Diagram: OM Section G2—Financial Due Diligence Requirements for Sovereign-Guaranteed Investment Projects
OM Section G2: Financial Due Diligence Requirements for Sovereign-Guaranteed Investment Projects

The Charter

- ADB shall take necessary measures to ensure that the proceeds of any loan made are used only for the purpose for which the loan was granted.
- With due attention to considerations of economy and efficiency, ADB will be guided by sound banking principles in its operations.
- ADB shall pay due regard to the prospects that the borrower will be in a position to meet their obligations under the loan contract.

Policies

OM G2/BP


Procedures

OM G2/OP

OM G2 applies to all ADB-financed investment projects that have a discrete and identifiable investment component, and the executing and/or implementing agencies of such projects. OM G2 does not apply to nonsovereign operations, which are covered by OM Section D10 (Nonsovereign Operations), or to policy-based loans, which are covered by OM Section D4 (Policy-Based Lending).

Definition

OM G2/BP

Classification of executing and implementing agencies: public corporations, which are government-owned or -controlled entities created for the purpose of producing goods or services for the market (e.g., development banks, public utilities, port authorities); private sector and nongovernmental entities; or general government sector units (GGSU), which are primarily engaged in nonmarket operations (e.g., ministries and departments). (para. 2).

Financial management comprises multiple processes, including accounting, financial accounting (and cost accounting), asset management, cash and treasury management, financial reporting, internal controls, and internal and external audit. (para. 3).

Project cost estimates are prepared at the concept stage, refined throughout the project-preparation process, and updated during implementation. (para. 4).

Financial analysis includes the use of financial projections and financial performance indicator analysis. (para. 5).

Financial evaluation (financial cost-benefit analysis) is the process of comparing the financial benefits of a project or project component (as indicated by the financial internal rate of return [FIRR]) to the financial costs (as indicated by the weighted average cost of capital [WACC]). The purpose of financial evaluation is to assess the financial viability of a project or project component. (para. 6).

Financial performance indicators are used to evaluate an entity's liquidity, solvency, return on investment, operating performance, asset utilization, and market measures. (para. 7).

Prepared by ADB Financial Management Unit, Operations Services and Financial Management Department (April 2014)