AFRICAN DEVELOPMENT BANK **ADB/BD/WP/2019/237/Rev.3**	**AFRICAN DEVELOPMENT FUND** **ADF/BD/WP/2019/161/Rev.3** **18 May 2021** **Prepared by: SNSP** Original: English

Probable Date of Board Presentation **2 June 2021**	**FOR CONSIDERATION**

MEMORANDUM

TO : THE BOARDS OF DIRECTORS

FROM : Vincent O. NMEHIELLE
Secretary General

SUBJECT : <u>BANK GROUP POLICY ON ADDITIONAL FINANCING – *REVISED VERSION*</u>*

Please find attached the above-mentioned **Revised version** of the document.

The Proposed Bank Group Policy on Additional Financing was discussed by CODE on April 30, 2021. The revised version incorporates changes proposed by CODE members. These changes are as follows:

- The proposal has been revised to propose the upper of the cap limits as the limit for total AF when there is a combination of reasons (paragraph 9 (g));
- The revised Policy excludes Program-Based and non-sovereign-guaranteed operations from eligibility under this policy in the eligibility criteria section in paragraph 14;
- A new paragraph was included to clarify the policy relative to results-based operations (paragraph 17)
- The revised Policy proposes an external evaluation five years after approval of the policy in paragraph 36.

The associated Q&A includes an analysis of sister MDBs' practice in terms of additional financing for cost overruns, financing gaps and project modification as proportion of initial project costs. The initially proposed caps of 30%, 20% and 20% respectively are quite restrictive relative to MDBs' practice and are therefore maintained in this revised proposed. Furthermore, as requested by CODE, the Draft Additional Financing Guidelines were shared for information as an addendum to the second revision.

Attach:

Cc.: The President

*Questions on this document should be referred to:

Ms. B. TSHABALALA	**Acting Senior Vice President**	**SNVP**	**Extension 4051**
Ms. V. CHISALA	**Officer-In-Charge**	**SNSP**	**Extension 2139**
Ms. S. SEHILI	**Chief Strategy Officer**	**SNSP.1**	**Extension 3179**
Mr. T. KANGOYE	**Principal Strategy Officer**	**SNSP.1**	**Extension 1609**

SCCD:C.H.

AFRICAN DEVELOPMENT BANK GROUP

BANK GROUP POLICY ON ADDITIONAL FINANCING

Strategy and Operational Policies Department (SNSP)

May 2021

AFRICAN DEVELOPMENT BANK GROUP

BANK GROUP POLICY ON ADDITIONAL FINANCING

ACKNOWLEDGEMENTS

This document was drafted under the leadership of Victoria Chisala (Acting Director, SNSP), Kapil Kapoor (former Director, SNSP) and Massamba Diene (former Manager, SNSP.1). Saloua Sehili (Chief Strategy Officer, SNSP.1), was the Task Manager, and the task team consisted of Thierry Kangoye (Principal Strategy Officer, SNSP.1) and Daouda Konipo (Consultant, SNSP.1). The Document has benefitted from inputs from colleagues from the following departments: AHAI, AHFR, AHHD, PECG, PGCL.1, PGCL.2, PGRF, PICU, PIFD, RDGC, RDGE, SNSC and RDGS.

Table of contents

Abbreviations and Acronyms

ADB	African Development Bank
ADF	African Development Fund
AF	Additional Financing
AFPAR	Additional Financing Project Appraisal Report
AFPCN	Additional Financing Project Concept Note
DO	Development Objective
IP	Implementation Progress
IPR	Implementation Progress and Results Report
ISS	Integrated Safeguards System
MDB	Multilateral Development Bank
NTF	Nigeria Trust Fund
PBA	Performance-Based Allocation
PD	Presidential Directive
PBO	Program-Based Operation
PCR	Project Completion Report
RMC	Regional Member Country
SF	Supplementary Financing
UA	Units of Account
USD	United States Dollars

I. Introduction and background

1. The African Development Bank Group (hereinafter referred to as the "Bank Group" or "the Bank") approved its Policy and Procedures for Supplementary Financing (SF) in August 1997[1] to establish a framework for processing requests of supplementary financing to cover cost overruns under exceptional circumstances[2]. The policy was established to clarify the general and specific conditions for considering supplementary financing, propose preventive measures, clarify responsibilities for cost overruns and to give guidance for the processing and approval of requests for supplementary financing.

2. A recent quantitative and qualitative review of the Bank Group's experience with supplementary financing revealed that while the implementation of the SF Policy has contributed to meeting financing requests for several projects with cost overruns, the provisions of the policy have proven to be too narrow given the operational needs of both the Bank and its clients, leading to additional financing being approved outside of a policy framework. The review exercise also pointed to opportunities to better leverage additional financing to achieve larger impact in a more efficient way.

3. The proposed Bank Group Policy on Additional Financing therefore seeks to *(i)* align the revised policy objectives and scope with underlying operational needs by widening the scope to include additional financing for financing gaps, project modification, project scaling-up, emergency operations, and a combination of the foregoing and *(ii)* enhance the developmental impact of the revised policy by better prioritizing additional resource allocation to projects with higher potential impact.

4. Upon approval by the Boards of Directors, the new Bank Group Policy on Additional Financing will supersede the 1997 Policy and Procedures for Supplementary Financing and will take effect immediately. The rest of the proposed Additional Financing Policy is structured as follows: Sections III through XI present the elements of the Additional Financing Policy; section XII addresses its implications at the institutional level and Section XIII concludes with a recommendation to the Boards of Directors. Annex I presents a comparison of the Bank Group's current SF Policy with those of other MDBs. Annex II presents a matrix summarizing the main differences between the 1997 SF policy and the new AF policy.

II. Rationale for revising the policy

5. For over twenty years, the Bank Group has been implementing its supplementary finance policy within constantly evolving institutional and operational landscapes, creating a significant misalignment between the existing policy framework and operational needs, and leading to operational inefficiencies. The progress report on the Bank's experience in implementing its SF policy revealed several limitations of the policy as well as some operational challenges in

[1] The 1997 policy superseded the guidelines on supplementary loans dated February 1980.
[2] Cases where a financed project cannot reach its objectives without additional Bank financing and where reasons for cost overruns are beyond the control of the borrower.

implementing it, which provide compelling reasons for revising the policy, as detailed in the following:[3]:

(a) *The Bank Group 1997 policy on supplementary financing has limitations in its ability to adequately respond to Regional Member Countries' operational needs.* The current policy only considers providing supplementary financing for cost overruns in specified exceptional circumstances such as currency fluctuation, inflation and/or input costs surge, and does not in general support initiatives such as project scaling up or modification. Yet, a close examination of the existing Bank supplementary finance portfolio over the period 1999-2018 shows that, among the SF requests processed by the Bank, the majority (56.13%) were for purposes of supporting scaling up, scope expansion or additional project activities, rather than covering simple project cost overruns. This demonstrates the SF Policy's limitations in its ability to continue responding to the needs of more financing for on-going projects, as operational demands have gone beyond the scope of the policy since its approval.

(b) *The revised policy will provide opportunities to deliver a larger developmental impact in Bank's operations in a more efficient way.* Lessons learnt from the Bank experience in applying its SF policy as well as findings from a benchmarking exercise conducted on sister institutions that adopted policies for additional finance pointed out to a positive role of AF in facilitating the scaling up and/or modification of projects for higher impact. Progress reports from those MDBs have also shown that they were able to use the flexibility of their AF policies to seize opportunities to move their development programs forward, with a better optimization of costs, risk and development impact.

(c) *The proposed new AF policy includes more comprehensive and clearer provisions*. More specifically, (i) the AF policy and its subsequent guidelines make use of refined criteria in assessing project quality; (ii) the AF clearly emphasizes the importance of quality at entry of projects to mitigate the risks of additional financing needs due to internal factors; (iii) the new policy also provides more robust and complete due diligence requirements encompassing aspects related to strategic, technical, governance, social and poverty, and environmental and social safeguard requirements.

(d) *The new policy proposes clear and streamlined processing procedures for low risk additional finance operations.* The current SF Policy is incomplete in that it does not include a clear streamlined processing procedure, which should be based on quality assurance to achieve resource allocation efficiency.

6. The proposed new Bank Group Policy on Additional Financing addresses the afore-mentioned points. The Policy also takes into account practices of other development partners (see Annex 1), which have developed new "Additional Financing" policies to enable, in addition to covering cost overruns, the closing of financing gaps, the scaling up and modifying of well-performing projects, or the provision of emergency assistance during project implementation, with the aim to deliver effective and good quality operations, efficiently and with better risk mitigation.

---

[3] Please refer to the study "Review of the Bank Group Policy for Supplementary Financing: Issues Paper. Strategy and Operational Policies Department (SNSP). February 2019" for a more detailed discussion of these challenges. ADB/BD/WP/2019/237Rev.1 - ADF/BD/WP/2019/161/Rev.1.

III. Objectives

7. The key objectives of the AF Policy are to: (i) diversify the range of Bank Group financing options to improve its responsiveness in serving the needs of its Regional Member Countries (RMCs); (ii) enhance its development impact and effectiveness; and (iii) improve its operational efficiency and productivity, by providing additional resources for eligible on-going projects through streamlined transaction processes for low risk operations. In this regard, the AF Policy will also help to enhance the implementation of the Bank Group's strategic priorities by, *inter alia*, scaling up its successful operations in an efficient way, in line of the requirements of the 2015 sustainable finance agenda.

IV. Applicability

8. The Bank Group may provide additional financing to an ongoing sovereign project or program[4] for completion of project/program[5] activities when the original financing is insufficient for covering the costs of the original, modified or increased scope of the project. This includes sovereign investment operations, results-based financing,[6] guarantees, emergency relief assistance projects, emergency operations, and technical assistance loans or grants. The AF Policy is applicable to the African Development Bank (ADB) sovereign window, the African Development Fund (ADF), the Nigeria Trust Fund (NTF), and other facilities or trust funds[7] managed by the Bank Group. However, it is not applicable to operations financed out of the ADB's non-sovereign window, nor to Program-Based Operations, which have their own rules and processes.

V. Scope of additional financing

9. The Additional Financing Policy enables the Bank, at the Borrower's request, to provide additional financing to on-going well-performing projects to respond to one or a combination of the following cases, with appropriate justification:[8]

(a) when there is a foreseen or an unforeseen financing gap (*i.e.* changes in financial contributions from the Bank Group or the Counterpart) that cannot be met by the RMC or co-financiers to complete original project activities, up to a limit;[9,10]
(b) when there is an unanticipated cost overrun that is beyond the control of the RMC to complete original project activities, up to a limit;[11,12]

[4] This includes public sector investment projects, results-based financing, guarantees, emergency relief assistance projects, emergency operations, and technical assistance loans or grants.
[5] Henceforth referred to as project.
[6] Proposed Bank Group Policy Instrument on Results-Based Financing, ADB/BD/WP/2017/77/Rev.3-ADF/BD/WP/2017/56/Rev.3. See also Revised Operational Guidelines on the Implementation of the Bank Group's Results-Based Financing Policy. ADB/BD/WP/2017/77/Rev.3/Add.1 - ADF/BD/WP/2017/56/Rev.3/Add.1
[7] Where trust funds are concerned, the AF policy will not apply if the applicable trust fund's instruments and /or guidelines provide(s) otherwise. Therefore in such cases, the applicable AF provisions of the trust fund's instrument/guidelines shall prevail.
[8] These cases are further elaborated in the Guidelines.
[9] Financing gaps normally include shortfalls in Bank Group cofinancing due to temporary resource limitations or shortfalls in counterpart financing that were not anticipated at appraisal.
[10] Specified in the guidelines.
[11] Specified in the related guidelines.
[12] Cost overrun normally includes cost increases due to inflation, exchange rate fluctuations, and design changes that were not anticipated at appraisal of the original project.

(c) to implement additional or expanded activities that scale up the development impact of a successful pilot or a well-performing project;
(d) for the implementation of modified or additional project activities included as part of a well-performing project restructuring, when the initial financing is not sufficient to cover such activities, up to a limit[13,14,15]
(e) as emergency relief assistance through an ongoing project (emergency and non-emergency);[16]
(f) as an emergency or post emergency operation for an ongoing Bank Group project struck or that could be potentially struck by a natural disaster[17], to primarily salvage or protect Bank Group investments; or,
(g) for a combination of two (2) or more of the above reasons.[18]

10. **Definition of Well-Performing Projects.** The Bank provides additional financing only if the implementation of the original project is assessed as satisfactory. A sovereign project is performing well when it satisfies the following criteria:

- performance ratings in the Implementation Progress and Results Report (IPR)[19] prepared within the previous three months match or are better than "Satisfactory" for both Development Objective (DO) and Implementation Progress (IP);
- the outputs/outcomes and results recorded in the most recent IPR for the project demonstrate that its impact so far has been consistent with the expectations set out in the Project Appraisal Report;
- there is substantial compliance with key loan or grant agreement covenants, including audit and financial management as well as environmental and social safeguards reporting and compliance audits requirements. If the project faces fiduciary, safeguard, or other issues that are reflected in the IPR, these issues should be resolved, or an implementable action plan developed, before appraising the AF and;
- for projects that have experienced implementation problems in the past, these must have been addressed and the project must have been performing well for at least 6 months prior to the submission of the request for AF.

11. **Exclusion Clause.** The Bank will not provide additional financing for non-well-performing projects. The reasons for underperformance must be addressed, and these projects must be performing well for at least six months before becoming eligible for additional financing. Furthermore, the Bank will not provide additional financing for cost overruns, financing gaps or

---

[13] Modifying a well-performing project to finance necessary changes in project design and/or scope to better align the project with changes in market conditions and/or in the enabling environment, such as incorporating changes in strategic priorities or unforeseen new technology(ies) or innovations, or restructuring the project's development objectives or key outcome indicators in line with best sector practice.
[14] See Bank Group Policy on Portfolio Review and Restructuring. May 1995. ADB/BD/WP/95/07/Rev.3 - ADF/BD/WP/95/01/Rev.3, as revised from time to time.
[15] Specified in the related guidelines.
[16] Emergency relief assistance refers to assistance financed out of the Special Relief Fund.
[17] Such as floods, cyclones, earthquakes, tidal waves, epidemics and pest invasions. This applies to operations that are not financed out of the Special Relief Fund. See Emergency Assistance Policy Guidelines. 1998. ADB/BD/WP/98/45/Rev.2/Approval - ADF/BD/WP/98/41/Rev.2/Approval.
[18] If the reasons are subject to limits, then the higher of the two or more limits will apply to the total additional financing.
[19] The IPR is a results and evidence-based project supervision and rating tool applicable to Bank public sector operations, which comprehensively assesses projects' performance with regards to the Development Objective (DO), in terms of outputs and outcomes, as well as Implementation Progress (IP), in terms of: (i) compliance with covenants (compliance with project covenants, environmental and social safeguards and audit compliance), (ii) project systems and procedures (procurement, financial management and monitoring and evaluation), and (iii) project execution and financing (disbursement, budget commitments, counterpart funding and co-financing. More detailed information on the IPR rating methodology are provided in the IPR staff guidance note available at:
http://intranet.afdb.org/portal/page/portal/AFDBPG_Operations/OperationsCommittee/06_Templates.

project modifications that are due to quality at entry deficiencies in the original project (internal reasons) or to contractor moral hazard.[20]

12. Risks of cost overruns in projects arise from both exogenous (typically project-specific and driven by the conditions and construction techniques involved) that are beyond the control of the RMC, and endogenous (*i.e.* procurement, implementation, etc.-related) factors. As far as the latter factors are concerned, project task teams shall ensure at any point in time over the full project cycle, that preventive measures (including in particular proper evaluation of procurement-related risk factors and mitigation mechanisms, proper analysis of projects feasibility, timely and good project design and definition and adequate communication amongst project stakeholders) are taken to minimize cost overruns, and that realistic estimates of the final project costs are considered. They shall also strictly comply with the Bank's quality-at-entry standards and control processes as well as with its integrity and anti-corruption systems to minimize risks of having a third-party not having the right incentive or capacity to put the necessary controls over the resources required for a project. Eligibility for AF for reasons of cost overruns depends on demonstrating that:

- sufficient time and budget was allocated for the pre-construction activities including preparation and detailed review of engineering designs such as the up-to-date design with current cost information, the more accurate projection of civil works inputs cost variation trend, and a thorough engineering survey to ensure the quality of the engineering design and adequate financial provisions for compensation and implementation of pre-construction start mitigation measures;
- the engineer's estimates were updated at the market value at the time of appraisal and allowed an adequate contingency to account for procurement delays;
- time lags between project preparation and implementation were minimized to reduce the likelihood of cost overruns due to higher than anticipated bid prices and;
- the cost overruns are justifiable and beyond the control of the Borrower/Recipient and Contractors, and there are no issues of Contractor moral hazard
- findings in the reports of the supervision engineering consultant are incorporated in the analysis.

13. **Consideration of Other Options.** At an early stage, the Bank and the Borrower/Recipient should consider alternatives to additional financing—for example, financing provided by other donors, increased counterpart contributions, reallocation of project cost savings through appropriate restructuring, and processing of a new operation.

VI. Eligibility criteria

14. Additional financing is subject to eligibility for, and availability of, the specific sources and forms of financing sought at the time the request for AF is being made (e.g., performance-based allocation, currency, headroom and exposure limits). Moreover, apart from the project-specific considerations listed below, reason-specific eligibility criteria tailored to the reasons for AF are detailed in the associated AF Policy Guidelines. Operations financed out of the ADB's non-sovereign window and Program-Based Operations are not eligible for additional financing under this policy as they are eligible under their own policies, rules and processes.

[20] This provision mitigates the risk of poor quality at entry of the original project motivated by the anticipation of additional financing at a subsequent date as a remedy to original project appraisal and implementation issues.

15. The eligibility criteria for additional financing are the following:[21]

(a) a satisfactory assessment that providing additional financing is a better option than starting a new project (in terms of the preparation, appraisal, and implementation-related activities);
(b) alignment of the overall project[22] with relevant Bank Group corporate, country, regional,[23] and sector strategies, priorities and policies, and the enabling environment is conducive to its success;
(c) consistency of the overall project with the original project's development objectives;[24]
(d) satisfactory assessment of the technical feasibility of the overall project;
(e) satisfactory assessment of the economic and financial viability of the overall project;
(f) satisfactory institutional, fiduciary, environmental & social safeguards arrangements of the overall project[25];
(g) satisfactory mitigation for project-related risks by the overall project; and
(h) satisfactory quality at entry assessment (*i.e.* with regards to readiness for implementation and likelihood to achieve expected outcomes) of the overall project.

16. **Emergency Relief Assistance and Emergency/Post Emergency Operations as Additional Financing**. Eligibility and processing of AF as emergency relief assistance out of the Special Relief Fund will follow the emergency relief assistance policy guidelines and procedures, while taking advantage of existing implementation arrangements and assessments undertaken for the original project.[26] In addition, when providing the emergency relief assistance through linking the AF with an ongoing .project, the assessment needs to demonstrate that using the ongoing project as anchor to deliver the emergency relief assistance is a better option than providing the emergency relief assistance as a stand-alone operation. Emergency/post-emergency AF operations will be processed in line with the AF policy and guidelines.

17. **Additional Financing in Results-Based Operations**.[27] During implementation of the program, the Bank may provide additional financing to the government to finance: (a) unanticipated significant changes to expenditure parameters required to achieve the original program results or disbursement-linked indicators; or (b) new or modified results, to be reflected in new or modified disbursement-linked indicators, that aim to scale up the impact or development effectiveness and sustainability of the original program. The Bank's decision to extend additional financing will be based on as necessary, updated or additional technical, fiduciary, environmental and social impacts and integrated risk assessments. In addition, the Bank will need to be satisfied with the implementation and performance of the original program, and with the results of the assessments related to the new or modified disbursement-linked indicators and results.

[21] These do not apply to Emergency Relief Assistance as additional financing. See paragraph 16.
[22] Original project and additional financing project.
[23] Region refers to any formal grouping of RMCs whose mandate is aligned with the Bank Group's mandate (regional economic communities, River Basin Organization, etc.).
[24] Project objectives can be the original project objectives (as under additional financing for cost overruns, for a financing gap or for project modification) or revised objectives (as part of project modification or scaling up).
[25] Including continued compliance with all covenants and undertakings where applicable as per the original financing agreement.
[26] Revised Policy Guidelines and Procedures For Emergency Relief Assistance, and General Regulations of the Special Relief Fund – Revised Versions. ADB/BD/WP/2008/211/Rev.1- ADF/BD/WP/2008/173/Rev.1
[27] Proposed Bank Group Policy Instrument on Results-Based Financing, ADB/BD/WP/2017/77/Rev.3-ADF/BD/WP/2017/56/Rev.3. See also Revised Operational Guidelines on the Implementation of the Bank Group's Results-Based Financing Policy. ADB/BD/WP/2017/77/Rev.3/Add.1 - ADF/BD/WP/2017/56/Rev.3/Add.1

VII. Prioritizing projects for additional financing

18. Prioritizing projects for AF shall be based on favorable conclusions of the following criteria:

(a) project performance[28] including preliminary results and prospects for improved results;
(b) anticipated enhancement of development impact;
(c) degree of readiness in design, implementation capacity, procurement, and safeguards;[29]
(d) innovation in design and/or implementation;
(e) degree of risk mitigation; and
(f) sustainability of project outputs and outcomes.

VIII. Financing terms and conditions of additional financing

19. **Sources of Financing**. The specific sources of AF depend on the eligibility of the concerned Recipient/Borrower/Grantee to avail of such sources, at the time of the request for AF. ADF-only countries eligible for ADB sovereign window resources may, therefore, use such resources as AF in line with the AF Policy and the provisions under the policy titled *Diversifying the Bank's Products to Provide Eligible ADF-only countries Access to the ADB Sovereign Window*.[30,31]

20. AF may be provided by extending new financing; by reallocating unutilized loan or grant resources, guarantee proceeds from ongoing loans, grants or guarantees because of portfolio restructuring;[32] by utilizing savings on public sector operations;[33] or by reallocating cancelled grant, loan or guarantee resources.[34]

21. **Financing Terms and Conditions.** AF may have terms and conditions that are determined independently of those of the original project for which AF is being sought. AF financial terms and conditions are set in accordance with the relevant Bank Group provisions for loans and grants. Providing AF out of cancelled resources is guided by the Revised Guidelines on Cancellation of Approved Loans, Grants and Guarantees, the applicable General Conditions, the Bank Group Policy on Portfolio Review and Restructuring, and the Revised African Development Bank Group Policy on Utilization of Savings on Public Sector Operations.

22. Original project financing can be used to finance feasibility studies, detailed designs, safeguards requirements, and any other necessary aspects of an AF project to achieve a high degree of project readiness for the AF project. If these activities were not already included in the original

[28] Only well-performing projects are eligible.
[29] Additional financing should take advantage of the existing design and implementation systems already in place as well as lessons learnt.
[30] Diversifying the Bank's Products to Provide Eligible ADF-only Countries Access to the ADB Sovereign Window. ADB/BD/WP/2014/48, ADF/BD/WP/2014/31, May 2014.
[31] ADB resources may be used as AF to an ADF-financed project and vice-versa, subject to the applicable eligibility criteria.
[32] In accordance with the Bank Group Policy on Portfolio Review and Restructuring. ADB/BD/WP/97/07/Rev.1 – ADF/BD/WP/95/01/Rev.1, April 1995, or any subsequent revisions.
[33] In line with the Revised African Development Bank Group Policy on Utilization of Savings on Public Sector Operations. 24 July, 2020. ADB/BD/WP/2020/77/Rev.2/Approved - ADF/BD/WP/2020/50/Rev.2/Approved. As updated from time to time.
[34] See Revised Guidelines on Cancellation of Approved Loans, Grants and Guarantees (ADB/BD/WP/2010/106/Rev.3 - ADF/BD/WP/2010/62/Rev.3 or any subsequent revisions thereof. Additional financing projects may be financed in full or in part with cancelled balances from loans and grants, unless the cancellation is due to mis-procurement, corruption, coercion, or any form of collusion or fraudulent practices, in which case 100% of the cancelled resources shall be returned to the Bank' general resource pool. For ADF resources, 70% of cancelled resources may be used for additional financing while 30% will be returned to the Bank's general resource pool.

project, they may be financed out of the savings on the original project loan/grant, in line with the prevailing Bank Group Policy on Utilization of Savings on public sector operations, or as a consequence of project/portfolio restructuring.[35] AF project feasibility studies, detailed designs, safeguards requirements, and any other necessary aspects to achieve a high degree of project readiness for the AF project may be financed out of the savings on an unrelated project loan/grant/guarantee, in line with the prevailing Bank Group Policy on Utilization of Savings on public sector operations.

23. **Eligible Expenditures for Sovereign Operations**. The *Policy on Expenditure Eligible for Bank Group Financing*[36] (Eligible Expenditures Policy) determines the eligibility of certain expenditure items such as cost-sharing/counterpart funds requirements, local currency financing, financing taxes and duties, and recurrent costs financing. Expenditures to be financed under the AF project may be determined independently of the original project,[37] but must be in line with the Eligible Expenditures Policy, taking into consideration the prevailing Country Financing Parameters for the RMC concerned at the time of the AF request. Retroactive financing[38] is eligible for Bank Group financing and may be included in AF projects. Policy guidance and implementation guidelines on retroactive financing are available in the Eligible Expenditures Policy, the Disbursement Handbook,[39] and the Procurement Policy.[40]

24. **Repayment Schedule.** The repayment schedules of the AF proceeds and the original financing do not have to be synchronized. The Recipient/Borrower/Grantee, in collaboration with the Bank Group, will decide on whether to synchronize the repayment schedules.

IX. Legal and compliance considerations

25. **Legal documentation**. Depending on the nature of the activities to be financed, the procurement rules applicable to these activities and the preferences of the Borrower/Recipient, an amendment to the existing financing agreement and/or a new legal agreement shall be executed between the Bank, and/or the Fund, as appropriate, and the relevant RMC. The amended or new AF Agreement shall reflect the terms and conditions relevant to the type of financing instrument (loan or grant) to be extended.

26. **Compliance with Bank Group Policies**. Operations receiving AF should conform to the Bank Group's policies, including policies on Disclosure and Access to Information, Anti-corruption, Eligible Expenditures, Retroactive Financing, Integrated Safeguards System (ISS), Disbursement, Savings on Public Sector Operations, Rules and Procedures for Procurement of Goods and Works, Rules and Procedures for the Use of Consultants, financial terms and conditions of Bank Group loans and grants, and standard existing business processes—except where otherwise amended by this Policy.

---

[35] In line with the Bank Group Policy on Portfolio Review and Restructuring, as may be amended from time to time.
[36] Policy on Expenditures Eligible for Bank Group Financing. ADB/BD/WP/2007/106 - ADF/BD/WP/2007/72.
[37] For example, cost-sharing limits may change with new CFPs.
[38] Using retroactive financing is useful to improve project readiness.
[39] Revised Disbursement Handbook (March 2020), available at https://www.afdb.org/en/documents/document/disbursement-handbook-54419.
[40] Procurement policy for bank group funded operations available (August 2015) at https://www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/Procurement_policy_for_bank_group_funded_operations.pdf.

X. Processing and approval

27. **Management Approval Processing.**[41] Projects that have been categorized as low risk when additional financing is included, will follow a streamlined approval process.[42]All projects must be compliant with the Bank's ISS. Projects that have been categorized as high or medium risk when additional financing is included will follow a standard approval process, as reflected in the relevant Presidential Directive for operations review and clearance processes (currently PD03/2013 as amended from time to time).[43]

28. When justified under exceptional country or project circumstances, and authorized by the Operations Committee (OpsCom), requests for AF may be processed after the original project's closing date has passed, by extending such date, without prejudice to existing terms and conditions.

29. Boards of Directors Approval. Bank Group Additional Financing proposals shall be submitted to the Boards of Directors for approval, in line with the provisions under *Streamlining of Approval Procedures for Operations Proposals Submitted to the Boards of Directors.*[44]

XI. Implementation of additional financing operations

30. **Implementation Arrangements.** Implementation of AF projects will use existing, updated, and/or amended procurement, consulting services, financial management, disbursement, safeguards, monitoring and evaluation, and other implementation arrangements as appropriate for the AF project. This will promote economy, efficiency and client responsiveness and will be in compliance with prevailing Bank Group rules, procedures and guidelines, except where otherwise indicated in the present Policy and its guidelines.

31. **Supervision and Reporting.** AF operations will be supervised from approval to completion in accordance with normal Bank Group procedures and requirements, to ensure smooth implementation and to track progress towards the achievement of development objectives. To help improve efficiency, the supervision and implementation progress reporting on the AF operation may be synchronized and combined with that of the original project, if practical. This will depend on the nature of the original project and the type of the AF project.

32. **Completion and Reporting.** If the closing dates of the original project and the AF project are synchronized, then a combined Project Completion Report (PCR), covering both the original and the AF project, shall be prepared. If it is not efficient to synchronize the closing dates and/or if the AF project differs in nature and objectives from the original project, then separate PCRs shall be prepared for each project. The decision to synchronize the closing dates and to combine the PCRs depends on the nature of the original project, and the envisaged type of the AF project.

---

[41] This includes missions, reviews and approvals by Country Teams/Credit Risk Committee/Operations Committee prior to Board approval.
[42] The streamlined process specifies conditions under which certain processing steps may be shortened or skipped, such as approvals on LOTB or skipping unnecessary missions. This is further detailed in the AF Policy Guidelines.
[43] ibid.
[44] It is expected that most additional finance projects will qualify for consideration on a Lapse-of-Time Basis; will be assessed to be non-risky, not complex, and not innovative; will be categorized as Pre-Determined Criteria for complex, risky and innovative operations, and will therefore be submitted to a formal Board meeting, but not discussed unless requested by a Board member. See ADB/BD/WP/2014/175/Rev.2/Approved – ADF/BD/WP/2014/122/Rev.2/Approved.

XII. Policy implementation

33. **Key Elements for Implementation.** The effective implementation of the AF Policy hinges on the following essential elements[45]:

(a) ***Implementation Guidelines to be issued shortly after this Policy Approval*.** The Guidelines will define the scope of the policy and the procedures for processing and implementing the specificities of AF for Bank Group projects. Guidance on the content of the AF Project Concept Note (PCN) and Project Appraisal Report (PAR) will ensure that the reports contain complete, concise and decision-focused information;
(b) ***Roll-out of Regular Training for Staff.*** Training for staff through regular bi-annual workshops will start immediately after the approval of the AF Policy. The objective is to ensure that staff understand the goals and applicability of the Policy, and the opportunities it offers towards capturing these for the benefit of Bank Group RMCs. To cut down on costs, training for field and resource center-based staff will be undertaken through video conferencing whenever possible;
(c) ***Dissemination Program in RMCs*.** Annual workshops in Country Offices and Regional Resource Centers will be conducted to sensitize RMCs on the AF Policy, its goals, scope and application, and to ensure their awareness of the opportunities it provides for them.

34. **Cost Implications.** The most immediate costs are related to the launching of the AF Policy, in the form of staff training and dissemination in RMCs. These costs are expected to be largely offset by increased efficiency in Bank Group operations, improved quality at entry, enhanced risk mitigation, effective implementation, expected increased impact, *inter alia* from scaling up successful pilots or projects, and better responsiveness to Client needs.

35. **Partnerships**. Cooperation with sister institutions, particularly with the World Bank Group, will be enhanced through regular consultations and harmonization, as appropriate, on AF matters. This will help serve the needs of RMCs, as well as increase effectiveness and the efficient use of resources. It is expected that more opportunities for co-financing of AF projects, particularly for expanding or replicating high-impact innovative projects or pilots, will arise.[46]

36. Evaluation and Review of the AF Policy. A full external evaluation and review of the AF Policy will be conducted five (5) years after its approval, unless a review at an earlier date is warranted.

XIII. Conclusion and recommendation

37. The proposed Policy on Additional Financing is based on a review of the applicability of the Bank Group's 1997 Policy and Procedures for Supplementary Financing (SF), given the Bank Group's objective of improving its financial performance, notably through the Development and Business Delivery Model, evolving RMC needs, and the current policies and practices of sister MDBs. The review revealed significant shortcomings in serving the Bank Group's current operations, as well as material differences with the policies of other MDBs.

---

[45] Experience in Multilateral Development Banks has shown that a positive policy impact depends primarily on the awareness and understanding of users of the policy, as well as the ease of implementation.
[46] The experience of the World Bank Group has been that the greatest benefits to the Bank and its clients from the adoption of the Additional Finance policy was the increase in the expansion and replication of high-impact successful projects.

38. The AF Policy aims at aligning the revised policy objectives with underlying operational needs; enhancing the development impact of operations by prioritizing additional resource allocation to qualifying projects; and providing guidelines to streamline processing procedures of AF operations for cost-effectiveness and risk mitigation.

39. The preparation, processing and implementation of AF projects will be governed by the prevailing applicable Bank Group policies and procedures, unless otherwise stated by the AF Policy.

40. The Boards of Directors are invited to approve the Bank Group Policy on Additional Financing, which, along with its Guidelines, supersedes and replaces the *1997 Bank Group Policy and Procedures for Supplementary Financing*.

Annex I: Comparison of MDBs' Policies

	World Bank (2005)[47]	Asian Development Bank (2011)	Inter-America Development Bank (2004)	African Development Bank (1997)
Rationale	To quickly meet legitimate needs for increased financing that may surface during implementation, and to facilitate the kind of quick scale up of a successful project that the Bank and the development community as a whole increasingly recognize as important to development impact.	By introducing a provision for using supplementary financing to scale up projects that are performing well, and by repackaging and renaming supplementary financing as additional financing, the policy aims to transform supplementary financing into a key instrument to enhance development effectiveness.	It provides financing increases for investment operations in exceptional cases with cost overruns so that the project components can be completed and objectives attained.	The Bank may consider supplementary financing for cost overruns in the following exceptional circumstances: (i) when it is believed that a Bank-assisted project cannot achieve its objectives without additional Bank intervention; and (ii) when the reasons for the cost overruns are clearly beyond the control of the borrower and the borrower, despite genuine efforts, is not in a position to provide additional financing.
Scope	▪ Retained elements from previous policy: Project eligibility criteria, expedited processing, Board approval for all additional loans, and the ability to finance an unanticipated financing gap or a cost overrun to enable completion of original project activities; ▪ Added new elements: - Facilitating project scale up: To finance **a scaling up of proven successful activities** to enhance the	Policy **priority** is given to the first two initiatives as follows to encourage using additional financing to enhance development effectiveness. ▪ Use additional financing to increase the scale of a project that is performing well; ▪ Use additional financing to improve the design and implementation of a project that is already performing well;	Cost overruns must be the result of exceptional circumstances beyond the borrower's control. Justification should be made through a review of alternatives to ensure that the project objectives are achieved, exploring the possibility of reducing the physical targets or turning to other sources of financing, to make sure that the policy applies solely to cases in which these other alternatives are not viable.	The Bank would consider the financing of a cost overrun in the above exceptional circumstances. The Bank shall give priority to financing cost overruns of those projects that are in an advanced stage of implementation and can, therefore, be completed and expected to yield benefits to the borrowing RMCs in a relatively short period.

[47] As part of a policy consolidation exercise, the World Bank approved in 2012 a consolidated investment lending policy (http://siteresources.worldbank.org/PROJECTS/Resources/40940-1244163232994/6180403-1351803579104/ILPolicyReform_11-1-12_FinalPostBoard.pdf), which superseded its policy and procedures on additional financing. However, the policy scope for additional financing provision remained unchanged.

	project's development impact; and - Facilitating project restructuring: To finance **modified project activities** as part of project restructuring to address circumstances that emerge during implementation.	while retaining supplementary financing elements from previous policy: ▪ Use additional financing for projects facing cost overruns or financing gaps (retained element from previous Policy); and considering a comprehensive need: ▪ Use additional financing to support a combination of these reasons.		
Applicability	Investment lending (i.e., investment projects). The policy and procedures on additional financing do NOT apply to development policy lending, which has its own policy and procedures on supplemental financing (see OP/BP 13.20).	Additional financing does NOT apply to program lending.	All public sector investment and reimbursable technical cooperation projects in which there are cost overruns are eligible.	Requests for supplementary financing will not be used generally for policy-based lending operations.
Eligibility	Replace some requirements that limit supplemental financing to exceptional circumstances with requirements that focus on the viability and expected development impact of the activities to be supported with additional financing: ▪ Replaced requirements: (ii) The cost overrun is due to exceptional circumstances beyond the borrower's control; (ii) It is impossible to reduce the scope of the project to fit the available resources without	Additional financing will only support projects that: - remain technically feasible, economically viable, and financially sound; - are accorded high priority by the government; - are consistent with the projects development objectives, and - are consistent with the current country partnership strategy (CPS). For pure purpose of meeting cost overruns and/or financing gaps, the projects which are provided with	Additional financing for cost overruns is based on the following conditions: (iv) the borrower must make the request before the present disbursement period expires; (ii) the project or program must be proceeding satisfactorily; (iii) the cost overruns must be the result of exceptional circumstances beyond the borrower's control; (iv) adjusting the project volume or coverage to the funding available would seriously	Supplementary financing could be considered only under the following conditions: - The project has an overall supervision rating projected to be "satisfactory" or higher. - The provision of supplementary financing from the Bank's ADB or ADF resources would depend on the eligibility status of the RMC concerned, in accordance with the arrangements for lending from the African Development Fund prevailing at the time of processing such loan.

	significantly impairing the project's economic viability or capacity to achieve its objectives; and (iii) The time available is too short to process a further free-standing Bank loan. ▪ **New requirements:** (iii) Ensure that such activities (additional or expanded activities and activities modified as part of project restructuring) are consistent with the development objectives of the project and with the Country Assistance Strategy (CAS) or Country Partnership Strategy (CPS); (ii) Appraise the activities; and (iii) Confirm that they are expected to be completed within three years after the current closing date for the existing project. The three-year requirement was relaxed in 2012 following a progress review in 2009.	additional financing should be completed within three years of the current closing date of the original operation.	jeopardize the possibility of achieving the project objectives; (v) the additional financing will make it possible to achieve the objectives of the operation without adversely affecting the economic, financial, institutional, and environmental feasibility of the operation; (vi) the borrower must not have additional resources at its disposal, and must not have been able to obtain financing from other sources on reasonable terms and conditions; (v) the borrower must be in a position to provide additional counterpart resources to maintain the original ratios approved in the project financing matrix, including cost overruns; and (viii) the country must be current on its payments to the Inter-America Development Bank, in accordance with the policy in effect.	- The recipient country is making a determined effort towards national development in general and towards the mobilization of internal and external resources. - The implementation environment of a country is favorable. - The cost overrun is due to circumstances beyond the control of the borrower. - The cost overrun cannot be met by the borrower and the borrower has not been able to find other financiers and the borrower provides justification for the request for additional Bank Group financing. - It has not been possible to reduce total cost of the project through changes of specifications or scope of work or services without significantly affecting the objective and viability of the project. - The project is technically, economically, and financially viable even with the cost overruns. - There are no other exogenous constraints: financial, managerial, or technical – that would hinder the completion of the project. Note: Request for supplementary financing are subject to the sanctions policy due to arrears in the same way that normal loans are.

Approval	Additional financing financed by IBRD loans, IDA credits or grants and trust-fund-financed grants are submitted for approval by the Executive Directors unless authority for approval of the specific financing source rests with Management.	Additional financing projects will be submitted to the Board of Directors for approval following standard ADB rules and procedures. Proposals may be submitted for Board consideration under summary procedure if they meet the eligibility criteria.	The Board of Executive Directors approves, at the request of the borrower, additional financing for cost overruns.	To be approved by Board of Directors.

Annex II: Main differences between the 1997 SF policy and the new AF policy

	1997 Supplementary Finance Policy	Bank Goup New Policy on Additional Finance
Applicability	The SF policy is applicable to African Development Bank (ADB) sovereign window, the African Development Fund (ADF), the Nigeria Trust Fund (NTF). Clear reference has only been made to the non-applicability of SF to PBOs.	It is made explicit in the new policy that AF is applicable to sovereign investment operations, results-based financing, guarantees, emergency relief assistance projects, and emergency operations, and technical assistance loans or grants. AF is also applicable to the African Development Bank (ADB) sovereign window, the African Development Fund (ADF), the Nigeria Trust Fund (NTF), and any other facility or trust fund managed by the Bank Group. The document now also clarifies that AF is not applicable to operations financed out of the ADB's non-sovereign window, nor to Program-Based Operations
Policy scope	Only pure cost overruns in projects due to exogeneous factors (i.e. due factors that are beyond the control of the project)	Cost overruns (due to exogeneous reasons), financing gaps, scaling-up of projects, modifying projects, as emergency relief assistance, as emergency operation, or as combination of two (2) or more of the above reasons. Limits on cost overruns, financing gaps and project modification are imposed in the guidelines.
Eligibility criteria	Focus is only made on the exogenous nature of the cost overrun, the overall supervision rating, resource mobilization efforts at the country or borrower level, the implementation environment, the limited flexibility in modifying the project, the technical, economic and financial viability of the project,	Eligibility criteria have now been streamlined and clarified, with a focus on the need to demonstrate that AF is the best option, the alignment of the project with Bank's policies and strategic priorities, the enabling environment, the consistency with the original project, the technical, economic and financial viability of the project, the institutional, fiduciary, environmental & social safeguards arrangements, the risk mitigation mechanisms and more importantly on project quality. Stringent verification of quality at entry of the original project is required to mitigate the risk of moral hazard.

Prioritizing of resources	Not explicitly discussed in the policy document	The AF policy clearly defines the criteria to be considered for prioritizing projects for AF (including project performance, expected development outcomes, readiness, innovation, risk mitigation, and sustainability of projects outputs and outcomes.
Processing and approval	The SF policy does not include a clear streamlined processing procedure for SF requests.	The AF policy provides for streamlined processing procedures of AF projects for improved efficiency and risk mitigation based on quality assurance.
Policy implementation	No operational guidelines were prepared to accompany the policy. There is also no discussion of the implementation considerations in the policy.	Implementation Guidelines will be issued after the approval of the policy to define the scope of the policy and the steps for processing and implementing the specificities of AF for Bank Group projects. The AF policy provides more comprehensive and explicit guidance on the implementation, supervision, reporting and completion of AF projects.