

OPERATIONS MANUAL BANK POLICIES (BP)

These policies were prepared for use by ADB staff and are not necessarily a complete treatment of the subject.

COFINANCING

A. Introduction

1. Article 2(i) of the *Agreement Establishing the Asian Development Bank* provides that one of ADB's main functions is to promote public and private capital investment for development in the Asian and Pacific Region. Article 2(v) of the Charter enjoins ADB to cooperate with international institutions and national entities, both public and private, involved in the investment of development funds in the region, and to promote interest among such institutions and entities in new opportunities for investment and assistance.

B. Definition

2. The term "cofinancing" refers to a financing arrangement whereby one or more sources of official or commercial funds (other than contributions or loans from the borrowing or host developing member country [DMC] and its government agencies and debt and equity from project sponsors) join ADB in financing a project or program.

C. The Policy

3. ADB's cofinancing operations play a key role in (i) mobilizing additional official and private capital for ADB-assisted projects and programs, and (ii) appropriately leveraging ADB's financial resources.

D. Sources of Cofinancing

4. The two main sources of cofinancing are official and commercial. Sources of official cofinancing consist of governments or their agencies (mainly through bilateral assistance programs), and multilateral financing institutions. These sources provide either loans (often on concessional terms) or grants.

5. Sources of commercial cofinancing consist of private sources such as commercial banks, insurance companies, and pension funds. Such cofinancing is typically provided in the form of loans, floating rate notes, or bonds, on terms that are market based.

6. Another source of cofinancing is export credit agencies (ECAs). These are government-supported financial institutions that promote the export of goods or services from their countries. ECAs provide term finance to exporters or their clients through a guarantee, direct credit, or a combination of both.

1. Official Cofinancing

7. Official cofinancing is an arrangement under which ADB and other official funding agencies—bilateral as well as multilateral—finance ADB-assisted projects. Funding from these agencies may be provided as grants or loans, on a parallel or joint basis.¹

8. Official cofinancing is an important component of ADB's cofinancing operations. ADB seeks to maintain strong relations with official cofinancing institutions. In addition, ADB (i) explores potential new sources of official cofinancing, such as the newly industrialized countries in the region and DMCs that have graduated from borrowing status; (ii) secures the maximum possible concessional assistance from official sources, and encourages cofinancing on an untied basis to the extent possible; (iii) mobilizes grant funds from cofinanciers for its technical assistance programs and for specific components of ADB-assisted projects (including "soft" components such as training and capacity building); (iv) concludes framework agreements with interested cofinancing sources with a view to streamlining the arrangements for providing assistance; (v) accords priority to directing concessional flows to DMCs that are eligible for assistance exclusively from the Asian Development Fund, subject to donor preferences concerning countries and projects; and (vi) arranges official cofinancing on nonconcessional terms, mainly for traditional growth-oriented projects assisted by ADB.

2. Commercial Cofinancing

9. The primary objective of ADB's commercial cofinancing operations is to assist DMC governments and private sector borrowers in securing debt financing on suitable terms for ADB-assisted development projects. Commercial cofinancing is sourced from domestic and international financial markets and may be supported by ADB's credit enhancement products, as described in the following paragraphs.

a. Parallel Cofinancing from Commercial Sources

10. ADB seeks to obtain parallel cofinancing for its public and private sector projects. Such cofinancing from commercial sources is arranged in parallel with ADB's direct loan, but without any credit enhancement from or recourse to ADB. ADB may provide advisory services, when required by a borrower, for structuring the financing package for the cofinanced project. However, such parallel cofinancing may benefit from credit enhancements provided by other entities, such as an ECA or a political risk insurer.

b. Credit Enhancement Products

i. Complementary Financing Scheme Loans

11. ADB's complementary financing scheme (CFS)² is a credit enhancement product that involves the prearranged sale to commercial lenders of a participation in a cofinanced or "complementary" ADB loan without recourse to ADB for debt service. The CFS is used solely to facilitate commercial cofinancing of ADB-assisted private sector

¹ The modes of cofinancing are summarized in Appendix 1, OM Section E1/OP.

² Complementary loans are commonly referred to by multilateral institutions as "B-loans", to distinguish them from the multilateral's direct or "A-loans".

projects. ADB is the “lender-of-record,” since the complementary loan is made in ADB’s name.

12. As ADB is the lender-of-record, cofinanciers providing CFS loans enjoy the same privileges and immunities as those applicable to ADB’s direct loans, including exemption from restriction on currency conversion and remittance, and exemption from withholding tax. CFS lenders also benefit from ADB’s project appraisal, supervision, and loan administration services.

13. Any reputable financial institution can participate as a CFS lender, provided it operates on a commercial basis (i.e., it finances its loans from the market without budgetary allocation or government credit support). However, financial institutions are not eligible to participate in CFS transactions if their head offices are registered in the same country in which the ADB-assisted project is located.

ii. Guarantees

14. ADB has two types of guarantees for mobilizing cofinancing from commercial lenders: the partial credit guarantee, and the political risk guarantee. Backed by ADB’s own credit, these guarantees enhance the credit of borrowers in DMCs and mitigate the risks of commercial cofinanciers. They thus help borrowers to gain access to long-term debt financing at better terms than would otherwise be possible.³ For a full discussion of ADB’s guarantee operations, refer to OM Section D9 on *Guarantee Operations*.

3. Export Credit

15. Export credit cofinancing for public and private sector projects is an important element of ADB’s commercial cofinancing operations. ADB assists borrowers to obtain export credit from ECAs. ADB may take the initiative in arranging export credit along with its financing, in consultation with the borrower concerned. This is meant to assist DMC borrowers to secure optimal export credit financing terms.

16. Under separate documentation, ADB may provide cofinancing support, in the form of a guarantee or CFS loan, to help a borrower fund the down payment needed to obtain the export credit contract. This may be necessary because ECAs do not meet the full cost of the exports that they finance; usually about 15–20% of the cost must be provided as a down payment by the borrower in foreign currency to get the export credit contract.

17. ADB undertakes regular consultations with major ECAs. In addition, ADB seeks increased cooperation with ECAs, particularly those that provide cofinancing on a “project finance” basis for large infrastructure projects.

³ The coverage of ADB guarantees does not extend to equity financing.

E. Operational Policies

18. The safeguard policies that apply to ADB-assisted projects also apply equally to all projects cofinanced by ADB.⁴

19. The application to cofinanced projects of ADB's operational policies, including the social safeguard policies, is subject to the provisions of the *Operations Manual* on those specific policies.

⁴ See OM Section F1 (Environmental Considerations), OM Section F2 (Involuntary Resettlement), and OM Section F3 (Indigenous Peoples).

Basis: This OM section is based on:

ADB. 1995. Doc. R80-95, *The Bank's Cofinancing Strategy*, 4 April. Manila.

ADB. 2001. Doc. IN.309-01, *Review of the Bank's Cofinancing Strategy*, 27 December. Manila.

ADB. 1984. Doc. R74-84, Revision 1, Final, *Cofinancing with Official Sources*, 9 August. Manila.

ADB. 1982. Doc. R89-82, *Cofinancing with Commercial and Export Credit Sources*, 23 July. Manila.

This OM section is to be read with OM Section E1/OP.

For other background information and references, see:

ADB. 2000. Doc. R299-00, *Review of the Partial Risk Guarantee of the Asian Development Bank*, 1 December. Manila.

ADB. 1999. Doc. R135-99, *Review of the Bank's Guarantee Operations*, 31 August. Manila.

ADB. 1995. Doc. R81-95, *Review of the Bank's Guarantee Operations*, 4 April. Manila.

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For inquiries: Questions may be directed to the Principal Director, Office of Cofinancing Operations.

OPERATIONS MANUAL OPERATIONAL PROCEDURES (OP)

These procedures were prepared for use by ADB staff and are not necessarily a complete treatment of the subject.

COFINANCING

A. Introduction

1. Cofinancing is a key element of ADB's resource mobilization strategy and an integral part of ADB operations. Through cofinancing, ADB aims to mobilize additional financial resources from sources other than the borrower or project sponsors for ADB-assisted projects and programs and to help leverage ADB's direct financing of such activities. The effectiveness of cofinancing in mobilizing external resources is enhanced when it is arranged as early as possible in the project cycle, in close coordination with the parties concerned, both internal and external to ADB. Cofinancing is not a downstream, gap-filling exercise. The methods and procedures by which ADB implements its cofinancing policies are described in the following paragraphs. The modes of cofinancing are summarized in Appendix 1.

B. Focal Point

2. The Office of Cofinancing Operations (OCO) is the focal point for planning, promoting, and arranging cofinancing with borrowers for ADB-assisted projects and programs; and for formulating policies on cofinancing operations. OCO acts as the focal point within ADB for headquarters-level contacts with other international development institutions, such as multilateral and bilateral donors, export credit agencies, commercial banks, and other private financial institutions. OCO has lead responsibility for providing other departments with cofinancing related information, training, and administration, as well as support on structuring and arranging cofinancing transactions.

C. Mainstreaming and Upstreaming Cofinancing Operations

3. ADB endeavors to integrate cofinancing systematically into its financing operations, in consultation with concerned departments and offices, cofinanciers, and developing member country (DMC) borrowers. Such borrowers can be public or private sector entities. In exploring the scope for cofinancing, particular attention is given to borrowers that express interest in arranging commercial cofinancing, whether for public or private sector projects, or hybrid projects (e.g., public-private partnerships).

4. Cofinancing requirements and opportunities are systematically reviewed at an early stage in the project cycle, and given explicit attention in (i) country strategy and program (CSP) papers and their updates (CSPUs), (ii) project preparatory technical assistance papers, (iii) project briefs for public sector projects and programs, and (iv) concept clearance papers for private sector projects.

5. To sharpen the country focus of cofinancing operations, the regional departments encourage DMCs to consider the role of cofinancing before finalizing the scope of the CSP in consultation with DMC governments. A list of projects with potential for

cofinancing is prepared for consideration together with the CSP or CSPU for the DMC concerned. This list, though tentative and without any commitment from ADB, helps ADB to identify possible cofinancing sources in a timely fashion. Missions including staff from OCO and the Private Sector Operations Department (PSOD) may be fielded, as appropriate, to assess the feasibility of cofinancing and to determine the degree of credit enhancement required.

6. OCO, PSOD, and the regional departments are expected to actively and systematically promote the use of cofinancing in ADB projects and programs. The role of the regional departments consists primarily of (i) identifying the financial resource requirements of DMC borrowers, based on consultations with official as well as market sources; (ii) assisting OCO in identifying project-specific cofinancing opportunities at an early stage of the project cycle, typically by holding preliminary discussions with potential borrowers and cofinanciers represented in the DMCs; (iii) encouraging DMCs to examine the scope for cofinancing in ADB-assisted projects; and (iv) helping to implement cofinanced projects.

7. OCO closely coordinates with PSOD in enhancing ADB's role in private sector projects. OCO actively reviews the needs of DMC borrowers for cofinancing from market sources and, in consultation with PSOD, suggests optimal cofinancing structures for selected projects. OCO maintains contacts with potential cofinanciers, and markets ADB's cofinancing products.

8. The possibility of cofinancing is to be fully explored before any recommendation for (i) downsizing of a project that faces a resource gap or (ii) increasing ADB's lending for a project, is made to the President, through the operations vice-president (OVP).

D. Dissemination of Cofinancing Possibilities

9. Projects (except those in the private sector) that may need cofinancing from market sources (or export credit) are listed as early as possible in ADB's quarterly publication, *Project Profiles for Commercial Cofinancing*. A list of commercial cofinancing possibilities is also included in *ADB Business Opportunities*, a monthly publication that is published on ADB's web site. The regional departments update the project profiles in consultation with OCO.

E. Services Provided to Cofinanciers

10. As part of its general supervision and monitoring of project implementation, ADB furnishes periodic progress reports to cofinanciers for all cofinanced projects. In cases of joint financing or parallel financing with untied funds from cofinanciers, ADB may provide administrative services (consultant selection, supervision of procurement, and disbursement).¹ In other cases,² cofinanciers normally assume responsibility for procurement and disbursement related to their financing and ADB may, as a lead agency, provide services to coordinate project implementation. In addition, ADB may provide project processing and administration services for specific financing

¹ ADB normally charges a nominal administration fee for such services.

² Such as parallel financing with tied procurement, or procurement features incompatible with the *Guidelines for Procurement Under Asian Development Bank Loans*, dated February 1999.

arrangements with certain cofinanciers if resources offered are untied and the borrowing DMC so requests. This, however, is normally subject to availability of staff time and cost recovery.

11. Jointly cofinanced and ADB-administered portions of cofinanced projects are subject to ADB's project review and monitoring. ADB does not normally review or monitor components of projects that are cofinanced in parallel.

F. Policy Dialogue

12. ADB encourages DMC governments through its policy dialogue to address the concerns of cofinanciers with a view to improving the policy environment for the flow of private capital. Particular emphasis is given to defining the regulatory and policy frameworks that are considered necessary to attract international private capital on favorable terms. The DMC-specific private sector assessments are important tools of the policy dialogue.

13. Based on the country programming work, policy issues that have a bearing on cofinancing operations are to be identified for subsequent follow-up in ADB's policy dialogue with the DMC government concerned.

G. Official Cofinancing

1. Arranging Official Cofinancing

14. Staff efforts are to be directed to obtaining the maximum possible contribution from official cofinancing sources for technical assistance (TA) and loan projects in DMCs. Special attention is to be given to project-specific consultations with institutions that provide untied assistance.

15. The main steps in arranging official cofinancing are as follows:

- (i) At the time of formulating the CSP or CSPU, ADB staff initiate contacts with field representatives of development institutions, discuss ADB's operations program with them, and identify areas for possible collaboration. OCO may participate where needed.
- (ii) The borrower requests cofinancing for an ADB-assisted project.
- (iii) ADB determines the scope, the possible sources, and the mode of cofinancing. Depending on the procurement policies and the project requirements, cofinancing can be arranged on either a parallel financing or a joint financing basis.
- (iv) ADB coordinates official assistance with its development partners, with a view to enhancing its development impact by avoiding duplication and ensuring consistent policies.
- (v) ADB invites potential cofinanciers to participate in project processing missions in order to incorporate their inputs at an early stage of the

project cycle. The supply of project-specific information and data for cofinanciers should be streamlined following consultations with cofinanciers and borrowers.

- (vi) ADB ordinarily requires the cofinancier's commitment during or immediately after fact-finding for a TA operation; and well before loan negotiations when considering the provision of a loan.
- (vii) Depending on the extent of ADB's role in administering the funds provided by official sources on a joint or parallel basis, ADB may enter into a separate agreement with the cofinancier specifying the responsibilities of ADB and the cofinancier.

16. The internal approval procedures of cofinanciers, their country and sector preferences, and their procurement guidelines (applicable in parallel cofinancing) are to be taken into account to expedite project processing and implementation.

17. "Soft" components (such as training and capacity building) in ADB-assisted projects are to be identified as early as possible in the project cycle for possible cofinancing on an untied grant basis.

18. Generally, ADB prefers to finance the detailed engineering and project implementation consulting services contract of a cofinanced project to enhance control of project supervision.

19. Various conditions may be attached to official cofinancing that pertains to the eligibility of recipient countries or sectors, procurement restrictions, etc. Official cofinanciers may also seek conditions additional to, or at variance with, ADB's usual loan covenants. These issues are normally settled prior to the presentation of ADB's loan proposal for Board approval. To minimize complications in project administration and operation, the number of cofinanciers for a project is normally limited to three.

2. Procedures Specific to Grant Cofinancing³

20. Untied grants for TA can be provided either under umbrella-type arrangements referred to as "channel financing agreements" (CFA), or on a case-by-case basis under letters of agreement. Grant components of loan projects are generally financed through letters of agreement arrangements although, selectively, a donor may request ADB to use funds under an existing CFA to finance such components.

21. CFAs are primarily designed to attract additional grant resources from bilateral donors for ADB's TA program. Such grant resources also enable ADB to fund activities for which DMCs are reluctant or unwilling to borrow. CFAs minimize the need for detailed negotiations on a case-by-case basis and foster administrative efficiency.

22. Under a CFA, the donor enters into a comprehensive arrangement with ADB whereby (i) the donor provides a lump-sum untied grant fund to be administered by ADB

³ The procedures described may differ for grant cofinancing provided by private sector entities, such as corporations, foundations, or philanthropic trusts.

(but the fund does not become part of ADB's own resources) and indicates its preferred sectors and recipient countries in the use of the fund, (ii) ADB regularly provides the donor (generally on a semiannual basis) with a list and description of TAs that will satisfy the donor's preferences, and (iii) the donor and ADB agree on the specific activities to be financed under the fund. Funds provided under a CFA are transferred to an interest-bearing account and may be invested by ADB pending disbursement. Donors are provided with quarterly financial statements and progress reports on the use of the funds. ADB is responsible for project preparation and processing; acts as administrator; and provides a full range of services, including selection and recruitment of consultants, supervision of implementation, and disbursement of funds. The primary advantage of a CFA is that funding for a number of individual TAs may be provided by the donor under a single agreement. In addition to the traditional type of CFA (which may be used for several sectors), thematic cooperation funds can be established with bilateral donors in such areas as renewable energy, climate change, poverty reduction, governance, and the water sector. These thematic CFAs can also be packaged as umbrella facilities to allow for more than one donor to contribute to the financing of agreed programs of TA activities. A current list of CFAs is in Appendix 2.

23. Under the letters of agreement arrangement, the donor provides untied grants on a project-by-project basis and transfers the funds to ADB in tranches according to an agreed schedule. This arrangement is used to cofinance project proposals sent by ADB to donors on an ad hoc basis. In terms of TA and loan project formulation, supervision, and reporting to the donor, the procedures are the same as those under the CFAs.

3. Framework Agreements

24. Framework agreements with official cofinancing sources minimize detailed negotiations on a case-by-case basis. These agreements also streamline the methods and practices concerning the exchange of information, and simplify cofinancing modalities. In concluding framework agreements with cofinancing sources, priority is given to those that provide cofinancing on a regular basis. A current list of framework agreements is in Appendix 3.

H. Commercial Cofinancing

1. Financial Structuring

25. ADB structures commercial cofinancing transactions to mitigate risks, whether commercial and/or political, thus enabling borrowers to obtain financing on the best possible terms. In choosing a commercial cofinancing structure for a particular project, ADB follows a flexible and pragmatic approach, in line with the creditworthiness of the borrower concerned.

26. As appropriate, ADB encourages borrowers to seek parallel commercial cofinancing, without any ADB credit enhancement. Where this is not possible, ADB can consider using the following credit enhancement products to mobilize commercial cofinancing:

- (i) The complementary financing scheme (CFS), in which ADB acts as lender-of-record on behalf of commercial cofinanciers;⁴
- (ii) The political risk guarantee to mitigate specified political (or sovereign) risks; and
- (iii) The partial credit guarantee, which provides comprehensive cover against all risks for a specified portion of the borrower's debt service obligation (e.g., covering all principal repayments, or principal and interest during the later maturities of a financing scheme).

27. A CFS is used solely to facilitate commercial cofinancing of ADB-assisted private sector projects. However, the two guarantee products can be used to support commercial cofinancing for either public or private sector projects.⁵

2. Arranging Commercial Cofinancing

28. ADB considers a borrower's request to arrange commercial cofinancing for an ADB-assisted project in light of (i) the creditworthiness of the borrower; (ii) the willingness of commercial lenders to take on risks, be they political or commercial, associated with a proposed financing; and (iii) the extent to which ADB credit enhancements can effectively mitigate such risks.

29. Project proposals from private sponsors are examined first by PSOD. PSOD selects projects that are creditworthy and that fit with ADB's private sector development priorities and operational strategy. Once PSOD decides to process a project, and if the project requires cofinancing from market sources, OCO examines the possibilities for cofinancing and works with PSOD in structuring and arranging the transaction. Private sponsors are involved in the discussion and processing of such cofinancing.

30. Commercial sources may not be in a position to conduct a comprehensive appraisal of the project that they wish to cofinance. Therefore, subject to the borrower's consent, and to encourage commercial cofinancing in DMCs, ADB provides all relevant information on the borrowing DMC and the project concerned at the earliest possible stage of project processing.

31. The main steps in arranging commercial cofinancing are as follows:⁶

- (i) OCO maintains regular contact with private capital providers to determine their financing priorities and risk perceptions, and to alert them to proposed projects that are expected to require commercial cofinancing.
- (ii) In consultation with the borrower, ADB prepares a term sheet for the proposed cofinancing, describing, inter-alia, the amount and required

⁴ Typically in the context of a syndicated lending transaction.

⁵ For a full discussion of ADB's guarantee products, refer to OM Section D9 (Guarantee Operations).

⁶ For commercial cofinancing in support of private sector projects, particularly for large-scale projects, the procedures may differ, depending, for example, on the availability and competitiveness of commercial cofinancing, whether the sponsors have already engaged commercial lenders, etc.

tenor of such cofinancing, underwriting requirements, and the main features of any ADB credit enhancement.

- (iii) Based on the agreed term sheet, ADB assists the borrower to (a) solicit competitive proposals from prospective cofinanciers, and (b) carry out a systematic evaluation of such proposals, based on criteria previously agreed with the borrower and in accordance with best practice.
- (iv) Upon completion of the evaluation process, ADB and the borrower issue a mandate letter to the top-ranked cofinancier, or syndicate of cofinanciers, as appropriate.
- (v) Draft documentation for the cofinancing transaction is prepared, according to procedures and a timetable spelled out in the mandate letter. Once the draft documents are ready, the concerned parties hold loan negotiations.
- (vi) If ADB provides administration or other services for the cofinancing, a memorandum is prepared and circulated to the borrower and the cofinanciers.

3. Procedures Specific to Credit Enhancements

32. **CFS Loans.** Technically, a CFS loan increases the preferred debt of the borrowing DMC. Hence, the potential impact of the CFS loan on ADB's preferred creditor status needs to be carefully analyzed. As ADB's preferred creditor status is essentially a country-specific issue, the DMC's external debt position is assessed. The debt-servicing capacity of the DMC may be determined by analyzing the external debt indicators (such as debt-service ratio and share of preferred debt in the total external long-term debt). The proportion of CFS loans is to constitute only a modest level of the total ADB loans to the borrowing DMC at any time.

33. Although ADB is the lender of record for CFS loans, the commercial funds are channeled through ADB on a nonrecourse basis, and hence they do not appear on ADB's balance sheet. The documentation for CFS loans to private sector borrowers may consist of a single loan agreement to cover both ADB's principal loan and the CFS loan, if such documentation is requested. For CFS loans to private sector borrowers, the participating commercial banks may require ADB to accelerate the CFS loan in an event of default involving nonpayment of principal or interest. ADB, however, through an "optional cross-default clause," retains its option of not accelerating its own loan in such an event.

34. ADB charges CFS borrowers (i) an arrangement fee of 75–100 basis points on the amount of the CFS loan, with a minimum of \$20,000; and (ii) an administration fee of \$5,000 per CFS lender per annum, subject to a maximum of \$20,000 per borrower per annum. The arrangement fee is collected up-front (i.e., at first drawdown or within a specified period after loan signing), while the administration fee is levied annually over the life of the CFS loan.

35. **Guarantee Operations.**⁷ OCO deals with market institutions in negotiating and arranging ADB guarantees. The main terms and conditions of the ADB guarantee, including pricing and the extent of guarantee coverage, are developed through consultations between OCO and the operations departments concerned (i.e., the regional departments or PSOD, as appropriate), with the assistance of the Office of the General Counsel. An interdepartmental guarantee committee, chaired by OCO, provides guidance on the coverage and pricing of the guarantee as necessary during project processing.

4. Procurement Guidelines

36. ADB's procurement guidelines do not apply to CFS loans and guarantee operations. However, ADB requires that (i) procurement financed out of CFS loans or ADB guarantees is restricted to ADB's member countries, (ii) the proceeds of such cofinancings are used exclusively for the project concerned, and (iii) procurement is carried out with due attention to economy and efficiency.

I. Export Credit

37. OCO, in consultation with the operations departments concerned, and at the request of the DMC and/or project sponsor, initiates discussions with export credit agencies (ECAs) for projects in need of export credit, early in the project cycle. Where appropriate, ADB can help the borrower finance the down payment under an export credit contract by providing cofinancing support (in the form of a CFS loan or guarantee). Such support is provided in parallel with ADB's direct loan and the ECA-supported loan. If possible, ADB assists the borrower in arranging ECA cofinancing at the time ADB's direct loan is processed. Cofinanciers are given the right of first refusal to participate in the cofinanced loans supported by a guarantee or CFS if they provide term loans on a parallel basis.

38. ADB may identify suitable project components for parallel financing at the time of project processing and leave the borrower to arrange for cofinancing before or after the ADB loan is approved. If the borrower does not require international competitive bidding, it can easily approach suppliers for export credit. If the borrower prefers international competitive bidding, ADB encourages the borrower to require that arrangement of ECA financing be included in bid submissions for the project to be cofinanced (the bidding documents include financing terms and conditions).

39. Large projects in such sectors as energy, public utilities, transport, and industry may benefit particularly from cofinancing with ECAs. In the most common form of such cofinancing, agreed upon packages of the project are allotted for financing through buyer's or supplier's credit in which the borrower requests financing offers from suppliers. Suppliers work with their ECAs to provide the financing offer. The borrower assumes responsibility for evaluating the bids and reserves the right to award the contract, taking into account the credit terms. ADB's role is limited largely to the processing and general supervision of the project. ECAs, however, tend to rely heavily on ADB's due diligence in supporting a project. ADB can provide ECAs with appraisal information on the project. Where the borrower is inexperienced, ADB can give technical

⁷ For a full discussion of ADB's Guarantee Operations, refer to OM Section D9 (Guarantee Operations).

advice regarding procurement and evaluation of financial offers, as ADB's objective is to ensure that the borrower obtains (i) financing on the best possible terms, and (ii) goods and services of acceptable quality at the best prices. The borrower, however, is responsible for conducting the competitive bidding process and awarding the contract.

Basis: This OM section is based on OM Section E1/BP and the documents cited therein.

Compliance: This OM section is subject to compliance review.

For inquiries: Questions may be directed to the Principal Director, Office of Cofinancing Operations.

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approval of the President.

MODES OF COFINANCING

1. In general, cofinancing can be categorized into two modes: parallel financing and joint financing. Under certain circumstances, cofinancing can be made through special arrangements, such as umbrella or standby financing and channel financing, depending on the timing of cofinancing availability and preferences of cofinanciers. These various modes of cofinancing are discussed below.

A. Parallel Financing

2. In parallel cofinancing, the project is divided into specific, identifiable components, each of which is separately financed by ADB and cofinanciers. Parallel financing is often used when cofinanciers stipulate procurement policies and procedures different from those of ADB. In such a case, the cofinanciers administer their financing themselves. Parallel financing is suitable for sources of tied and untied funds. In tied cofinancing, the cofinancier restricts procurement to specific sources; some cofinanciers require that procurement be made from their own countries, some call for procurement only from countries offering reciprocally untied cofinancing, and some exclude specific countries or suppliers from procurement. In untied cofinancing, the cofinancier agrees to follow ADB's guidelines for procurement of goods, works, and services.

B. Joint Financing

3. For joint financing, the funds of ADB and cofinanciers finance a common list of goods and services required for the project in agreed upon proportions. Since ADB's guidelines on the use of consultants and procurement govern the procurement of goods, works, and services, this mode is suitable only when cofinanciers do not tie their assistance, or impose any special procurement restrictions, and agree to follow ADB's guidelines on the use of consultants and procurement.¹

C. Umbrella or Standby Financing

4. ADB may initially finance a project² and cancel a portion of its loan when cofinancing becomes available later. This is known as umbrella or standby financing.

D. Channel Financing

5. Occasionally, cofinanciers may decide not to have any direct financial relationship with a developing member country and prefer to channel their funds through ADB. Channel financing (i) is feasible only if cofinanciers accept ADB's guidelines and procedures on the use of consultants, procurement, loan disbursement, and project supervision; and (ii) is often used when bilateral sources provide grant funds for ADB's technical assistance operations.

¹ ADB. 2002. *Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers*. April. Manila; and ADB. 1999. *Guidelines for Procurement Under Asian Development Bank Loans*, February. Manila.

² Aside from financing provided by the borrower/executing agency or project sponsors.

CHANNEL FINANCING AGREEMENTS

(As of October 2003)¹

Table A2.1: Bilateral Trust Funds

Country	Agency	Agreement Title
Australia	Australian Agency for International Development	<i>Memorandum of Understanding on Channel Financing</i>
Belgium	Belgian Administration for Development Cooperation	<i>Channel Financing Agreement</i>
Canada	Canadian International Development Agency	<i>Administrative Arrangement Establishing the Canadian Cooperation Fund on Climate Change</i>
Denmark	Ministry of Foreign Affairs	<i>Channel Financing Agreement Establishing the Danish Cooperation Fund for Renewable Energy and Energy Efficiency in Rural Areas</i>
Denmark	Ministry of Foreign Affairs	<i>Channel Financing Agreement Establishing the Danish Cooperation Fund for Technical Assistance</i>
Finland	Department for International Development Cooperation	<i>Channel Financing Agreement</i>
France	Ministry of Economy and Finance	<i>Channel Financing Agreement</i>
Italy	Economic Programming and Budget, Ministry of the Treasury	<i>Agreement Establishing the Italian Cooperation Fund for Consulting Services</i>
Netherlands	Netherlands Minister for Development Cooperation	<i>Arrangement Establishing the Dutch Cooperation Fund for Promotion of Renewable Energy and Energy Efficiency</i>
New Zealand	Ministry of Foreign Affairs and Trade	<i>Arrangement Establishing the New Zealand Cooperation Fund for Technical Assistance</i>
Norway	Ministry of Foreign Affairs	<i>Channel Financing Agreement</i>
Spain	Ministry of Economy and Property	<i>Agreement Establishing the Spanish Cooperation Fund for Technical Assistance</i>
Sweden	Swedish International Development Cooperation Agency	<i>Channel Financing Agreement</i>
Switzerland	Swiss Federal Office for Foreign Economic Affairs	<i>Agreement Establishing the Swiss Cooperation Fund for Consulting Services</i>

¹ For updates, see Cofinancing Database on Lotus Notes.

United Kingdom and Northern Ireland	Department for International Development	<i>Memorandum of Understanding on Establishment of a Cooperation Fund for Technical Assistance</i>
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Table A2.2: Multidonor Trust Funds

Fund	Country and Agency	Agreement Title
Governance Cooperation Fund	Canada, Canadian International Development Agency	<i>Administrative Arrangement in regard to a Grant for the Governance Cooperation Fund</i>
	Norway, Ministry of Foreign Affairs	<i>Administrative Arrangement in regard to a Grant for the Governance Cooperation Fund</i>
Cooperation Fund in Support of Formulation of Poverty Reduction Strategies	Netherlands, Netherlands Minister for Development Cooperation	<i>Channel Financing Agreement in Support of the Formulation and Implementation of National Poverty Reduction Strategies</i>
Cooperation Fund for the Water Sector	Netherlands, Netherlands Minister for Development Cooperation	<i>Channel Financing Agreement in regard to a Contribution to the Cooperation Fund for the Water Sector</i>
	Norway, Ministry of Foreign Affairs	<i>Channel Financing Arrangement in regard to a Contribution to the Cooperation Fund for the Water Sector</i>
Poverty Reduction Cooperation Fund	United Kingdom and Northern Ireland, Department for International Development	<i>Memorandum of Understanding in regard to a Grant for the Poverty Reduction Cooperation Fund</i>
Gender and Development Cooperation Fund	Canada, Canadian International Development Agency	<i>Administrative Arrangement in Regard to a Grant for the Gender and Development Cooperation Fund</i>
	Denmark, Danish Ministry of Foreign Affairs	<i>Channel Financing Agreement in Regard to a Grant for the Gender and Development Cooperation Fund.</i>
	Norway, Ministry of Foreign Affairs	<i>Administrative Agreement in Regard to a Grant for the Gender and Development Cooperation Fund</i>
Poverty and Environment Fund	Norway, Ministry of Foreign Affairs	<i>Agreement in Regard to a Grant to the Poverty and Environment Fund</i>

	Sweden, Swedish International Development Cooperation Agency	<i>Agreement in Regard to a Grant to the Poverty and Environment Fund</i>
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FRAMEWORK AGREEMENTS

Table A3.1: Bilateral Sources

Source	Agreement Title
Australia	<i>Memorandum of Understanding (MOU) between the Government of Australia and ADB</i>
France	<i>MOU between Groupe de 'Agence Francaise de Developpement and ADB on Establishing Operational Arrangements</i>
Japan	<i>Framework Agreement on Cofinancing between ADB and Export-Import Bank of Japan</i>
Republic of Korea	<i>Cofinancing Arrangement between the Ministry of Finance of the Republic of Korea and ADB</i>
Netherlands	<i>General Arrangement between the Netherlands Minister for Development Cooperation and the ADB on Operational Arrangements related to Cofinancing</i>
Norway	<i>Agreement between the Kingdom of Norway and ADB regarding joint financing and participation in bank loans</i>

Table A3.2: Multilateral Sources

Source	Agreement Title
EBRD	<i>MOU with regard to Cooperation between ADB and EBRD</i>
FAO	<i>MOU on Working Arrangements between the Food and Agriculture Organization of the UN and ADB</i>
GEF	<i>MOU on Project Preparation and Development Facility Grants between ADB and GEF Secretariat</i>
IFAD	<i>Cooperation Agreement between IFAD and ADB</i>
NDF	<i>MOU on Cofinancing of Development Projects between Nordic Development Fund and ADB</i>
NIB	<i>MOU on Cofinancing of Development Projects between Nordic Investment Bank and ADB</i>
OPEC Fund	<i>Cooperation with the OPEC Special Fund</i>
World Bank	<i>Working Procedures for ADB-IBRD/IDA cofinancing in the South Pacific</i>
WHO	<i>Working Arrangements between the World Health Organization and ADB</i>