

# 12 COFINANCING OPERATIONS

## Description

- 12.1 **Cofinancing** - The shared financing with a third party (other than the project sponsors) on a transaction-specific basis for a project or program associated with ADB funds, risk taking or administrative involvement. It can be with or without a formal coordination agreement among the financing partners.

## Types of Cofinancing

- 12.2 **Joint Financing** - cofinancing of expenditures from a common list of goods and/or services in agreed portions, following agreed procurement guidelines. Often (but not always) involves the disbursement of funds through a trust account administered by one party or other formal partnership agreement.
- 12.3 **Parallel Financing** - cofinanciers finance different goods or services, as identified during design, following their own procedures. Unlike joint cofinancing, it can be on “tied” basis.
- 12.4 **Direct value added cofinancing** - cofinancing with active coordination and formal agreements among financing partners that bring about defined client benefits, including contractual commitments by ADB (such as for credit enhancement, syndication, or financial administration) to facilitate mobilization, administration, or participation in cofinancing.
- 12.5 **Channel Financing** - a form of financing partnership agreement whereby financing partners channel funds through ADB for specific projects or programs that it processes and administers, without a direct operational relationship between the financing partner and the executing agency for those projects. Constitutes the legal basis for the establishment and operation of a trust fund.
- 12.6 **Complementary Financing (CFS)** - ADB acts as the lender of record without recourse for CFS loans. These loans are presold to commercial lenders. It should be noted that the CFS is used solely to facilitate commercial cofinancing for ADB-assisted private sector projects.
- 12.7 **Guarantee** - an undertaking for the payment of a financial or performance obligation to a beneficiary on behalf of an obligor, thereby reducing or eliminating commercial and/or non-commercial risks to such beneficiary. A credit enhancement to the beneficiary and a contingent liability to the issuer of the guarantee (guarantor).

- **Partial credit guarantee (PCG)** - ADB provides comprehensive coverage for all commercial and political risks for a specified portion of the borrowing. The PCG usually covers debt service during the later maturities. This may be appropriate when lenders are not willing or able to provide a financing tenor long enough to match the cash flow of a project. Alternatively, PCGs can cover a portion of principal and interest payments payable throughout the term of a borrowing.
- **Political Risk Gurantee (PRG)** - covers payment of all or part of the project's debt service against a specific political or sovereign risks. PRGs are primarily designed to facilitate private sector development, either through public or private sector projects.

### Disbursement Procedures

12.8 For cofinanced projects where ADB acts as administrator<sup>1</sup> of the cofinanced component, the cofinanciers normally agree to follow ADB's procurement guidelines and disbursement procedures to facilitate project implementation and administration.

12.9 In all cases, the borrower is requested to submit a separate withdrawal application using the cofinancier's form to claim eligible project expenditures.

#### 12.10 Types of Cofinancing Disbursement

**Funds Held by ADB** - In this type of disbursement, the cofinancier's funds are entrusted and deposited with ADB. ADB reviews, authorizes, and executes payments upon receipt of withdrawal applications. ADB's disbursement procedures are used.

**Funds Held by the Cofinancier** - ADB reviews withdrawal applications and advises the cofinancier to execute payments directly to beneficiaries. ADB's disbursement procedures are used. Withdrawal applications under complementary financing must be received by ADB at least 10 banking days prior to the specified date of withdrawal.

12.11 Inquiries on cofinancing operations not discussed in this Handbook should be addressed to ADB's Office of Cofinancing Operations. More information are also available in [www.adb.org/Cofinancing/default.asp](http://www.adb.org/Cofinancing/default.asp).

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<sup>1</sup> Whenever ADB provides financial administration of a cofinanced component, explicit Board approval is captured in ADB's grant, loan and technical assistance Board documents. In addition, a cofinancing agreement is signed between ADB and the cofinancier indicating the project administration duties and responsibilities of both cofinanciers.