OPERATIONS MANUAL
POLICIES AND PROCEDURES

COST SHARING AND ELIGIBILITY OF EXPENDITURES FOR ADB FINANCING

A. Cost Sharing

1. The Asian Development Bank (ADB) determines cost-sharing limits in the context of the overall development program of a developing member country (DMC), as well as the DMC's funding capabilities over the short to medium term (endnote i). Overall financing ceilings (in terms of share) are determined during country partnership strategy (CPS) preparation and apply to the aggregate ADB portfolio in a DMC over the CPS period.

2. The actual share of ADB financing for a particular loan[1] project or technical assistance (TA) operation would vary, depending on the sector, client, and characteristics of the project or operation, provided that the overall financing ceilings are maintained (endnote i).[2] In determining financing ceilings, an important issue is whether the DMC has provided a minimum contribution as an indication of its commitment to the loan project or TA operation (endnote ii). The Agreement Establishing the Asian Development Bank (the Charter) requires that the amount of financing ADB provides for meeting local currency expenditures for a project provided in currencies other than that of such member shall not exceed a reasonable portion of the total local currency expenditures incurred by the member (endnote iii).[3]

3. When substantial amounts of cofinancing are involved, the proportion of the total project cost that ADB may finance will generally be smaller than the standard cost-sharing limit. However, total external financing for a project may exceed ADB's cost-sharing limit and the total project cost may be wholly financed by external sources in certain cases in the poorer DMCs (endnote iv).

B. Foreign and Local Currency Cost

4. The cost estimates and financing plan in the loan and TA proposal documents do not distinguish between foreign and local currency cost categories (endnote i).

C. Eligibility of Expenditures

[1] The terms "lending" and "loan(s)" include ADF grants(s).
[2] Cost-sharing does not apply to policy-based lending (OM section D4), the policy-based lending part of a sector development program (OM section D5), and nonsovereign operations (OM section D10). Under emergency assistance (OM section D7), ADB financing may exceed the country's cost-sharing limit because of exceptional circumstances.
[3] In effect, ADB does not finance 100% of project costs. A DMC's contribution to project financing reflects the DMC's ownership of and commitment to the loan project or TA operation. For the application of cost sharing to different financing instruments, refer to the relevant *Operations Manual* sections.

5. The Charter stipulates that the loan operations of ADB shall provide principally for the financing of specific projects, and requires that ADB take the necessary measures to ensure that the proceeds of any loan made, guaranteed, or participated in by ADB are used only for the purposes for which the loan was granted and with due attention to considerations of economy and efficiency, and that loans be withdrawn only to meet expenditures in connection with the projects as they are actually incurred (endnote v).

6. *Operations Manual* section F1 (Safeguard Policy Statement) provides (i) a list of items that do not qualify for ADB financing,[4] and (ii) the specific requirements for borrowers in delivering involuntary resettlement safeguards when ADB's financing is requested for land acquisition costs and payments for rights-of-way that relate to involuntary resettlement.

7. Except as otherwise provided in the relevant contribution agreement, the resources of the Technical Assistance Special Fund may be used for financing the cost of expert services and related facilities required for TA or related operational activities (including staff training and development for DMCs) to be carried out by ADB (endnote vi). Other funding sources may have different approaches to eligibility of expenditures in their regulations or agreements.

8. Resource persons from countries that are not ADB members and their related expenditures are also eligible for ADB financing under TA operations (endnote vii).

Basis

[i] ADB. 2005. *Cost Sharing and Eligibility of Expenditures for Asian Development Bank Financing: A New Approach*. Manila (R193-05).

[ii] ADB. 1995. *A Review of Lending Foreign Exchange for Local Currency Expenditure on Projects*. Manila (R1-95).

[iii] ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila (Article 13 [ii]).

[iv] ADB. 1983. *A Review of Lending Foreign Exchange for Local Currency Expenditure on Projects*. Manila (R1-83).

[v] ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila (Article 14[xi]).

[vi] ADB. 1981. *Regulations of the Technical Assistance Special Fund*. Manila (R80-81).

[vii] ADB. 2015. *Enhancing Operational Efficiency in the Asian Development Bank*. Manila (R167-15).

[4] The following expenditures in connection with projects are eligible for ADB financing, but different due diligence and reporting requirements may apply (endnote i): (i) land acquisition costs, payments for rights-of-way, resettlement expenditures, secondhand goods, and leased assets; (ii) reasonable costs for taxes and duties associated with project expenditures; and (iii) recurrent costs, severance pay, local transport and insurance, late payment penalties, nutrition assistance, interest during construction on non-ADB loans, and bank charges.