

November 2017

Proposed Extension of Pilot Period for the Project Design Facility

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Asian Development Bank

ABBREVIATIONS

| | | |
|-----|---|---------------------------|
| ADB | – | Asian Development Bank |
| DMC | – | developing member country |
| PDA | – | project design advance |
| PDF | – | project design facility |

NOTE

In this report, "\$" refers to United States dollars.

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|-------------------------|--|
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I. INTRODUCTION

1. This paper seeks the approval of the Asian Development Bank (ADB) Board of Directors to extend the pilot period of the project design facility (PDF) until 31 December 2018.
2. In 2011, the Board approved the PDF on a pilot basis for an initial period from 12 April 2011 to 31 December 2013.¹ In January 2014, the PDF pilot period was extended until 31 December 2017, with modifications, to encourage greater usage of this instrument to support enhanced project readiness.²
3. A broad review of ADB's products, including the PDF, was launched in 2017, including proposals to modify existing instruments, and to introduce new ones to better respond to emerging developing member country (DMC) client needs. Based on the findings of this review, a recommendation will be made on mainstreaming the PDF. Until the product review is completed in 2018 and the results of the review have been disseminated among ADB staff and DMCs, an extension in the PDF pilot period is proposed to allow four project design advances (PDAs) scheduled for approval in 2018 to proceed.

II. BACKGROUND

4. ADB's Midterm Review of Strategy 2020 identifies improved project readiness as a key measure for reducing project implementation delays.³ High project readiness describes the situation where project feasibility, detailed engineering design, strong executing agency engagement, safeguard action plans, and procurement up to the contract award for the procurement packages planned in the first year of implementation have all been achieved before project approval.⁴ This results in accelerated project start-up and more accurate cost estimates, thereby increasing the likelihood that the project will achieve its outputs on time and within budget.
5. To promote higher project readiness, particularly the preparation of detailed engineering design and the preparation of bidding documents prior to loan effectiveness,⁵ ADB introduced the PDF in 2011 on a pilot basis. Under the PDF, PDAs are provided as quick-disbursing resources so that detailed engineering design can occur immediately following the completion of project feasibility studies. This allows projects to be immediately implemented upon loan effectiveness. In addition to detailed engineering design, PDAs can also finance broader project and program preparatory work.⁶
6. A PDA is provided only when it is highly likely that ADB will finance an ensuing loan, although approval of a PDA does not commit ADB to providing financing for the follow-on loan. A PDA is then approved once PDA implementation readiness is demonstrated, i.e., when the selection of consultants has been substantially completed, and the related contract is ready to sign.

¹ ADB. 2011. *Establishing the Project Design Facility*. Manila.

² ADB. 2014. *Pilot Financing Instruments and Modalities: Proposed Extension of Pilot Period for the Project Design Facility with Modifications*. Manila.

³ ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

⁴ ADB. 2010. *Good project implementation practices*. Manila.

⁵ In this paper, "loan" also refers to grants.

⁶ This includes feasibility studies, due diligence, safeguards assessments, advance procurement actions, legal services, capacity building, and transactions advisory services for the preparation of public-private partnership agreements.

7. PDAs are approved by Management under a commitment authority of \$150 million. The maximum size of a PDA is \$10 million, or 10% of the value of the ensuing ADB-financed loan, whichever is larger. PDA requests which exceed this amount may also be considered on a case-by-case basis.⁷ The PDA implementation period is generally 2 years, although it can be extended on an exceptional basis for up to 4 years. A PDA is intended to be refinanced under the ensuing loan.⁸

8. During the initial PDF pilot phase (2011–2013), a single PDA with a value of \$3.5 million was approved in 2012 for the Bangladesh Coastal Towns Environmental Infrastructure Project.⁹ After modifications to the PDF instrument were approved,¹⁰ along with a 4-year extension in the PDF pilot period, a further 10 PDAs were approved as of 30 September 2017 (Appendix 1). A further four PDAs are proposed for approval in 2018 (Appendix 2).

III. REVIEW OF ADB PRODUCTS

9. As part of the development of Strategy 2030, ADB's new long-term strategic framework, in 2017, ADB launched a review of its product offerings. The purpose of this review is to ensure that ADB is effectively and efficiently meeting the changing needs of its DMCs by introducing new products, and making improvements to existing financing instruments. The PDF is included in the review of ADB's project design support instruments. The product review is expected to be completed in 2018. Thus, there is a need to ensure that ADB can provide project design support through the PDF for the four PDAs proposed for approval in 2018, until the review has been completed.

IV. RECOMMENDATION

10. The President recommends that the Board approve the extension of the pilot period for the PDF until 31 December 2018.

⁷ When the PDA amount for a single ensuing project exceeds the ceiling, the PDA report is submitted to the President for consideration by the Board, seeking the Board's no-objection for the relevant operations vice-president's approval of the PDA.

⁸ Payment of interest or service charges, where applicable, is deferred until the PDA is refinanced out of the ensuing loan proceeds. If the PDA is not refinanced under the ensuing loan, it is repaid in 10 approximately equal semi-annual installments over 5 years.

⁹ ADB. 2012. *Project Design Advance: Bangladesh—Coastal Towns Infrastructure Improvement Project*. Manila (Project Number 44212).

¹⁰ The following modifications were introduced during the pilot extension period: (i) the PDA ceiling was increased from 1% to 4% of the ensuing loan value, or from \$5 million to \$10 million, based on the larger of these amounts; (ii) country-level master agreements to cover multiple PDA approvals were introduced; and (iii) commitment charges for the initial 2-year implementation period were waived.

APPROVED PROJECT DESIGN ADVANCES

| Country | Project Title | Sector | Approval Date | Amount (\$ million) |
|-----------------|---|--|----------------------|--------------------------------|
| Bangladesh | Coastal Towns Infrastructure Improvement Project | Water and other urban infrastructure and services | 6 August 2012 | 3.50 |
| Kyrgyz Republic | Central Asia Regional Economic Cooperation Corridors 1 and 3 Connector Road | Transport | 2 June 2015 | 3.00 |
| Tuvalu | Outer Island Maritime Infrastructure Project | Transport | 16 November 2015 | 2.00 |
| Fiji | Urban Water Supply and Wastewater Management Project | Water and other urban infrastructure and services | 9 December 2015 | 2.65 |
| Nauru | Port Development Project | Transport | 16 December 2015 | 3.00 |
| Pakistan | Jalalpur Irrigation Project Design Advance | Agriculture, natural resources and rural development | 1 February 2016 | 5.00 |
| Bangladesh | Rural Infrastructure Maintenance Program | Transport | 7 June 2016 | 2.00 |
| Pakistan | Karachi Bus Rapid Transit Project Design Advance | Transport | 29 September 2016 | 9.70 |
| Pakistan | Peshawar Sustainable Bus Rapid Transit Corridor Project Design Advance | Transport | 23 November 2016 | 10.00 |
| Bangladesh | City Region Development Project II | Water and other urban infrastructure and services | 15 December 2016 | 5.00 |
| Sri Lanka | Northern Province Sustainable Fisheries Development Project | Agriculture, natural resources and rural development | 8 March 2017 | 1.30 |
| TOTAL | | | | 47.15 |

Source: Asian Development Bank

PROJECT DESIGN ADVANCE PIPELINE 2018

| Project Name | Country | Sector | Amount (\$ million) | Fund Source | Date of PDA Approval |
|---|----------------|---------------|--------------------------------|------------------------|---------------------------------|
| Lahore Metro Transit Project Design Advance | Pakistan | Transport | TBD | COL | 2018 |
| Sustainable Cities Development Investment Program | Georgia | Transport | 10.00 | OCR | Q3 2018 |
| Higher Engineering Education Project | Nepal | Education | 5.00 | COL | Q1 2018 |
| Port Infrastructure Development Project (Apia Port) | Samoa | Transport | 2.00 | ADF | Q1 2018 |

ADF = Asian Development Fund, COL = concessional ordinary capital resources, OCR= regular ordinary capital resources, PDA = project design advance, Q = quarter, TBD= to be determined.

Source: Asian Development Bank