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

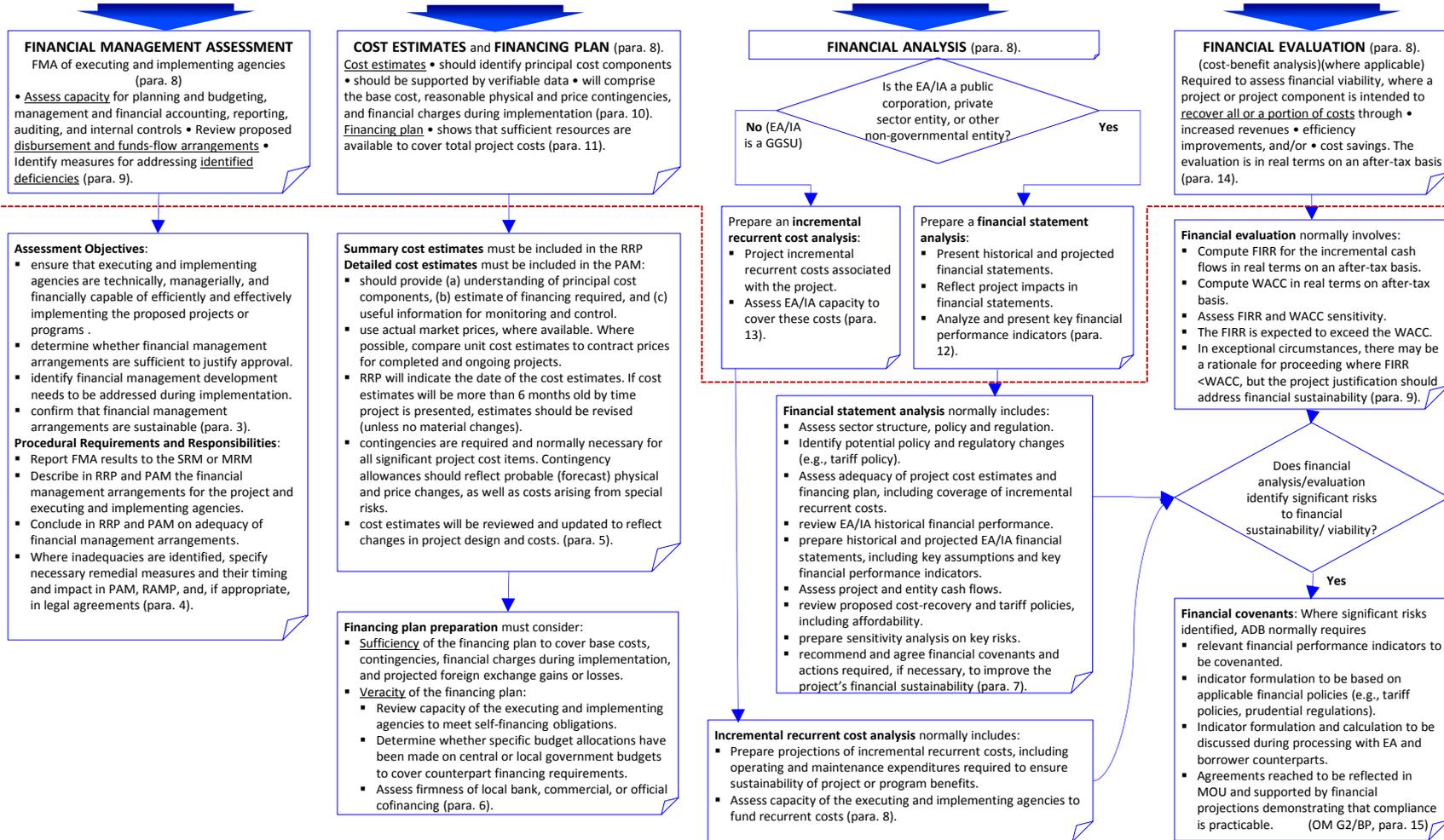
OM Section G2: Financial Due Diligence Requirements for Sovereign-Guaranteed Investment Projects

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
— Article 14 of the 1966 Agreement Establishing the Asian Development Bank (“The Charter”)

Policies OM G2/BP

- ADB’s project preparatory activities involve the following activities. Sufficient analysis is required to **determine whether the project is financially viable and sustainable** (para. 8):



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. It applies to such projects irrespective of whether they are financed by an ADB loan, an ADF grant, or a combination of ADB loan and ADF grant. 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).

Disclaimer: This is a summarized presentation of ADB’s policies and procedures – in the first instance, reference should be made to the Charter and OM Section G2 for authoritative text.

Definitions 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 financial accounting, management (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).

