New Development Bank

Policy on

Processing of Sovereign Loans & Loans with Sovereign Guarantee

Owner: Operations Division

Version: 2019 V1

Approved Date: January 21, 2016

Change Log

Revision Date	Chapter revised	Revision Details
March 2019		Change log as presented at the 18th Board meeting held on 31 March 2019

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Abbreviations

BOD	Board of Directors
CIC	Credit and Investment Committee
DFFS	development finance facility – sovereign
DMF	design and monitoring framework
FAM	facility administration manual
FFA	facility framework agreement
MFF	multi-tranche financing facility
MOU	memorandum of understanding
NDB	New Development Bank
NFIs	national financial intermediaries
PAM	project administration manual
PDB	project document for the Board
PFF	project finance facility
PTA	project technical assistance
SDL	sustainable development loan
TA	technical assistance
TRR	tranche release requests

Policy on Processing of Sovereign Loans & Loans with Sovereign Guarantee

A. Objective and Scope

1. The objective of the policy is to help member countries achieve the best possible outcome for their investments while avoiding/minimizing/offsetting any negative impacts. To accomplish this, projects are subject to scrutiny in the New Development Bank (NDB) based on processes set out in this policy.[1] These requirements apply to NDB assistance in the form of loan with a sovereign guarantee to projects, project finance facility (PFF), multi-tranche financing facility (MFF), sustainable development loan (SDL), and development finance facility – sovereign (DFFS). This policy will also be applicable to loans given, without a sovereign guarantee, to designated national financial intermediaries (NFIs) that are fully or majority owned by a member government (henceforth referred to as designated NFIs).[2] Project processing is done with full involvement of the member country government, the borrower, beneficiaries of the project, and the people affected by the project.

B. Project Processing

a. Project identification

2. Projects are identified in the course of preparation of the country project pipeline which is used to implement the country partnership plan. The projects with detailed project reports are normally considered for inclusion in the business plan. A project is processed when it is part of the country project pipeline to ensure NDB assistance is (i) in line with its own and governments' strategic priorities, and (ii) properly integrated with government's investment program and the sector's priority investment needs.

3. A project that is not included in the country project pipeline may be considered for processing if there is a request from the member government or its agency. The Vice-President and Chief Operating Officer (VP&COO) may approve such inclusion. If the suggestion to process a project that is not included in the project pipeline originates in NDB, prior government (or its agency) endorsement of the proposal is needed before seeking VP&COO's approval.

[1] The term project in this policy also covers all lending modalities used by NDB under this policy.
[2] New Development Bank Policy on Loans without Sovereign Guarantee to National Financial Intermediaries.

b. Project concept, classification and preparation

4. The indicative coverage of the project concept paper is as follows: project's strategic context, its rationale, scope and justification for NDB support; indicative expenditure and financing plan; subproject selection criteria for PFF, DFFS, and loan without a sovereign guarantee to designated NFIs; the assessments needed for project due-diligence; resource requirement for processing (staff and consultants), and any need for project technical assistance (PTA); processing schedule; initial environmental and social risk categorization; key issues, if any, that require management guidance; implementation arrangements; and the project's initial design and monitoring framework (DMF) based on information available.

5. For a MFF project, the concept paper describes its scope and design—the strategic context of the facility and its relation to the sector road-map and sector policy environment, justification for the use of MFF modality for the project, proposed investment program and financing plan, time-frame, and due-diligence needed for the facility.

6. The DMF links project's activities and milestones with its outputs, outcomes and impact; and indicates the assumptions needed and the risks to be addressed to accomplish the expected outputs, outcomes and impact. The DMF provides the basis for monitoring and evaluation by establishing mechanisms and indicators (the baseline, targets and time-frame) to measure and report on (i) project's progress during implementation, and (ii) the extent of accomplishment of its goals after completion. For a MFF project, the DMF is prepared for the entire facility and for each MFF tranche release request (TRR). The DMF evolves during project processing; and is modified during implementation to reflect any material changes in scope of the project.

7. Project concept papers are peer reviewed internally – by sector experts, and, as needed, by NDB's regional office for the concerned country, for issues relating to co-financing, environment and social framework, procurement, alignment with country strategy – and revised. The revised concept paper; project's key issues, if any, requiring Management guidance, and the proposed risk category of the project, are submitted to the VP&COO for approval. Any subsequent change to the project's risk category is made with the approval of the VP&COO.

8. Projects financed by NDB are classified, at the concept paper stage, by their sector and thematic category, and, as needed, by any other characteristics. Project's initial classification is modified appropriately during project appraisal based on additional

information. The project processing division will be responsible for deciding project classification in consultation with other divisions as needed.

9. When a project does not have the feasibility study, it may require a PTA to design it and conduct feasibility. If the PTA is provided by NDB, the project team, in consultation with the member government and the project executing agency, finalizes and comes to an agreement on the PTA scope, consulting inputs, terms of reference, implementation arrangements, and cost-sharing/financing arrangements. The PTA document is appended to the project's initial concept paper. The project processing division is responsible for implementing and supervising the PTA – in close collaboration and consultation with the project executing agency and the member government – and for the quality of its output.

c. Project design and appraisal

10. Project design evolves during its processing based on inputs received from the analytical studies done as part of due diligence, the project team, the executing agency and the member government, project beneficiaries, people adversely affected by the project, and other development partners and stakeholders. The inputs are received during the preparation of the feasibility study/PTA implementation, consultations with stakeholders, review meetings with the executing agency and the government, and internal reviews of NDB.

11. After adequate feasibility work has been done – in the form of completion of surveys, initial design, detailed cost estimates, environmental and social assessments and other due diligences normally required for the project – either by the borrower or using the PTA, the project team appraises the viability of the project. The appraisal involves examining, as appropriate, the adequacy, the suitability, reliability, and the quality of the following aspects of the project:

    i. **Development outcome and impact:** Identification and definition of output, outcomes and impact, DMF's quality, evaluability of the project, and monitoring & evaluation arrangements.

    ii. **Strategic relevance and approach:** Coherence and consistency of development rationale underpinning the project; clarity and realism of the project's developmental objectives; alignment of project's approach to its objectives; appropriateness of choice of lending instrument and modality; depth of consultations with other development partners and the scope for co-financing; the extent to which evaluation lessons, as and when available, are incorporated in project design; adequacy of country and sector knowledge underpinning the project; and the level of borrower ownership.

iii. **Financing plan:** The quality, completeness, and reliability of cost estimates and the viability of financing plan.

iv. **Environment and social aspects:** Appraisal is carried out in accordance with NDB's "environment and social framework" on the project's impact on environment, involuntary resettlement, and vulnerable groups.[3] This dimension of the project appraisal also, as needed, assesses (i) project's focus on poverty issues, and (ii) the appropriateness and adequacy of treatment of gender equality issue in the project design.

v. **Fiduciary aspects:** This dimension has two components (i) financial viability and financial management of the project, and (ii) procurement. Financial viability and financial management assessment is done in accordance with NDB's "policy on financial management and financial analysis, and economic analysis of projects." Likewise, procurement assessment is done in accordance with NDB's "policy on procurement."

vi. **Technical and economic aspects:** Projects have to be technically sound, with design choices based on suitable analysis of technical alternatives. The quality and coherence of economic rationale and analysis underpinning the project need to be assessed in accordance with NDB's "policy on financial management and financial analysis, and economic analysis of projects."

vii. **Policy and institutional aspects:** Extent to which the prevailing macroeconomic and sector policy environment has been considered in project design, appropriate identification of agencies, and institutions, and assessment of strengths and weaknesses in institutional capacity, and appropriateness and realism of the capacity building measures.

viii. **Implementation arrangements:** Project management capacity and track record of the executing agency, adequacy of the implementation arrangements, prospects for completing the project within the prescribed time-frame, readiness of project/program for implementation, quality and completeness of the project/facility administration memorandum (PAM/FAM), and the appropriateness of arrangements to monitor and review project's implementation progress.

[3] As defined in New Development Bank Environment and Social Framework.

ix. **Risk assessment and management:** Clarity and candor in recognizing the overall risks to project outputs and outcomes; and the strategies to manage risks that could be mitigated.

x. **Project's long-term achievability of development objectives:** The arrangements made for a non-revenue earning or a partially revenue earning project to receive adequate budgetary support for operations and maintenance to produce rated outputs over its designed life time.

12. NDB may adopt, entirely or partly as appropriate, the appraisal done by other development partners, national financial intermediaries, and/or other financiers of the project if the assessment meets NDB's requirements satisfactorily.

13. The appraisal team submits a succinct appraisal brief to the VP&COO through the chief and the director general of the project processing division and seeks Management guidance on any outstanding issues relating to project appraisal and/or the MOU with the government. Based on Management guidance the project team prepares the draft project document to the Board (PDB) including all its attachments, and the legal division prepares the draft loan agreement.

d. Additional processing requirements for MFF projects[4]

14. The format of PDB for a MFF projects is the same as that of a standalone project but will have additional attachments—the facility framework agreement (FFA), facility administration manual (FAM), and the first tranche release request (TRR).

15. The FFA provides (i) the basic understanding with the borrower on the key features of the investment program or the project, and (ii) the terms and conditions for financing. The FFA does not impose a legal obligation on NDB to support the project/program. Likewise, the borrower is not obliged to seek or accept any NDB support under the facility. The legal rights and obligations of the parties arise only when they sign legal agreements under individual tranches of the MFF. An indicative content of the FFA is as follows: (i) the facility constituents (sector road map, strategic context, policy environment, investment program or investment plan, and financing plan); (ii) DMF for the entire facility; (iii) implementation framework; (vi) criteria to select individual tranches; (v) environment and social framework, as appropriate; and (vi) facility level undertakings, representations and warranties. The PDB will be succinct on the issues covered in the FFA. The FFA is negotiated and signed by the client and NDB before the MFF is submitted for the Board of Directors (BOD) approval.

[4] Description of MFF modality is provided in New Development Bank Policy on Sovereign Loans & Loans with Sovereign Guarantee.

16. The FAM will be agreed during the negotiations for the facility and recorded in the minutes. The FAM details the implementation arrangements for the entire facility and will be updated as needed during the preparation of the second and subsequent TRRs. The changes made to FAM are recorded in the minutes of negotiations for the respective TRRs.

17. Once the facility has been approved by the BOD, NDB provides financing under MFF in response to subsequent TRRs. The TRR is made in the form of a letter from the client with the following attachments – a summary of the proposal, DMF for the activity, description of the project to be financed, detailed cost estimate and financing plan, size of assistance needed and terms of assistance, period of utilization of the assistance, advance procurement action, any request for retroactive financing, implementation arrangements, procurement plan, detailed terms of reference for consultants (if any), disbursement arrangements and plan, confirmation of adherence to the FFA, financial and economic appraisal, and environmental and social impact assessments and the associated plans to manage the impacts. The TRRs will be subjected to the appraisal process similar to that for a stand-alone project.

18. The framework for managing the environmental and social impacts of individual investment/activities proposed under a MFF is described in the FFA and PDB. Environmental and social categorization is made for individual TRRs but not for the entire facility.

e. Post-appraisal internal review process

19. The PDB is peer reviewed internally for (i) sector policy, and technical and design aspects; (ii) design and monitoring framework; (iii) environment and social issues; (iv) procurement; (v) co-financing; (vi) financial and economic analysis; (vii) investment, financing plans, and disbursements; (viii) legal implications, and (ix) implementation arrangements. The views of NDB's concerned regional office are also sought as needed. The PDB is revised, as appropriate, to incorporate the peer reviewers' comments. The revised draft PDB, along with peer reviewers' comments, is submitted to the VP&COO.

20. The VP&COO conducts an interdepartmental meeting to examine (i) the readiness of the project and the adequacy of the appraisal process; (ii) the actions pertaining to advance procurement, and retroactive financing; (iii) project's risks and mitigation plans; and (iv) adequacy of implementation arrangements. The VP&COO will decide if the project is ready for loan negotiations. The internal review process for a MFF and individual TRRs will be the same as for a standalone project.

f. Loan negotiations

21. Following approval to negotiate, the draft PDB with all attachments and the loan agreement is forwarded to the borrower with an invitation for loan negotiations. The borrower is informed that the documents (i) are for restricted circulation and are to be treated as confidential because their contents may be changed, and (ii) do not commit NDB to finance the project or program. The BOD is informed about the loan negotiations. The project team leader leads the negotiations, and the project counsel prepares minutes for signature by both parties. The procedure will be the same for a MFF and its first and subsequent tranche release requests and other modalities of lending this policy covers.

g. Transmittal of documents

22. After conclusion of loan negotiations or reaching agreements on main contents of PDB, the PDB documentation and the loan agreement will be circulated to the Credit and Investment Committee (CIC).

C. Approval Process

a. Credit and Investment Committee

23. The CIC, after due consideration of the PDB and its supporting documentation and the loan agreement takes decision about circulating the project proposal to the BOD for consideration. The BOD circulation period is 15 days.

24. In the case of a MFF's second and subsequent TRRs, the CIC, after due consideration (i) takes decision on the tranche release if the classification of the activity financed is not Category A for any of its environment and social impacts; or (ii) if Category A, takes the decision about circulating the proposal to the BOD for approval.

25. In the case of a PFF/DFFS/loan without a sovereign guarantee to a designated NFI, a request for financing of second and subsequent sub-projects/sub-loans will be considered by the CIC (i) to approve if the classification of the sub-project/sub-loan is not Category A for any of its environment and social impacts; or (ii) circulate the proposal to the BOD for approval, if the sub-project/sub-loan is Category A.

b. The Board of Directors

26. The BOD takes decision on (a) project loans and SDL, (b) the PFF and its first subproject, (c) the MFF and its first tranche, (d) the DFFS and its first sub-loan, and (e) loan without a sovereign guarantee to a designated NFI and its first sub-loan, within the 15-day circulation period. If discussion is sought, the same could be done via email exchange/teleconference/video conference or meeting.

c. *Information to the Board of Directors*

27. As and when, the CIC approves tranches of a MFF, the BOD will be informed accordingly in the subsequent month with succinct description (including environment and social aspects) of the activities financed and the amount approved.

28. The CIC will also prepare an Annual Report on MFF for the BOD to provide information about: (i) MFFs approved for each member country and their implementation progress; (ii) the performance of the portfolio of ongoing MFFs; (iii) environment and social risks encountered, and actions taken to manage risks; (iv) any material changes in the investment plans proposed in the MFF; (v) compliance with agreed covenants and undertakings; and (vi) co-financing sourced under MFF modality.

D Project Implementation Arrangements

29. During appraisal, the project team agrees with the government or its agency on the scope of project; its outputs, outcomes, and impact; project cost and financing plan, and terms and conditions of financing, including co-financing; loan covenants including policy reforms as needed; and implementation arrangement—in form of PAM/FAM—and prepares an aide-memoire or a memorandum of understanding(MOU). PAM/FAM facilitates efficient project implementation by providing relevant information to all stakeholders to understand their roles and accountabilities in a project. It is appended to the PDB. PAM includes (i) key milestones in project implementation and the associated time frames; (ii) project readiness checklist to achieve better coordination to speed-up implementation; (iii) roles and responsibilities of the executing agency, the implementing agency, and NDB in project implementation; (iii) project management arrangements to NDB's satisfaction, and sub-project selection criteria in the case of PFF and DFFS; (iv) project cost, financing, and annual flow of funds; (v) arrangements for financial management and oversight, and the free limit and the appraisal floor for DFFS loans; (vi) procurement plan for works, goods and consultants; (vii) environment and social issues; (viii) performance monitoring, evaluation, reporting and communication; and (ix) references to NDB's Anticorruption Policy. For a MFF, as necessary, PAMs may be prepared for implementing the projects under individual tranches. Both FAM and PAM are to be prepared early during MFF/TRR preparation and are peer-reviewed by staff, and reviewed by Management.

E. Disclosure

30. Within two weeks after the project concept paper is approved, the project processing division prepares the "Project Summary" and publishes on the NDB website. Project summary is updated timely during project processing as needed. A project profile is

created to disclose project documents on the NDB website in accordance with NDB's disclosure policy.[5]

31. Before loan negotiations, the client is briefed about NDB's public communications policy. The client, at the time of loan negotiations, may identify information which it considers confidential. If the information so identified meets the non-disclosure standards of NDB's public communications policy, the BOD is informed about the confidential information in the PDB and the restrictive nature of its circulation. The project processing division appropriately redacts the confidential information from PDB if the disclosure of the same is required under NDB's disclosure policy.

F. Guidelines

32. Management will issue detailed guidelines for the processing of NDB assistance under different modalities.

G. Review of the Policy

33. NDB will pursue this policy during the first year of operation. Thereafter, as needed, NDB may review and modify the policy based on the experience gained in implementing the policy.

[5] New Development Bank. Information Disclosure Policy.