

**OPERATIONS MANUAL
BANK POLICIES (BP)**

OM Section H1/BP
Issued on 18 July 2006
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These policies were prepared for use by ADB staff and are not necessarily a complete treatment of the subject.

FINANCING OF INTEREST AND OTHER CHARGES DURING CONSTRUCTION

A. Introduction

1. Subject to the policy below, interest and other charges during construction (IDC) are expenditures eligible for sovereign loan and sovereign guaranteed loan operations.¹

B. Definitions

2. The term “interest and other charges during construction” means the interest, front-end fees, commitment charges and premium on cap and collar, if any, on ADB loans or loans from cofinanciers to an ADB-financed project. The term “construction period” refers to the period of project implementation; it is also the period before major benefits of the project begin to accrue.

C. The Policy

3. At a borrower’s request, ADB may finance IDC, and the ADB loan will include an amount corresponding to the interest and other charges payable by the borrower to ADB and cofinanciers during the construction of the project.

D. Scope of the Policy

4. Project loans, sector loans, supplementary loans, the investment component of sector development program loans, and loans to development finance institutions are eligible for IDC financing. IDC financing is not available for policy-based lending that does not involve project components or project construction periods.

Coverage

5. IDC is payable by the borrower or project entity on ADB loans as well as on loans from cofinanciers, both official and commercial, and from local sources. All IDC is included in the estimated total cost of the project. Separate categories for IDC on the ADB loan and the cofinancier’s loan should be provided in the loan agreement.

¹ For private sector operations, see OM Section D10 (Private Sector Operations).

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- Basis:** This OM section is based on:
- ADB. 2005. Cost Sharing and Eligibility of Expenditures for Asian Development Bank Financing: A New Approach. 4 August. Manila (Doc. R193-05).*
- This OM section is to be read with OM Section H3.
- Compliance:** This OM section is subject to compliance review.
- For inquiries:** Questions may be directed to the director, Central Operations Services 1, Central Operations Services Office.

**OPERATIONS MANUAL
OPERATIONAL PROCEDURES (OP)**

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FINANCING OF INTEREST AND OTHER CHARGES DURING CONSTRUCTION

This OM section does not contain operational procedures.

18 July 2006
This supersedes OM Section H1/OP
issued on 29 October 2003.

Prepared by the Central Operations Services Office
and issued by the Strategy and Policy Department
with the approval of the President.