OPERATIONS MANUAL
BANK POLICIES (BP)

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

CREDIT ENHANCEMENT OPERATIONS

A. Introduction

1. Article 2 of the Agreement Establishing the Asian Development Bank (the Charter) requires the Asian Development Bank (ADB) to promote public and private capital investment for the development of the Asia-Pacific region and to cooperate with a wide range of institutions in doing so. Article 11 of the Charter stipulates guarantees as one of three basic operational modalities of ADB, along with loans and equity investments. Article 11(iv), in particular, allows ADB to carry out its operations "by guaranteeing, whether as primary or secondary obligor, in whole or in part, loans for economic development participated in by the Bank." Article 14 stipulates the operating principles applicable to ADB's operations. Article 14(xiv) specifies that ADB should be guided by sound banking principles in its operations. Article 15 gives ADB discretion to extend loans or guarantees to an entity other than a developing member country (DMC) without a guarantee from the DMC. Under Article 15.1, ADB is required to reserve the right to terminate its liability under its guarantees with respect to interest by offering to purchase the guaranteed obligation at par plus interest accrued from the date of default to the date ADB exercises its buyout option.

2. Credit enhancement products (CEPs) are risk-sharing and mitigation instruments that facilitate ADB's operations in line with para. 1. ADB's policy with regard to CEPs is set out in the *Review of ADB's Credit Enhancement Operations*.[1] It is based on the following objectives and guiding principles:

(i) **Client and development orientation**. CEPs will benefit ADB's sovereign and nonsovereign clients in DMCs. They are an integral part of ADB's operations and their application will be demand driven. They will be grounded in and consistent with country strategies and partnership frameworks agreed with DMCs to support development goals, approaches, and priorities articulated in ADB's operational framework, including the Charter and various policy and strategy documents.

(ii) **Effectiveness and efficiency**. CEPs will increase the effectiveness and efficiency of ADB's assistance in terms of its development impact. ADB will therefore (a) forge effective partnerships with a wide variety of financing partners to mobilize risk-taking capacity for its sovereign and nonsovereign operations (thereby leveraging its balance sheet, filling gaps in the market, promoting investment in countries or sectors, and encouraging participation by financing partners in transactions they would not otherwise want to participate in); (b) focus on its comparative advantages (assuming long-term and/or sovereign risk) while letting its financing partners focus on their comparative advantages (assuming short-term, medium-term, and/or commercial risks); (c) build on the preparatory work

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[1] ADB. 2006. *Review of ADB's Credit Enhancement Operations*. Doc. R168-06. Manila.

undertaken by financing partners; and (d) seek to cover the operational cost of its credit enhancement operations, including risk-adjusted cost of capital, as applicable to its sovereign and nonsovereign operations.

(iii) **Market orientation**. ADB will seek to complement, rather than compete with, other financing partners and not distort markets where they exist. In the absence of efficient financial markets, CEPs seek to foster market development. In any case, CEPs will conform as closely as possible to best industry practices.

(iv) **Competitiveness.** ADB will seek to ensure the competitiveness of all financing benefiting from CEPs in the interest of its DMC clients.[2]

(v) **Innovation and flexibility**. The policy encourages innovation, new product development, and flexibility in application.

(vi) **Transparency and risk awareness**. ADB's triple-AAA rating is central to its operations. In light of this, CEPs will (a) follow a principle of risk sharing and transfer to diversify and reduce risk concentration and leverage ADB's balance sheet for greater overall development impact; and (b) be applied in a transparent manner, with sound risk assessments and standards that are in line with industry practice for the risks assumed and those applied by ADB for its comparable direct financing operations, as appropriate.

(vii) **Sustainability, safeguards, and other ADB policies**. Beneficiaries of CEPs will comply with ADB's environmental and social safeguard policies and other policies applicable to ADB's operations.

B. Purpose

3. ADB's CEPs are instruments intended to facilitate cofinancing and financing partnerships. They are designed to reduce, eliminate, and/or better allocate a range of risks facing ADB's commercial financing partners and to leverage ADB's own capital base. CEPs support ADB's developmental objectives by facilitating investment, trade, and capital flows into DMCs.

C. Product Scope and Scale

4. CEPs are differentiated into two broad categories: guarantees and syndications.

5. Guarantees allow ADB to assume commercial and/or political risks arising under debt instruments provided by other financing partners. Guarantees may be unconditional or conditional and take the form of credit guarantees or political risk guarantees, but are not limited

[2] For example, ADB would help the borrower to (i) solicit competitive proposals from prospective cofinanciers, and (ii) carry out a systematic evaluation of such proposals based on criteria agreed with the borrower and in accordance with best practice.

to such forms. Guarantees increase ADB's risk exposure, but generally to a lesser extent than would be the case under an equivalent direct loan, and create less administrative work during implementation.

6. **Syndications** enable ADB to transfer some or all of the risks associated with its loans and guarantees to other financing partners.[3] Syndications thus decrease and diversify the risk profile of ADB's financing portfolio. Syndications may be arranged on an individual, portfolio, or any other basis consistent with industry practices. Syndications may be made through a variety of structures, including the following:

(i) **Fronting** arrangements, which allow ADB to transfer or pass through all risks and share associated recovery rights with syndicate members with respect to a loan or guarantee provided by ADB under its name. Fronting arrangements constitute funded risk participations by third parties whereby ADB does not assume any credit risk on the underlying project. ADB also does not assume any counterparty risk on the performance of the financing partner. These arrangements include the lender-of-record (LOR) and guarantor-of-record (GOR) structures, whereby all the financial risk of the LOR or GOR tranche is typically borne by the syndicate members or, with regard to funding risk, by the borrower. The borrower has no contractual relationship with the institutions that participate in either an LOR or a GOR structure. ADB maintains responsibility for the administration of an LOR or GOR structure, including collecting and transferring payments of interest and repayments of principal under an LOR structure and recoveries under any LOR or GOR structure. A form of LOR widely known in the marketplace is the B loan.[4] Fronting arrangements may combine various forms of CEPs. For example, ADB may provide a political risk guarantee for the benefit of B loan participants.

(ii) **Nonfunded risk participation** arrangements,[5] which enable ADB to transfer risk and to share any associated recovery rights with respect to a loan or guarantee provided by ADB with one or more syndicate members. Under such arrangements, ADB may provide funding or risk-taking capacity against an undertaking by the syndicate member to compensate ADB in case of loss, for example, when ADB has better access to long-term, fixed rate local currency than its financing partners. In such instance, ADB may assume counterparty performance risk with respect to syndicate members. As with the LOR and GOR, upon default by the borrower and payment of scheduled payment by the participant, the risk participant will not have the right to step into the rights of or subrogate ADB against the borrower.

[3] Depending on whether ADB retains risk or not, there may or may not be a contingent financial liability to ADB.
[4] A B loan is a tranche of a direct loan nominally advanced by ADB (usually in foreign currency), subject to eligible financial institutions taking funded risk participations within such a tranche. It complements an A loan funded by ADB.
[5] Such arrangements might also be referred to as reinsurance depending on the parties involved and how and what risks are transferred.

(iii) **Sell-down** arrangements, which allow ADB to fully pass on certain risks through transfers or assignments without any further contractual obligation by ADB with regard to the risk passed on.

7. **Risks Covered.** Guarantees and syndications allow ADB to share a wide range of risks that are inherent to its own lending operations with eligible partners. These include, but are not limited to, the following:

(i) political risks associated with expropriation, currency inconvertibility or nontransfer, political violence, breach of contract, and other events arising from political causes; and

(ii) credit risks associated with a borrower's inability to fulfill its debt service and repayment obligations on time because of events of a commercial nature.

8. **Risk Sharing.** Guarantees will be structured with a view to aligning the interests of ADB and its financing partners by ensuring that the financing partner shares some of the transactional risk. As a general principle, ADB will seek risk-sharing arrangements that set ADB's net exposure under a guarantee at the lowest level required to mobilize the necessary financing while maintaining a participation that is meaningful to its financing partners. However, within its prudential and other limits, ADB may be permitted to guarantee up to 100% of principal and interest under a financing partner's debt instrument if this is required from a business perspective.[6]

9. **Eligible Financing Instruments.** CEPs may support a variety of financial instruments that constitute debt obligations, but may not support financing provided under official development assistance.[7] Debt obligations can be funded or unfunded and take many forms, including, but not limited to, (i) senior, subordinated, mezzanine, and convertible debt; (ii) project or limited recourse finance; (iii) tier 2 capital raised by banks; (iv) shareholder loans; (v) capital market debt instruments, including synthetic or structured securities, and related underwriting and liquidity support arrangements; (vi) performance, bid, advance payment, and other payment bonds and forms of bond issuances; (vii) letters of credit, promissory notes, bills of exchange, or other forms of trade finance instruments; and (viii) other forms of scheduled or contingent liabilities that constitute debt.

10. **Eligible Financing Partners.** CEPs may be undertaken with a wide range of international and local financing partners in the public or private sector, including, but not limited

[6] For example, ADB may guarantee 100% of principal and interest in the case of guarantees for securitizations with respect to the assets held by an originator. In such cases, ADB will usually seek to share and mitigate risks further through syndication arrangements.

[7] As defined by the Development Assistance Committee of the Organization for Economic Co-operation and Development, this comprises financial flows to developing countries and multilateral institutions provided by official agencies (including state and local governments or their executive agencies), with each transaction meeting the following test: (i) it is administered with the promotion of economic development and welfare of developing countries as its main objective; and (ii) it is concessional, with a grant element of at least 25% (calculated at a discount rate of 10%).

to, commercial banks, development banks, insurance companies, pension funds, capital market participants, export credit agencies, export-import banks, suppliers, investors, insurers, reinsurers, and other commercially-oriented entities. ADB may share risks with official agencies (that is, those that exercise a public policy mandate) provided they do not obtain their transactional capital from official development assistance sources and do comply with market-based principles in their operations, including the provision of commercial financing terms.[8] ADB will assess on a transactional basis the suitability of financing partners to participate in any guarantee or syndication arrangement.[9]

11. In addition to the foregoing criteria, the following criteria apply to syndicate members under LOR and nonfunded risk participation arrangements: (i) for foreign currency loans, the transactional financing cannot be sourced from the country of the borrower or the project;[10] and (ii) a syndicate member cannot require national content or tied procurement for its financing.

12. Further to the criteria in para. 10, the following additional criterion applies to participants under guarantee and GOR arrangements: for guarantees of foreign currency loans, the guaranteed funds must be sourced offshore, or at the time the guarantee is issued, it had to have been possible for the guaranteed funds to have been transferred outside the country of the borrower or the project.

13. **Eligible Countries and Obligors.** Any country eligible for loans from ADB's ordinary capital resources or from the Asian Development Fund can benefit from ADB's CEPs. CEPs can support sovereign, subsovereign, or nonsovereign borrowers, with or without direct sovereign indemnity or counterindemnity from the host country.

14. **Sovereign Counterindemnities.** Sovereign counterindemnities for guarantees are important risk mitigation instruments for ADB. For nonsovereign operations, they are optional, but in some cases may be required from a business perspective to make a transaction happen. A sovereign counterindemnity may enable ADB to apply sovereign loan equivalent-based pricing (para. 21), to extend tenors, and to increase limits, as transactions benefiting from such counterindemnity are not subject to ADB's nonsovereign exposure limits. For nonsovereign operations, a sovereign counterindemnity may be considered, in particular, if (i) the DMC or the project benefits from improved financial terms that translate into public benefits, or (ii) the obligor is owned in whole or in part by the public sector or is under direct or indirect control of the sovereign. Counterindemnities may also be appropriate for political risks that are under the control of the host government. For countries that can borrow only from Asian Development

[8] In case of financing partnerships on noncommercial terms with official agencies, other arrangements for parallel or joint cofinancing that do not entail credit enhancement and risk transfers may take place, including contractual arrangements on procedural coordination or administrative and agency functions provided by ADB.

[9] This will also include a consideration of the participants' financial health or creditworthiness.

[10] However, for local currency loans, domestic institutions or offices or branches of a foreign institution that sources financing locally in the country of the borrower are eligible to be syndicate members. (While there is no convertibility or transferability risk with a local currency loan, the syndication structure still benefits borrowers by simplifying administration and documentation, as ADB is the sole lender of record, and by completing the client's financing plan.)

Fund resources,[11] sovereign counterindemnities will be considered only if the underlying project has a strong development impact and does not undermine the country's debt sustainability.[12]

15. **Participation Requirement.** Any ADB financing instrument[13] can satisfy the participation requirement for a guarantee provided that both the guarantee and ADB's anchor intervention have the same development objective and relate to the same sector or project, and that the guarantee is processed according to standards that are no less rigorous than those for direct, noncontingent investments by ADB, taking into account (i) the types of risks being guaranteed, (ii) the risks to ADB inherent in the guaranteed obligations, and (iii) the recourse to ADB following a payment under the guarantee.

16. **Guarantee Facilities.** ADB can provide guarantees through individual transactions or through facilities under which ADB may issue multiple guarantees. A guarantee facility may be processed as a multitranche financing facility,[14] and should have a predefined aggregate exposure limit and a defined range of guaranteed risks and eligibility criteria for multiple guarantees to be issued by ADB there under. Once the Board approves a facility, management may approve subsequent transactions issued under the facility in accordance with procedures set out in the framework financing agreement and/or the related report and recommendation of the President with respect to the facility. Each guarantee issued under a facility will require an appropriate level of due diligence and analysis of the risks assumed by ADB and ADB's recourse following payment under a guarantee. This will include, but not be limited to, an appropriate and satisfactory review of legal, commercial, and financial matters.

17. **Timing.** Guarantees can be processed for approval at the time of processing and approval of the project or program that satisfies the participation requirement (the anchor investment), or at any time thereafter during implementation of the anchor investment and before ADB closes the related loan, equity investment, or technical assistance account. Syndications can occur before the financial close or during the tenor of the underlying ADB financing depending on market conditions; the status of the associated project; and the need for ADB to adjust its portfolio exposure from time to time, as necessary. If a guarantee is presented to the appropriate authorities for consideration subsequent to the approval of the report and recommendation of the President or technical assistance paper for the underlying anchor

[11] Group A countries under ADB's graduation policy. See ADB. 1998. *A Graduation Policy for the Bank's DMCs.* Manila.

[12] Although the underlying loan would normally be financed from market sources, the counterindemnity for any CEPs provided by ADB may be counted against the Asian Development Fund lending ceiling for the country. The final assessment in this regard will be made during processing, and will also take the project structure, the scope of coverage, and the country's debt sustainability (including the ability of the country or project to indemnify ADB with foreign exchange in case of default) into account. The assessment of debt sustainability would normally entail consultations and understandings with the International Monetary Fund, as appropriate.

[13] Such as project loans, program loans, multitranche facilities, sector loans, sector development programs, equity, project grants, technical assistance grants, or any other financing form that the Board may approve.

[14] The Pilot Financing Modalities and Instruments Project (R194-05) approved the use of a multitranche financing facility (paras. 34—43), and approved its application to guarantees (para. 42). ADB. 2005. *Pilot Financing Modalities and Instruments*. Manila.

investment, a separate paper detailing the guarantee arrangements will be prepared for consideration by such appropriate authorities.[15]

18. **Tenors.** Tenors of CEPs are subject to risk considerations and market conditions. They should normally not exceed the maximum tenor of ADB's ordinary capital resources lending operations, as may be adjusted from time to time, and there is no minimum tenor. One of the key objectives in providing syndications in the form of fronting and nonfunded risk participations is to extend tenors.[16]

19. **Currencies.** CEPs may be denominated in any currency in which ADB can efficiently intermediate, including the borrower's local currency.[17] For guarantees in any currency, all relevant approvals required in the host country with respect to the funding by ADB of such guarantees must be in place. Issues that must be considered with respect to such funding are (i) the timing ADB requires to obtain such local currency in view of the payment obligation under the guarantee, and (ii) the pricing at which ADB would obtain such funding (which may not be reflected in the pricing of the guarantee and guaranteed loan to which ADB would subrogate).

D. Pricing

20. **Fee Structure.** Pricing comprises fees to compensate for the cost of capital, risk, and general operations (adjusted for market conditions, as appropriate), as well as fees to cover transaction-specific costs of processing and implementation. Pricing can be on an "all-in" basis to improve comparability and transparency (with the various components calculated separately). The Pricing and Credit Enhancement Committee will consider terms and approve pricing for each CEP.[18]

21. **Guarantee Fees.** Guarantee fees may differ depending on whether ADB benefits from a sovereign counterindemnity or not. If a counterindemnity is partial (that is, it covers only selected risks, amounts, or periods), the final price blends the price applicable for the respective parts. ADB will charge guarantee fees as follows:

(i) **Guarantees without sovereign counterindemnity.** For guarantees that do not benefit from sovereign counterindemnity (both for public and private sector obligors), fees will be market-based and take into consideration, among other things, (a) relative risk, (b) market price indicators, and (c) project-specific considerations.

[15] The Pricing and Credit Enhancement Committee (PCC) will review any risk sharing arrangement (including any sell-down arrangement) that will effect a reduction in the risk of any existing ADB commitment. Any approval by the PCC of such risk sharing arrangement will be reported to Management and the Board through quarterly risk management reports prepared by RMU.

[16] In some cases, however, CEPs may be for short tenors if the underlying obligations are short term, such as trade-related products.

[17] In accordance with the policies governing ADB's loan products based on the London interbank offered rate and the local currency loan product. See ADB. 2006. *Enhancements for Asian Development Bank's Loan and Debt Management Products.* Manila; and ADB. 2005. *Introducing the Local Currency Loan Product*. Manila.

[18] The Risk Management Unit is developing guidelines for risk assessment and risk-based pricing. The Office of Cofinancing Operations will provide market comparator information.

(ii) **Guarantees with sovereign counterindemnity in support of financing to public sector obligors.** Where ADB guarantees financing with the benefit of a sovereign counterindemnity (para. 14) to a sovereign or an entity or entities owned in majority (more then 50%, directly or indirectly), by such a sovereign, ADB's guarantee fee will be based on sovereign loan equivalency.[19] Such pricing will not exceed ADB's ordinary capital resources sovereign lending spread (after any waivers or surcharges that may apply) for an analogous sovereign loan and will take into account the lower operating cost of guarantees.

(iii) **Guarantees with sovereign counterindemnity in support of financing to private sector obligors.** Where ADB guarantees financing with the benefit of a sovereign counterindemnity (para. 14) other than financing described in subpara. (ii) above, ADB may charge either (a) a market-based guarantee fee to avoid market distortions or to avoid suppressing market development (not less than the sovereign loan equivalency, as specified in subpara. [ii] above), or (b) a guarantee fee based on sovereign loan equivalency. Where a market-based fee is charged and where ADB's risk is effectively mitigated through the counterindemnity, ADB will retain for its own account only the fee that equates to sovereign loan equivalency applied to the counterindemnified amount,[20] with any remainder being applied in a transparent manner for the benefit of the project and/or the government, as mutually agreed with the government.[21]

22. **Syndication Fees**. In relation to syndications that involve ADB retaining counterparty, documentation, underwriting, or other syndication-related risk, ADB may charge or pay market-based ceding commissions, risk participation fees, and/or other customary fees.

23. **Administrative and Other Fees.** ADB may charge or pay administrative and other fees that are specific to the processing and implementation of a CEP, consistent with industry practice. Fees for applications and processing, arranging syndications and guarantees (including capital provisioning for undrawn amounts), brokerage, commissions or other fees,[22] as appropriate, may be charged or paid by ADB on a case-by-case basis in accordance with best industry practices. A schedule of applicable standard fees to be charged or paid by ADB, as approved by the Pricing and Credit Enhancement Committee, may be issued from time to time to prospective financing partners for information and transparency.

[19] As determined by the Treasury Department from time to time.

[20] For transactions where the sovereign counterindemnity covers only part of ADB's total guaranteed amount or only certain types of risks, ADB will retain the sovereign guarantee fee on a blended basis, with prorated distribution between the sovereign guarantee fee (for the guarantee portion with sovereign counterindemnity) and the market comparable pricing (for the portion without sovereign counterindemnity).

[21] For example, by paying any difference between the market price and the fee retained by ADB into an appropriate reserve held in trust by ADB or by an acceptable third party. Such reserve could then be applied, for example, for output-based aid, or for related capacity-building activities. This allows a more transparent and targeted application of any implied subsidies that may arise out of the counterindemnity, and avoids a situation where such subsidies are passed on to private sector obligors or financing partners without benefits to the public in the DMC.

[22] This could include, for example, fees for the cost of expert consultants or reimbursement of discretionary expenses by ADB staff directly associated with a project.

OPERATIONS MANUAL
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24. **Payment Arrangements.** Fees will be paid to ADB by the assigned beneficiary of a guarantee (guarantee holder) or other acceptable party, either directly or indirectly through an administrative agent, as a lump sum or in agreed periodic installments either in advance or in arrears, in line with market practice, and taking ease of administration into account. Fees related to syndications can be paid upfront, at the time related agreements are signed, or spread over the life of the syndication, as appropriate.

Basis: This OM section is based on

ADB. 2006. *Review of ADB's Credit Enhancement Operations*. Doc. R168-06. Manila.

This OM section is to be read with OM Section D9/OP.

For other background information and reference, see

ADB. 2006. *ADB's Financing Partnership Strategy*. Doc. Sec.M56-06. Manila.

Compliance: This OM section is subject to compliance review.

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.

CREDIT ENHANCEMENT OPERATIONS

A. Functional Responsibilities and Accountabilities

1. **Functional Responsibilities.** The processing of credit enhancement products (CEPs) requires close consultation between operational departments (regional departments and the Private Sector Operations Department); the Office of Cofinancing Operations (OCO); and other service departments, including the Controller's Department, the Office of the General Counsel (OGC), the Risk Management Unit (RMU), and the Treasury Department. Operational departments will lead the processing, structuring, and due diligence of projects benefiting from Asian Development Bank (ADB) financing and maintain the primary relationship with the borrower. In doing so, such departments will coordinate closely with OCO with regard to the use of CEPs.[1] OCO will perform the key functions related to arranging syndications and maintain the primary relationship with financing partners and syndication members.[2] These functions include (i) undertaking due diligence related to counterparty and other risks associated with syndications; and (ii) arranging and finalizing any syndication to manage ADB's net exposure in compliance with ADB's relevant statutory, strategic, and prudential limits. OCO will also provide technical and policy advice to operational departments on the development and processing of guarantees; lead product development and related knowledge management activities; and lead and coordinate the management of relationships with financing partners (para. 9).

B. Processing and Administration of CEPs

2. **Alignment with ADB's Business Processes.** Processing of CEPs is usually linked to the processing of ADB's lending operations. When a CEP is undertaken in conjunction with an underlying ADB loan, equity investment, or technical assistance project, the CEP will be processed in conjunction with that loan, equity investment, or technical assistance project for consideration by the Board in a single report and recommendation of the President (RRP).[3] When a guarantee is linked to ADB financing that was already previously approved, including, for example, a technical assistance, sector, policy, or project loan; an equity investment; multitranche financing; or a guarantee facility, a separate RRP detailing the guarantee arrangements will be prepared for approval by the Board. In such cases, the processing steps for guarantees will be similar to those that would apply if ADB were processing a direct loan to the underlying obligor whose obligations are guaranteed. The Pricing and Credit Enhancement Committee (PCC) will review any risk sharing arrangement (including any sell-down arrangement) that will effect a reduction in the risk of any existing ADB commitment. Any

[1] Within the project team, OCO will carry out functions related to the processing of CEPs as appropriate and as agreed with the project team leader at the beginning of the process.
[2] Such functions will be executed in close consultation with the relevant operational department as well as with the RMU and the OGC (para. 3).
[3] This excludes sell-down arrangements.

approval by the PCC of such risk sharing arrangement will be reported to Management and the Board through quarterly risk management reports prepared by RMU.[4]

3. The following activities related to CEPs will normally be carried out at various stages of the project cycle:

(i) **Project origination to concept clearance.** The potential for CEPs will be considered at an early stage of the project cycle and will take informal consultation with the market into consideration. The concept clearance paper the project team prepares for the proposed financial assistance will describe any proposed CEP, identify its benefits, and present any key issues to be considered. Upon concept clearance, OCO specialists will be assigned to support the project team in relation to CEP-related matters, as agreed with the project team leader.

(ii) **Initial terms and pricing clearance.** The PCC will meet shortly after concept clearance and prior to due diligence to establish broad parameters for the proposed CEP. The terms and conditions of any guarantee or syndication proposal, including indicative pricing, shall only be submitted to prospective financing partners following endorsement of such terms and conditions by the PCC.[5] The PCC may meet intermittently during the project processing cycle to provide further endorsement as required.

(iii) **Due diligence**. The project team, with the assistance of the OCO and the OGC and in close consultation with the RMU, will conduct financial, business, and legal due diligence, as well as due diligence for safeguard and other policy compliance. OCO will lead the due diligence related to counterparty and other risks associated with syndications in close collaboration with the operational department processing ADB's investment.

(iv) **Credit assessment**. In accordance with applicable policy and procedures, the RMU will conduct an independent assessment of the risk analysis for the proposed CEP, together with the project risk assessment, and will provide its credit review and recommendations prior to submission of the proposed financing for management review.

(v) **Management review.** A draft RRP that describes the proposed CEP will be circulated for interdepartmental review and comment and will then be presented for

[4] The PCC comprises representatives from the Controller's Department, the Office of Cofinancing Operations, the Office of the General Counsel, the Private Sector Operations Department, regional departments, the Risk Management Unit, and the Treasury Department, as well as the managing director general. A member from a nonoperational department chairs the committee.

[5] The PCC may, at its discretion, elect to authorize the project team to communicate generic indicative terms and conditions to prospective financing partners prior to its endorsement.

management review in accordance with the procedures that apply to nonsovereign operations.[6]

(vi) **Board approval.** Except in the case of sell-down arrangements, an RRP describing the proposed CEP will be submitted for Board consideration and approval in accordance with the procedures that apply to nonsovereign or, as the case may be, sovereign operations.

(vii) **Approval and execution of guarantee and syndication arrangements.** CEP arrangements may only be executed after the PCC has cleared pricing and commercial terms. Such clearance, if given with respect to pricing, may be of an acceptable range of prices and, if given with respect to commercial terms, may be of both proposed terms and acceptable alternatives. Guarantee and syndication agreements between ADB and financing partners must be executed in accordance with the provisions of paragraphs 2.7 and 2.8 of Administrative Order 1.03.

(viii) **Administration.** Guarantees will be administered in accordance with ADB's project administration instructions. OCO will provide centralized credit enhancement and syndication services, including monitoring credit enhancement and syndication arrangements across ADB, communicating with syndication partners, and providing other related services. In case of a claim under a guarantee or a default under a loan that has been syndicated, the claims committee (para. 4) will provide specific guidance.

4. **Claims committee.** To ensure sound risk management, a claims committee will be established to provide guidance on actions to be taken with respect to a claim or potential claim under a guarantee or a default or potential default under a loan that is syndicated. The membership of the claims committee will be similar to that of the PCC (footnote 4). The claims committee will convene if and when required upon notification by the operational department in charge of project administration. It will do so as soon as any problem arises that could result in a claim or loan default.

C. Product Development, Innovation, and Knowledge Management

5. **Product Development.** OCO will be responsible for drafting, maintaining, and updating staff instructions and other guidelines for processing and implementing guarantees and syndications and claims management. OCO will also be responsible for developing relevant intermediation products, services, and approaches, which may require regular consultations with the market on new market trends and requirements. The OGC will continue to develop and maintain standard documentation for CEPs.

[6] If a CEP is intended for financing sovereign operations, the standard procedures for sovereign operations apply. Refer to OM Section D11: Processing Sovereign and Sovereign-Guaranteed Loan Proposals.

OPERATIONS MANUAL
OPERATIONAL PROCEDURES (OP)

6. **Credit Enhancement Practice Group.** The Credit Enhancement Practice Group, a technical, interdepartmental working group composed of representatives from the Controller's Department, the Office of Cofinancing Operations, the Office of the General Counsel, the Private Sector Operations Department, regional departments, the Risk Management Unit, and the Treasury Department,[7] will

(i) serve as an interdepartmental knowledge-sharing and consultation platform, with OCO as its secretariat and also being responsible for its management; and
(ii) coordinate and formulate collective views on and advise and mentor operational departments in the processing of guarantee operations and the use of syndication arrangements, in particular, for innovative applications of CEPs.

7. The Credit Enhancement Practice Group will meet on a regular basis, at least twice a year or more often, as appropriate, at the request of any of its members.

8. **Knowledge Management.** OCO will function as a knowledge resource and CEP competency center and will build awareness of ADB's cofinancing products and approaches within ADB and with ADB's financing partners. OCO will also be responsible for developing appropriate information and training materials; carry out knowledge-sharing and training events; and formulate inputs pertaining to CEPs in relation to supporting ADB-wide regional and thematic initiatives, such as for regional capital market development, infrastructure finance, or trade promotion.

D. Relationship Management and Awareness Building for Credit Enhancement Operations

9. Relationships with financing partners involved in guarantee operations and syndications, including commercial banks, political risk insurers, and other potential or actual syndicate members, will be led and coordinated by OCO at the institutional level, while operational departments will maintain working relationships with such financing partners in relation to specific projects. OCO will also promote the dissemination of information on ADB's CEP products and services and keep financing partners updated on relevant developments.

E. Policy Monitoring and Coordination

10. OCO will monitor progress in policy implementation and will report such progress annually to the Board through the report on cofinancing and financing partnership operations. OCO will coordinate implementation of the credit enhancement operations policy and lead the formulation of any further staff instructions, guidance notes, or other related documents that may be required.

[7] In addition, the Office of the Auditor General may participate as an observer.

OPERATIONS MANUAL
OPERATIONAL PROCEDURES (OP)

Basis: This OM section is based on OM Section D9/BP and the documents cited therein.

Compliance: This OM is subject to compliance review.

For inquiries: Questions may be directed to the principal director, Office of Cofinancing Operations.