (EA) during project implementation, and if these meet the subproject selection criteria, the cost of subproject appraisal is covered by the loan. As such, the sector loan is more cost-efficient than a project loan. The sector loan is flexible and can accommodate changes in scope. It can adapt to changes in situation, needs, and priorities since the EA can propose subprojects during implementation.

Sector lending is appropriate when:
(i) numerous subprojects in the sector or subsector are to be financed, and
(ii) sector policies need to be improved and institutional capacity strengthened.

Sector lending is less suitable when:
(i) project implementation readiness is low (as it will cause implementation delays), and
(ii) the EA lacks the capacity to manage and mitigate safeguards risks.

WHAT IT PAYS FOR
Expenditures (goods, works, and services) that support subprojects.

REQUIREMENTS
(i) Sector development plan.
(ii) Institutional capacity to implement the sector development plan and appraise proposed subprojects.
(iii) Appropriate sector policies, to be improved as needed.
(iv) ADB’s general policy requirements.

HOW IT IS PROVIDED
The sector loan is provided as a loan or grant.

HOW IT IS DISBURSED
The borrower withdraws amounts from the loan account to cover expenditures related to subprojects.

REFERENCE
FINANCIAL INTERMEDIATION LOAN

PURPOSE
The financial intermediation loan (FIL) provides financing to eligible participating financial intermediaries (PFIs) for onlending at their own credit risk. PFIs are usually financial institutions with lending as their main function, such as a commercial bank or microfinance organization. Sub-borrowers fund their own projects, which may consist of investment or economic activities for the trade and production of goods and services; and the development of housing and infrastructure.

The goal of the FIL is to achieve private sector-driven economic growth in DMCs. The FIL can also help further financial sector reforms.

KEY FEATURES
Onlending through PFIs, rather than direct supervision by ADB, enables greater outreach to sub-borrowers with smaller loan requirements. FIL can target specific types of sub-borrowers, such as micro, small, and medium-sized enterprises; women entrepreneurs; or rural-based industries. This gives underserved market segments greater access to finance. FIL supports the financing of investments through market-based allocation mechanisms, and can help expand the outreach and stability of a country’s financial system.

FIL is suitable when:
(i) there is demand for credit by potential sub-borrowers that the domestic financial system cannot meet,
(ii) the PFIs have enough onlending capacity and incentive,
(iii) the FIL will not discourage domestic resource mobilization or cause market distortions, and
(iv) the FIL contributes to the establishment of financial institutions and systems that can raise and allocate resources in DMCs efficiently and sustainably.

WHAT IT PAYS FOR
Cost of subloans onlent by PFIs

REQUIREMENTS
(i) The FIL is consistent with ADB’s strategy for financial sector development in DMCs, as reflected in the borrowing country’s strategy and program.
(ii) PFIs meet required eligibility criteria.
(iii) Government policy and the economic environment are conducive to FIL operations.
(iv) ADB’s general policy requirements.

HOW IT IS PROVIDED
The FIL is provided as a loan on a stand-alone basis, or as components of sector development programs or sector or project loans. It may be used in conjunction with ADB’s guarantee products to enhance fund availability for PFIs.

HOW IT IS DISBURSED
The borrower withdraws amounts from the loan account to cover expenditures (i.e., cost of subloans approved by the PFIs). The borrower onlends funds to the PFIs, which further onlend to sub-borrowers.

REFERENCE
EMERGENCY ASSISTANCE LOAN

PURPOSE
The emergency assistance loan (EAL) supports rapid approval of financing to help rebuild high-priority physical assets and restore economic, social, and governance activities after disasters and emergencies. It is an instrument for emergency support approved in the aftermath of disasters triggered by natural hazards, health emergencies, food insecurity, technological and industrial accidents, and post-conflict situations.

KEY FEATURES
The EAL focuses on immediate short-term requirements that can be completed within a fixed maximum implementation period. This includes early recovery activities such as rehabilitating critical infrastructure and meeting basic needs, as identified by a post-disaster needs assessment.

ADB may be required to support long-term reconstruction following a disaster that might not necessarily be completed within the fixed maximum EAL implementation period. In such cases, additional financing to the EAL—applying regular ADB financing terms and conditions—can be considered.

The EAL also supports efforts of DMCs to build back better, enhancing resilience to future emergencies.

WHAT IT PAYS FOR
Expenditures (goods, works, and services) that support recovery and reconstruction

REQUIREMENTS
(i) The government has made an official request for assistance.
(ii) A post-disaster needs assessment has identified, as appropriate, the potential economic, social, and governance impact of needs and priorities.
(iii) The event involves significant economic dislocation, and the EAL is intended to address immediate needs and/or expedite the preparation of a regular project.
(iv) The security of ADB staff undertaking operations in conflict-affected areas is guided by United Nations security norms and clearances.
(v) The level of burden and risk-sharing among partners, especially shareholders and other key local and international actors, is appropriate.

HOW IT IS PROVIDED
It is provided as a loan or grant.

HOW IT IS DISBURSED
The borrower withdraws amounts from the loan account to cover eligible expenditures.

REFERENCES
MULTITRANCHE FINANCING FACILITY

PURPOSE
The multitranche financing facility (MFF) responds to a country’s large-scale, long-term investment needs. It can finance multiple projects under an investment program in a sector or various sectors, as well as large, long-term stand-alone projects with substantial and related individual components. It can also finance slices of long-term contract packages in these large stand-alone projects or investment programs.

KEY FEATURES
The MFF enables ADB to provide a series of tranches as and when the investments are ready and the borrower requests financing. There is assurance that a large, long-term program will have ADB support up to MFF completion.

ADB and borrowers have multiple entry points for policy dialogue, since lessons from an earlier tranche can be applied to a succeeding one.

All DMCs are eligible to use the MFF in any sector that ADB covers in the borrowing country, but it is most suitable for long-term and large investments.

WHAT IT PAYS FOR
Project expenditures (goods, works, and services) that support the delivery of project outputs

REQUIREMENTS
Aside from ADB’s general policy requirements, there are six preconditions for the use of MFF:
(i) Road map defining strategic directions for the sector.
(ii) Policy framework identifying main challenges and operating conditions, targets for change, and reform actions.
(iii) Strategic context for MFF within ADB’s country partnership strategy.
(iv) Investment program clarifying the scope of the MFF.
(v) Financing plan specifying amounts, timing, and fund sources.
(vi) Undertakings outlining borrower commitments over the term of the MFF.

A framework financing agreement between ADB and the borrower sets out the main features of the investment program and the undertakings made by the borrower. It emphasizes the indicative nature of the funding commitment against the availability of funds.

HOW IT IS PROVIDED
A maximum amount is approved by the ADB Board of Directors under the facility. This amount is converted by ADB management into a series of tranches that may take the form of loans, grants, guarantees, or cofinancing administered by ADB upon formal requests from the borrower.

HOW IT IS DISBURSED
MFF tranches may be used for regular loans, grants, and/or guarantees.

REFERENCES
POLICY-BASED LENDING

PURPOSE
Policy-based lending (PBL) supports policy reform by focusing on policy actions that address critical constraints in DMCs.

KEY FEATURES
ADB has four types of PBL operations, each catering to a different situation in a DMC, and are generally categorized as conventional PBL and crisis-response PBL.

Conventional Policy-based Lending
1. Stand-alone PBL. Provides budget support and is packaged either as a multitranche or single tranche loan to support structural reforms over a short- to medium-term period.
2. Programmatic approach. Comprises a series of single-tranche loans (subprograms) to support structural reforms over a medium-term time frame.

Crisis-Response Policy-based Lending
3. Special PBL. Designed to address external and internal payments crises by providing large-scale support as part of an international rescue effort, led by the International Monetary Fund and supported by other international financial institutions.
4. Countercyclical support facility (CSF). Provides budget support during an economic crisis, in conjunction with a DMC’s fiscal stimulus package to restore growth.

Conventional PBLs also include two financing options:
5. Contingent disaster financing (CDF). A contingent financing option, which provides quick-disbursing and flexible financing for DMCs impacted by disasters triggered by natural hazards. Policy dialogue and reforms are completed before a disaster occurs, with disbursement made upon satisfaction of pre-agreed disbursement condition(s).
6. Policy-based guarantee (PBG). This is a credit enhancement product that supports countries’ access to commercial financing markets by using a partial credit guarantee, anchored on a set of policy conditions, as a financial instrument for sovereign borrowing. It is backed by a sovereign counter-guarantee and indemnity.

WHAT IT PAYS FOR
Development expenditures through general budget support, balance of payments support, and fiscal stimulus.

REQUIREMENTS
(i) Strong government ownership of the reform program and commitment to reform.
(ii) Implementation of substantive policy reforms with sector- or economy-wide impacts.
(iii) Fiduciary arrangements in place to ensure efficient utilization of overall resources through sound public financial management.
(iv) Direction of macroeconomic policies deemed satisfactory.
(v) Close coordination with the International Monetary Fund and other development partners.

HOW IT IS PROVIDED
(i) Upfront loan or grant (except for PBG, which is a credit enhancement product).
(ii) For programmatic approach, a series of loans or grants.

HOW IT IS DISBURSED
(i) Disbursement is conditional on completion of agreed policy actions (ex-ante/prior actions or ex-post conditions) depending on PBL type.
(ii) For CDF, conditions are designated as prior actions, but funding is available in the event of a disaster triggered by a natural hazard.

REFERENCE
SECTOR DEVELOPMENT PROGRAM

PURPOSE
The sector development program (SDP) finances a government’s reform program within a sector, as well as a specific investment project linked to the sector and program. It does this by combining investment lending (project, sector, or financial intermediary loan) with PBL. SDP fosters an integrated approach to a sector need and enhances ADB’s leverage for promoting policy and institutional reforms.

KEY FEATURES
The investment and policy-based components of the SDP complement each other: investments facilitate reforms in the short term, while reforms maximize the benefits of the project investment in the medium to long term.

SDPs are appropriate when:
(i) the sector requires substantial investment lending as well as substantive policy and/or institutional reform, where the former cannot be fully accomplished without the support of a policy-based lending component;
(ii) the government is committed to sector reform and has implementation experience;
(iii) ADB is already engaged and has expertise in the sector;
(iv) investment lending component has high project readiness; and
(v) the policy-based component adds a clear benefit, such as helping address a development financing need, supporting the achievement of difficult and complex reforms, or ensuring that an adequate policy and institutional framework is in place for effective implementation of the investment project.

SDP is less appropriate when:
(i) the borrower lacks PBL knowledge and experience,
(ii) the link between PBL and the investment loan is weak, and
(iii) analytical and preparatory work is lacking.

WHAT IT PAYS FOR
The PBL component pays for development expenditures through general budget support, balance of payments support, and fiscal stimulus. The investment component pays for project expenditures (goods, works, and services) that support the delivery of project outputs.

REQUIREMENTS
The policy requirements for both investment and policy-based lending apply to SDPs.

HOW IT IS PROVIDED
It is provided as two loans and/or grants: one policy-based and one investment loan.

HOW IT IS DISBURSED
The PBL component is disbursed in one or more tranches against the completion of agreed conditions, while the investment component is disbursed in amounts requested to cover project expenditures.

REFERENCE
RESULTS-BASED LENDING

PURPOSE
Results-based lending (RBL) supports the delivery of results in a government program while using and improving the program’s institutions and systems to achieve these results. It aims to enhance the accountability, efficiency, and effectiveness of government-owned programs.

KEY FEATURES
RBL is particularly useful for orienting the efforts by various government agencies toward a common set of results. It also provides a good platform for development partners to pool resources and share the same set of targets, thus coordinating their development assistance.

RBL is appropriate when:
(i) a development challenge needs a systems approach;
(ii) there is strong government interest and ownership;
(iii) the government program to be financed is well-defined;
(iv) there are opportunities for knowledge and learning, as well as for leveraging ADB financing to expand impact; and
(v) operations involve a large number of small contracts, where the transaction costs would be very high if financed through an investment loan.

RBL excludes:
(i) environmental category A projects and activities likely to have significant adverse impacts that are sensitive, diverse, or unprecedented on environment or affected people; and
(ii) high-value contracts ($50 million for works, turnkey and supply and installation contracts; $30 million for goods; $20 million for IT systems and nonconsulting services; and $15 million for consulting services).

WHAT IT PAYS FOR
Achievement of results under a specific government program with a clear program expenditure framework. RBL may support the whole, part, or a time slice of a government-owned program, which could be ongoing or new, national or subnational, and multisector or subsector in scope. ADB financing for RBL is capped at 10% of total Asian Development Fund (ADF) and ordinary capital resources on a 3-year rolling average.

REQUIREMENTS
While RBL uses government program systems and procedures, and seeks to enhance them where necessary, the program systems need to be consistent with ADB policy objectives and principles. As RBL relies on country systems for financial management, procurement, safeguards, and monitoring and evaluation, ADB will carry out rigorous capacity and risk-assessment during due diligence.

HOW IT IS PROVIDED
RBL is provided in the form of a loan and/or grant to a government program’s expenditure framework.

HOW IT IS DISBURSED
Financing is disbursed when agreed and verified program results are achieved. For example, while an investment loan may finance civil works for school construction, an RBL will disburse financing based on successful achievement of specified exam pass rates.

Program results are measured in terms of disbursement-linked indicators. An independent entity verifies whether the disbursement-linked indicators were met. Disbursement can be proportional to the results achieved.

REFERENCES
• ADB. 2019. Mainstreaming the Results-Based Lending for Programs. Manila.
PROJECT READINESS FINANCING

PURPOSE
Project readiness financing (PRF) supports activities expected to generate at least one ADB-financed project, and increase implementation readiness and the likelihood of achieving the intended project outcomes.

KEY FEATURES
PRF is a fast, simple, and responsive tool to ensure high project readiness and minimize startup delays during the initial phase of project implementation.

Eligible project preparation and design activities under a PRF include:
(i) upstream project pipeline development, sector studies, and investment plans;
(ii) feasibility studies and due diligence assessments;
(iii) safeguards preparation work;
(iv) surveys (e.g., topographic and geotechnical) that are needed to collect information for the preparation of detailed engineering designs, and related equipment costs;
(v) procurement capacity and risk assessments, and advanced procurement actions;
(vi) detailed engineering designs;
(vii) pilot-testing of project designs;
(viii) project pre-implementation capacity building; and
(ix) development of a specific public–private partnership under transaction advisory services.

PRF financing terms are standardized as follows:
(i) A 15-year amortization period, including a 3-year grace period for regular loans from ADB’s ordinary capital resources (OCR), with no commitment charge.
(ii) For eligible countries, standard concessional OCR loan (COL) or ADF grant terms, whichever applies.

A project readiness loan may be refinanced by an ensuing loan to the same borrower or surplus loan proceeds from an ongoing ADB loan, to the same borrower.

WHAT IT PAYS FOR
Consulting services for project preparation such as detailed engineering design, capacity building, limited project startup support, and pilot-testing of project designs—including cost of pilot-related equipment and works.

REQUIREMENTS
PRF financing is limited to project preparation and design activities for follow-on investment projects expected to be financed by ADB.

HOW IT IS PROVIDED
PRF is provided as a loan and/or grant.

HOW IT IS DISBURSED
Financing is disbursed in amounts requested to cover PRF expenditures.

REFERENCES
SMALL EXPENDITURE
FINANCING FACILITY

PURPOSE
The small expenditure financing facility (SEFF) provides quick and responsive support to DMCs’ small financing needs that are linked to ADB-financed projects. The total estimated contract value of each activity should not exceed $15 million.

KEY FEATURES
Once the SEFF has been established, individual activities are processed as and when needed up to the maximum approved facility amount. The SEFF’s availability period is 5 years with a possible extension of another 5 years subject to ADB Board approval.

The SEFF typically supports low-risk activities across the project cycle—covering preparation, implementation, pilot-testing, and even post completion activities including operations and maintenance, rehabilitation, and post-disaster early recovery.

When funded by ADB’s regular OCR, the following financing terms apply:
(i) Each activity will have a 5-year tenor from the commitment of each subloan with a bullet repayment.
(ii) Each activity will charge interest based on that for a regular OCR loan less 20 basis points for a shorter tenor.
(iii) No commitment fee applies, but there is a front-end fee of 15 basis points on the facility amount.
(iv) When SEFF activity is funded by regular OCR or COL, it can be refinanced by an ensuing loan to the same borrower or surplus loan proceeds from an ongoing loan to the same borrower.

Standard financing terms will apply to activities funded by COL or ADF.

WHAT IT PAYS FOR
Consulting services, goods, and civil works

REQUIREMENTS
(i) Loans for activities under SEFF must be linked to one or more ADB–financed projects.
(ii) SEFF size is agreed with the borrower, subject to general ceilings and the estimated financing needs.
(iii) A DMC can establish multiple SEFFs, and the following ceilings apply to the sum of all facilities in the country.
   • For SEFF funded with regular OCR, the size should not exceed 20% of the average annual commitments of regular OCR for the country in the past 3 years, or $150 million, whichever is smaller.
   • The size of SEFFs funded with COL or ADF should not exceed 20% of the annual performance-based allocation of COL or ADF for the country.
   • To ensure a reasonable facility size in small DMCs with small resource allocations, SEFF of up to $10 million can be established, in cases where 20% of the annual average commitments of regular OCR resources, or 20% of the average annual performance-based allocation is less than $10 million.
(iv) Maximum amount per activity under SEFF is $15 million.

HOW IT IS PROVIDED
SEFF is provided as a series of activity loans or grants committed within the SEFF availability period and resource envelope.

HOW IT IS DISBURSED
It is disbursed in amounts requested to cover eligible expenditures within the agreed facility amount. SEFF can be revolving (except when funded by ADF grants), allowing the borrower to request new fund commitments for activities within the SEFF size.

REFERENCES
PUBLIC–PRIVATE PARTNERSHIP
STANDBY FINANCING FACILITY

PURPOSE
The public–private partnership (PPP) standby financing facility (PPPSFF) supports timely government payments to private PPP concessionaires. It helps governments to access capital needed to make timely payments to a private concessionaire.

KEY FEATURES
The PPPSFF consists of a framework agreement covering up to 15 years. It can cover one project or a bundle of projects. The government can withdraw funds from the facility when needed, such as during a cash shortage because of revenue fluctuation.

The PPPSFF is suitable for governments wishing to expand PPP projects, particularly in non-energy sectors (such as water and transport) where projects are often not commercially viable without government financial support because of the low level of affordable tariffs and/or high risks. The PPPSFF is suitable for government obligations made over a long period and are contingent on the concessionaire’s performance.

WHAT IT PAYS FOR
Financial obligations of a government or its agency to a private concessionaire for PPP projects (e.g., availability payment, service payment, annuity payment, and other similar payments).

REQUIREMENTS
(i) Detailed assessments of the PPP concession contracts, including the level and terms of government payments to the concessionaire and the risk allocation between the government and private parties.
(ii) ADB confirmation that the proposed structure is likely to achieve the best value for money; the expected return to the private concessionaire is adequate, but not excessive; and risks are allocated properly among the concerned parties.
(iii) Government payment obligations and the use of ADB’s sovereign financing should not grant excessive concessionality to support an unviable project.
(iv) ADB’s financing should not crowd out potential commercial financing.

HOW IT IS PROVIDED
Under the facility agreement, ADB makes a series of small loan commitments through loan agreements. This allows the borrower to avoid allocating large resources and paying commitment charges for a long concession period.

HOW IT IS DISBURSED
The PPPSFF disburses in amounts requested within the agreed facility amount and in line with relevant requirements for disbursement.

REFERENCE
TECHNICAL ASSISTANCE

PURPOSE
Technical assistance (TA) supports the preparation, financing, and execution of development projects and programs, including the formulation of specific project proposals. It can also assist DMCs in coordinating their development policies and plans to achieve better use of their resources. TA also facilitates the channeling of ADB’s financial assistance to DMCs by improving their capacity to absorb external assistance and further their economic development.

Generally, TA supports (i) the preparation, financing, and implementation of development projects and programs; (ii) knowledge solutions to address key development challenges; and (iii) capacity development, particularly in fragile and conflict-affected situations.

KEY FEATURES
There are two types of TA:

(i) Transaction TA (TRTA) is linked to an ADB-financed project or program. It prepares and enhances the implementation readiness of a specific ensuing project, develops capacity, and provides policy advice. It can also help develop a specific PPP project under transaction advisory services.

(ii) Knowledge and support TA (KSTA) is not directly linked to an ADB-financed project or program. Activities include capacity development, policy advice, and research and development. Outputs of KSTA often inform government policies, strategies, and development plans.

TA may be provided to a DMC government and/or another entity in the DMC, either directly or at the request of the government.

Activities eligible for TRTA funding include:
(i) feasibility study for proposed project investments,
(ii) due diligence,
(iii) preliminary engineering design and cost estimates,
(iv) pilot-testing,
(v) capacity development,
(vi) project implementation support, and
(vii) policy advice.

Activities eligible for KSTA funding include:
(i) knowledge sharing and dialogue among DMCs;
(ii) regional cooperation initiatives and analytical work for better governance, efficiency, and equity;
(iii) sector, thematic, and economic studies;
(iv) flagship knowledge and innovative solutions including high-level technologies; and
(v) pilot-testing.

WHAT IT PAYS FOR
Consulting services and related support costs, and pilot-testing activities.

REQUIREMENTS
(i) TA report; and
(ii) TA agreement, TA letter, or written confirmation that the government does not object to ADB’s financing of TA (except when the TA does not involve an activity in the territory of the DMC)

HOW IT IS PROVIDED
TA is generally provided as a grant, but may also be provided on reimbursable basis.

HOW IT IS DISBURSED
It is disbursed in amounts requested to cover eligible TA expenditures.

REFERENCE
Sovereign Lending and Grant Modalities
Quick Guide

The Asian Development Bank (ADB) helps its developing member countries achieve economic growth, reduce poverty, and address development challenges through its various financing instruments, including loans, grants, and technical assistance. This quick guide covers brief information on different lending and grant modalities available to ADB’s developing member countries, and describes its purpose, key features, financing, disbursement, and implementation arrangements so clients can explore suitable options for their development needs. This publication serves as a learning tool and is not a substitute for ADB-approved policies and procedures.

About the Asian Development Bank

ADB is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. Established in 1966, it is owned by 68 members—49 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.