TOP 10 TIPS
Financial Due Diligence for ADB Projects

1. MAKE USE OF AVAILABLE GUIDANCE

2. KNOW UP FRONT WHAT MUST BE DONE
Evaluate cost-recovery objectives of the project first, before proceeding to the financial evaluation (cost–benefit analysis). Financial analysis for general government sector units is incremental recurrent cost (fiscal) analysis. Financial analysis for public corporations, state-owned enterprises, and nongovernment organizations is financial statements analysis (OM G2/OP paras 7–9).

3. TAKE TIME TO DESIGN THE FINANCIAL MODEL
Understand the assumptions and make sure they are realistic. Ensure the model is integrated and links the cost estimates, financial evaluation, and financial analysis. Use the financial statements as the baseline format for the model.

4. USE EXISTING REPORTS FOR FINANCIAL MANAGEMENT ASSESSMENT (FMA)
Leverage existing ADB or World Bank assessments, Public Expenditure and Financial Accountability assessments, and Project Procurement-Related Reviews.

5. USE THE FINANCIAL MANAGEMENT ASSESSMENT QUESTIONNAIRE (FMAQ) AS AN INPUT TO FMA
The FMAQ is a tool used to collect basic data and should be tailored to the executing or implementing agency. It is not a substitute for FMA, nor is it intended as a self-assessment tool for the executing or implementing agency, but should be administered by the ADB reviewer.

6. REVIEW COST ESTIMATES PREPARED BY FINANCIAL CONSULTANTS
Review cost estimates to (i) reflect collaboration between team experts, (ii) clearly state the assumptions, (iii) confirm assumptions are realistic, (iv) ensure consistency with the procurement plan, and (v) emphasize ownership by the counterparts.

7. MAKE EFFECTIVE USE OF LOAN COVENANTS
Design loan covenants to ensure the entity will remain financially sustainable over the long term and project benefits will be realized and sustained. Specific financial covenants may include liquidity, borrowing, and debt levels.

8. ALWAYS REVIEW AUDIT REPORTS AND MANAGEMENT LETTERS
Timely and robust audits ensure better financial discipline. The audit reports and management letters provide insights into the quality of internal control systems and highlight issues requiring attention.

9. USE THE RAMP AND FM ACTION PLAN TO MANAGE PROJECT RISKS
The Risk Assessment and Risk Management Plan (RAMP) should summarize and rate all major risks. The Project Administration Manual should have a financial management (FM) action plan listing tasks and actions to address the risks over a predefined time frame. Do not rely solely on loan covenants for this purpose.

10. IDENTIFY A GOOD FINANCIAL MANAGEMENT CONSULTANT
The consultant should have financial assurance experience. Economics or procurement consultants may not necessarily have the required skills. Example terms of reference is available from the Financial Management Resources webpage.