ADB

Strategy Paper

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ADB's Financing Partnership Strategy

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
AO	–	administrative order
CSP	–	country strategy and program
DMC	–	developing member country
DVA	–	direct value added
CEP	–	credit enhancement product
FPS	–	financing partnership strategy
MDB	–	multilateral development bank
MTS	–	medium-term strategy
OCO	–	Office of Cofinancing Operations
OCR	–	ordinary capital resources
ODA	–	official development assistance
OECD	–	Organisation for Economic Co-operation and Development
OM	–	operations manual
PPP	–	public-private partnership
SWAp	–	sector wide approach
TA	–	technical assistance
UNDP	–	United Nations Development Programme
WEF	–	World Economic Forum

GLOSSARY

channel financing agreement	–	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.
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.
cofinancing product	–	Any instrument or arrangement that facilitates coordination of cofinancing among the financing partners.
commercial cofinancing	–	Cofinancing provided from private or public sources on commercial and market-based principles, outside official development assistance (ODA) and without direct sovereign recourse in case of loss, including financing from banks, insurers, pension funds, suppliers, or bilateral and export finance institutions, among others.
credit enhancement	–	The improvement in the risk profile of a credit, and reduction in the likelihood of financial loss for the obligor, through risk transfer to a third party.
credit enhancement product	–	A financial instrument that facilitates credit enhancement, including guarantee, loan syndication, credit default swap, or reinsurance, among others.

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.
financing partnership	–	Any arrangement between financiers that aims to create and undertake cofinancing in a coordinated and sustained manner with agreed objectives (i.e. that promotes direct value-added cofinancing). Requires regular consultation and coordination, usually early in the program or project cycle.
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).
joint cofinancing	–	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.
official cofinancing	–	Cofinancing with multilateral agencies, and with bilateral agencies under ODA or sovereign recourse.
official development assistance	–	A category of development aid, defined by the Development Assistance Committee of the Organisation for Economic Co-operation and Development as financial flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following test: (i) it is administered with the promotion of economic development and welfare of developing countries as main objective, and (ii) it is concessional with a grant element of at least 25% (calculated at a discount rate of 10%).
parallel cofinancing	–	Cofinanciers finance different goods or services, as identified during design, following their own procedures. Unlike joint cofinancing, it can be on a “tied” basis.
reinsurance	–	A contractual agreement by an insurer or guarantor to transfer all or part of a liability to another insurer or guarantor. Loss may be shared for an individual transaction (in which case the agreement is referred to as “facultative reinsurance”) or for an entire portfolio (“treaty reinsurance”).
resource mobilization	–	The process of obtaining financing commitments from third parties for a program or project, usually in the form of a financing partnership agreement, to translate into cofinancing over an agreed period.
sector wide approach	–	A form of syndication (usually with concessional financing) with agreement on the development of a sector between a government and the financing partners. Involves close coordination of all parties, and link of disbursements to public expenditures and progress in sector development.

syndication	–	A cofinancing arrangement involving the coordinated process of pooling funds from various sources to a single borrower or grant recipient, and/or distributing related risks among such or other financiers. It allows a party to “front” a financing and channel a larger portion. For loan syndications, it allows maintaining a more prudent and manageable credit exposure. For the borrower or grant recipient, it reduces the burden of dealing independently with multiple parties. It can be applied to official or commercial cofinancing on a joint or parallel basis.
public-private partnership	–	A contractual arrangement where the private sector supplies infrastructure assets and/or services that traditionally have been provided by the government. The government is often the main purchaser of the services, but private operators may also sell them directly to the public, typically under a concession. Public-private partnership financing is often provided via a special-purpose vehicle.
tied funds	–	Funds tied to the procurement guidelines of the cofinancing partner, often with restrictions on procurement eligibility incompatible with ADB procurement guidelines.
trust fund	–	A fund for which one entity (trustee) holds legal title, but is bound by a fiduciary duty to exercise the legal control for the benefit of others, according agreed terms between the parties.
untied funds	–	Funds provided by a cofinancing partner that allow the use of ADB’s procurement guidelines.

NOTE

In this report, “$” refers to US dollars.

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EXECUTIVE SUMMARY

Reducing poverty in Asia and the Pacific region requires more investment with greater development orientation and impact. The required scale of development investment will only be delivered through financial partnering designed to produce results. Financial partnering is an increasingly important trend in global development finance, and meets the demands of the Asian Development Bank's (ADB) clients, shareholders, and financing partners. It is consistent with ADB's strategies and is of key significance for ADB.

The financing partnership strategy (FPS) would move ADB from being "reactive" to "proactive", from "gap-filling" to operating in "genuine partnerships", and from simply "adding cash" to "adding value". The FPS builds on ADB's recently approved medium-term strategy II as well as related initiatives. It outlines ADB's objectives, approaches, and measures to add value in financial partnerships for development by acting as a catalyst for a variety of external sources.

The FPS focuses ADB's activities and resources for financial partnering on two major areas:

(i) **Grants and concessional partnerships.** These increase mobilization and syndication of concessional financing to blend with ADB loans in investment projects and programs, and sustain high grant levels for technical assistance. They also advance institutional commitments to harmonization and aid effectiveness under the Paris Declaration (footnote 13).

(ii) **Commercial resource mobilization.** This leverages additional finance for development, mainly through risk sharing partnerships including guarantees and syndications. This is also a major growth area, particularly to support infrastructure projects in the public and private sectors.

The FPS shifts the paradigm from cofinancing that is focused on filling financing gaps or resolving administrative arrangements (often late in the project cycle), to proactively bringing about financing solutions that add value to clients by sharing knowledge and resources with others. This calls for the following:

(i) improved client orientation and selectivity, including the consideration of financing solutions through partnerships early in the business cycle, consistent with country strategies and programs based on client needs;

(ii) increased depth and breadth of financing partnerships and effective arrangements that lead to increased cofinancing opportunities with clear entry points. This also facilitates participation by ADB in projects and programs led by others;

(iii) transparent and relevant products and facilities, backed up with specialist expertise available to project teams and ensuring consistent application and innovation;

(iv) clear success measures, with focus on coordinated arrangements between cofinanciers that add value directly at the transaction level; and

(v) a phased change management process, consistent with resources and institutional capacities. Initial focus will be on changing mindsets through improved teamwork and building success cases that can be replicated and scaled up in a second phase.

The FPS comprises an implementation plan with specific actions for gradual alignments to address key constraints in the operational model, resources, and underlying conditions and attitudes related to financing partnerships. This includes:

(i) integration of financing partnership commitments in ADB's operational frameworks and processes, and better access by teams to specialist knowledge and relationships to process transactions that add value through syndications or other forms of cofinancing;

(ii) improvement in management of relationships with financing partners, particularly through improved feedback mechanisms and better-targeted communication and outreach activities;

(iii) effective management of innovation and knowledge, including development of relevant product and facilities as well as introduction and sharing of best practices;

(iv) efficient organizational arrangements with clear roles and accountabilities for executing the strategy across ADB;

(v) focus on qualitative resource adjustments through training and on-the-job mentoring, as well as flexibility in the use of cost recoveries and improved information technology support; and

(vi) stronger leadership emphasis and performance recognition for financing partnerships, improved attention to consistency in policies and strategies, and team building across the institution and beyond organizational boundaries.

If the FPS is implemented successfully, ADB's participation in value-adding and developmentally effective financing partnerships will grow faster than its own lending, and establish ADB's reputation as the "partner of choice" for financing partnerships in Asia and the Pacific region, based on a high degree of client and partner satisfaction.

For clients and financing partners, the FPS will translate into greater impact of ADB's assistance and reduced business transaction cost. The FPS also entails more effective and efficient use of ADB's capital base and a change in the way ADB conducts and rewards business (providing creative financing solutions through genuine partnerships that combine concessional and/or commercial resources rather than financing approvals from its own account). It thus contributes to an increase in ADB's credibility and relevance as a responsive partner.

Developed by an ADB-wide team, the FPS is a strategy for ADB as a whole with distinct roles for operational and supporting departments. It takes account of external market trends and opportunities as well as important lessons learned from ADB's cofinancing experience.

The FPS has a clear mission statement: "Promoting, facilitating, and participating in financing partnerships for greater development impact."

This means to improve development outcomes for clients by effectively and efficiently combining ADB's capital and knowledge resources with others' to improve quality, financial terms, and financing volumes of development investment associated with ADB assistance across Asia and the Pacific region.

I. INTRODUCTION

1. **Strategic Context.** Despite much progress over the past decades, Asia and the Pacific region face ongoing challenges to generate and finance the investments required to reduce poverty on a sustained basis.[1] If the Asian Development Bank (ADB) is to face these challenges, it must partner and pool resources with others to provide integrated financing solutions, beyond offering stand-alone loans or technical assistance (TA). Clients, shareholders, and other stakeholders have asked for this. Many ADB governors explicitly referred to this need at the 2006 Annual Meeting in Hyderabad.

2. To respond effectively to the needs and challenges of world's most dynamic region and to fulfill its development mandate, ADB has to continually refine its strategic agenda and align its instruments, approaches, procedures, and organization. ADB's poverty reduction strategy (PRS) and long-term strategic framework (LTSF) set out its vision, strategic framework, and key actions to fight poverty.[2] More recently, the second medium-term strategy (MTS II), 2006–2008, has sharpened ADB's strategic priorities to enhance its relevance, and proposed measures to improve responsiveness and results-orientation. The MTS II emphasizes ADB's role as a catalyst and the increased importance of cofinancing partnerships to mobilize resources along with its own to help reduce poverty.

3. This Financing Partnership Strategy (FPS) recognizes that ADB has considerable potential to join forces with a wide range of partners and bring about synergies in financing the region's development needs. It is founded on the belief that the relevance of ADB's operations is not solely derived from the assistance it provides from its own account, but equally—and perhaps even more—from its ability to leverage finance and ideas from others. The FPS builds on the MTS II and reinforces other recent or ongoing internal initiatives that promote mobilization of financial resources for poverty reduction by ADB through financing partnerships.[3] It reinforces the directions articulated in the Asian Development Fund (ADF) IX report and responds to stakeholder expectations of optimizing developmental benefits through improved partnership arrangements, many of which are anchored in the Monterrey Consensus and the Millennium Development Goals (MDGs).[4] In doing so, the FPS considers ADB's cofinancing experience, developments in the external financing environment, and the opportunities this presents.

4. **Purpose.** The FPS sets priorities and outlines approaches and measures to increase the flow of financial resources and improve their effectiveness for developing member countries (DMCs) by working with financing partners from the public and private sectors. The FPS will thus help reduce poverty, thereby improving the impact of ADB's assistance. The FPS develops and improves on ADB's 1995 cofinancing strategy and subsequent revisions.[5] It is a strategy for ADB

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[1] For details, see ADB. 2006. *ADB's Medium-Term Strategy II (2006–2008)*. Manila (Sec.M26-06).

[2] ADB. 1999. *Poverty Reduction Strategy*. Manila (R179-99); and ADB. 2001. *Long-Term Strategic Framework of the ADB (2001–2015)*. Manila (Sec.M17-01). The broad directions of the LTSF are translated into more specific medium-term strategies (MTS), starting with the MTS I: 2001–2005. Following a review of the PRS in 2004 (ADB. 2004. Review of the ADB's *Poverty Reduction Strategy*. Manila (R95-04)), ADB's management committed to further reforms under the management for development results (MfDR) agenda.

[3] This includes a variety of initiatives linked to ADB's MfDR agenda, such as the innovation and efficiency initiative launched by ADB's Management in 2004 to modernize, among others, business processes and financial products; ADB's revised strategic framework for private sector development; ongoing reforms related to ADB financing of TA and knowledge products and services; risk exposure limits; and credit enhancement operations.

[4] The Monterrey Consensus was reached at a United Nations-sponsored international conference on Financing for Development in Monterrey, Mexico, 2002, and concluded that greater cooperation between public and private actors will be required to overcome the inadequacies of development finance and achieve internationally agreed development goals—the Millennium Development Goals. For details see www.un.org/millenniumgoals.

[5] ADB. 1995. *The Bank's Cofinancing Strategy*. Manila (R80-95); ADB. 1999. Review of the Bank's Cofinancing Strategy (unpublished); and ADB. 2001. *Review of ADB's Cofinancing Operations.* Manila (IN.309-01).

as a whole, covering operational and supporting departments. It supports ADB's ongoing shift to a more results-oriented culture for financing partnerships.

5. **Structure.** Section II briefly presents financing partnerships and cofinancing operations in perspective. It reviews the benefits they can bring, together with ADB's institutional mandate as well as key trends in the external environment. It also looks at past operations and the lessons that can be drawn to meet the challenges ahead. Section III formulates the strategic framework: objectives, priorities, approaches, and success measures for financing partnerships, to provide the required direction for "doing the right thing". Section IV deals with implementation. It outlines operational requirements and actions for "doing things right". Section V concludes and summarizes Management's key decisions related to the FPS.

II. FINANCING PARTNERSHIPS IN PERSPECTIVE

6. **What are Financing Partnerships?** Financing partnerships are arrangements between various parties that aim to generate and undertake shared financing for a specific project or program. They combine knowledge and resources to ensure coordinated financing in a sustained and mutually beneficial manner with agreed objectives. At the transaction level, they are manifested through syndications or other cofinancing arrangements.[6] They are a subset of a broader partnership dialogue.[7]

A. Why Financing Partnerships?

7. **Win-Win All Around.** Financing partnerships aim to create synergies by combining strengths of various parties that result in benefits and a win-win situation for all involved–ADB's clients in DMCs (the recipients of the financing), its financing partners, and ADB itself. For clients, financing partnerships may increase and improve the development orientation of investment, and allow the realization of more complex financing structures and solutions that are difficult to arrange from a single source. They also promote greater efficiency and effectiveness in their application and reduce the transaction cost of dealing with multiple partners. For financing partners, public and private, they generate operational efficiencies by sharing knowledge, resources, and risks. They also generate business opportunities and deal flow. For ADB, they have become a critical factor in the ongoing shift of its business model to ensure ADB's continued relevance as a responsive development organization. The degree to which ADB can perform as an effective and efficient financing partner—and the benefits it thus brings to its clients—has important ramifications for ADB shareholders' perceptions of the institutions' overall value.

8. **Increased Investment with Greater Development Orientation.** The region's financing requirements far exceed the resources that DMCs and official agencies are able to provide.[8]

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[6] Cofinancing and syndications are very similar and both concerned with pooling funds from multiple sources. A main difference is that syndications involve a more coordinated approach, including for financial administration or risk sharing. Syndications are traditionally used in the commercial loan market, but the concept applies equally to the pooling of grant or concessional finance. Cofinancing can be arranged by a strong sponsor with less explicit coordination among the financing partners. See the glossary for detailed definitions.

[7] Partnerships for ADB go beyond financing, and further benefits can be derived from partnership arrangements on a broader scale with a larger group of stakeholders (e.g., on knowledge sharing and harmonization). However, such broader partnerships would dilute the focus of this paper, which is to support the MTS II objective of "catalyzing investment". The broader dimensions of partnerships are addressed in other papers.

[8] Infrastructure investment needs in 21 developing countries in East Asia are estimated at $200 billion a year over the next 5 years (ADB, JBIC, and World Bank. 2005. *Connecting East Asia: A New Framework for Infrastructure.* Manila, Tokyo, and Washington, DC).

However, a considerable pool of capital globally and within Asia remains largely untapped for socioeconomic development. A consensus has emerged that a realistic prospect of achieving the MDGs (footnote 4) requires supplementing official efforts with the mobilization of foreign and local commercial resources via direct investment and public–private partnerships (PPPs).

9. Many developing countries will not have the required scale of private capital for investment unless a variety of risks—credit, political, regulatory, environmental, or other—are mitigated. MDBs are well positioned to address some of these risks because of their unique shareholding structures and privileged relationships with DMCs. By partnering with other sources of finance, synergies can be realized to mobilize additional financing that would not flow otherwise. The potential of MDBs to add value, particularly by expanding risk sharing and mitigation activities in partnership with the private sector, has been increasingly recognized and documented through recent research by the Organisation for Economic Co-operation and Development (OECD),[9] the United Nations Development Programme (UNDP),[10] the World Economic Forum (WEF),[11] and others, and is consistent with the findings of ADB's stakeholder consultations. This argues strongly for MDBs to better use their guarantee and risk mitigation products and capabilities inherent in their nature as development finance institutions to attract increased commercial investment for development projects.[12]

10. **Improved Efficiency, Effectiveness and Knowledge Transfer.** Financing partnerships blend skills and resources and often result in efficiency gains that translate into improved development impact for clients through better design, implementation, and financing terms. Partnering with private sector financiers, in particular, may yield efficiencies in project management from the commercial discipline and performance-based structures usually imposed by such partners on the use of their funds. They introduce market benchmarks to loan structuring and pricing, particularly for financing operations without sovereign guarantees. Financing partnerships with the public and private sectors can also introduce new techniques, skills, and best practices to ADB and its projects in areas where others have more experience.

11. **Cost Reduction through Harmonization and Blending.** Efficiency and effectiveness of official development assistance (ODA) can be improved by increasing coordination and harmonizing procedures for bilateral and multilateral donors. The importance of partnerships for development is highlighted through their inclusion under the MDGs, and is spelled out further in the Paris Declaration on aid effectiveness.[13] This aims to avoid duplication of efforts and minimizes inherent costs in service delivery. It calls for multilateral development banks (MDBs) to realize economies of scale and foster financing partnerships for common development objectives. Moreover, blending of bilateral grants with multilateral or commercial loans and guarantees can further improve cost competitiveness and induce greater development orientation of such financing.

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[9] OECD. 2005. *Guaranteeing Development? The Impact of Financial Guarantees.* Paris.

[10] UNDP. 2004. *Guarantees—Options for Infrastructure Finance.* New York.

[11] WEF. 2006. *Building on the Monterrey Consensus—The Untapped Potential of Development Finance Institutions to Catalyze Private Investment*. New York.

[12] Specifically, the WEF report asserts: "The weight of DFI activities should shift over time from direct lending to facilitating the mobilization of resources from the world's large private savings pools for development oriented investments through wider use of risk mitigation instruments to alleviate part of the risk faced by investors. DFIs should adapt their services, culture and capital allocation to the imperative of crowding in domestic and foreign private investment by placing more emphasis on such risk mitigation instruments as partial (risk) guarantees."

[13] Specifically, senior officials from about 60 countries and more than 50 multilateral and bilateral development institutions met at a high-level forum in Paris in March 2005 and endorsed a variety of measures in the Paris Declaration on Aid Effectiveness (http://www.aidharmonization.org). For a summary and implications for ADB, see ADB. 2005. *Paris Declaration on Aid Effectiveness*. Manila (IN310-05).

12. **Institutional Mandate.** Financial partnering is an inherent and integral part of ADB's development mandate. The Agreement Establishing the Asian Development Bank (the Charter) sanctions a limited range of activities, and cofinancing is an important element in this. Specifically, the Charter mandates ADB to promote public and private capital investment and cooperate with other public or private agencies to leverage its own resources for development.[14] This mandate is further reinforced through ADB's strategic framework (footnote 1 and 2).

13. **More Efficient Use of ADB's Capital.** Financing partnerships not only leverage the impact of ADB's direct assistance, but also help optimize the use of ADB's balance sheet through risk sharing arrangements. For financing operations without sovereign guarantees, financing partnerships instill market discipline in loan structuring and pricing by considering market benchmarks. Syndications particularly help ensure that guarantees and/or loans provided by ADB are "market tested" and consistent with prevailing market terms and conditions. As ADB's non-sovereign portfolio expands, ADB may also be obliged to balance its risk portfolio by selling down and lay off risks to other financing parties. This will crowd in additional risk-taking capacity from the market, oftentimes after ADB's loan approvals, and free up balance sheet capacity for further expansion of activities.[15] This can generate additional fee income, too. Thus, financing partnerships ensures that each dollar of capital provided by the taxpayers of ADB's member countries yields a greater development return.

B. External Trends, Opportunities, and Challenges

14. An assessment of financing partnership and cofinancing opportunities need to consider global resource flows and the forces that determine their levels and directions. On the demand side, increasingly sophisticated clients call for value-added financing solutions that are competitively priced and efficiently managed. On the supply side, financing sources are increasingly diversified, including from capital markets and from within the region, and official donors have renewed their commitment to increase development aid in the wake of the Monterrey Consensus, albeit more selectively. A more detailed analysis of key trends that affect the potential for cofinancing through grants and loans from official and commercial sources is in Appendixes 1 and 2. Some key trends appear likely to continue and are to be considered in future cofinancing operations:

(i) **Domestic savings are likely to play a bigger role in project financing.** Domestic savings are often more suitable for financing projects that generate revenues in local currency. Yet, local currency financing is constrained by shallow financial markets, including a narrow product range, short tenors, and the inability to secure long-term fixed-interest rates. Progress on this front will require a strong macroeconomic framework and solid financial infrastructure. ADB's credit enhancement products (CEPs) can facilitate financing structures that channel domestic savings into ADB-supported projects and help domestic capital markets mature. A key challenge will be proper pricing as domestic environments are often distorted.

[14] Specifically, Article 2 of the Charter mandates ADB to promote public and private capital investment. The article further enjoins ADB to cooperate with international and national agencies and institutions, public and private, that are concerned with the investment of development funds in the region, and to elicit the interest of such institutions in new opportunities for investment and assistance. Further reference is in Article 11, which stipulates that ADB may facilitate financing through guarantees.

[15] While the need for this has not yet arisen, ADB will be required to develop its risk-sharing and syndication capacity with the introduction of non-sovereign lending under ADB's innovation and efficiency initiative, and the continued scaling up of private sector operations.

(ii) **Competition for international finance.** Despite the increase in global liquidity, providers of infrastructure finance have become more selective about risk and the projects they are investing in. At the same time, investment-grade projects remain limited. As developed countries continue to privatize infrastructure assets, emerging economies must improve the risk profiles in their projects to attract a larger share of available funds. There are opportunities for ADB to increase the attractiveness of projects by applying its CEPs.

(iii) **Increasing importance of PPP.** Demand for project finance is increasing at the subnational level. Given the often limited capacities of local or provincial agencies for project financing and implementation, the involvement of the private sector through PPPs may yield considerable benefits. The attractiveness of project proposals will depend on the creditworthiness of local governments, but also on prevailing regulatory standards. In many cases, this requires reform of local finances and regulatory systems over time. Concurrently, CEPs may support some of the financing requirements, but should ideally be coupled with TA for project preparation or capacity building. ADB has already taken an important step to capitalize on this trend through its innovation and efficiency initiative, which can be supported further through financing partnerships.

(iv) **Emergence of regional players.** Over the past decade, new players, including local or regional companies as well as financiers, have emerged. Regional sponsors often have different risk perceptions and financing expectations, and regional financiers have different credit standards and skills, often willing to take more risk on less bankable projects. Working with these players requires the reorientation of ADB beyond a traditional financing role, with increased involvement upfront in project preparation and development. Partnering with international players can further introduce best practices.

(v) **Scaling up of aid, but with selectivity.** Much of the increase in ODA following the Monterey Consensus is through non-cash means, including debt reduction. Donors also are allocating more aid to better performers—those with stronger policies and institutions—as well as to poorer countries, and look for efficient delivery vehicles with reduced transaction cost. This calls for ADB to develop new and more efficient intermediation products and undertake joint collaborative efforts to tap into these flows while ensuring that the needs of weakly performing countries are met.

(vi) **Harmonization for ODA.** Scaling up of ODA also requires increased coordination among aid delivery channels and harmonization in line with the Monterey Consensus and Paris Declaration (footnotes 4 and 13). ADB's instruments and approaches need be updated and adjusted further to better accommodate its participation in multiparty arrangements.

(vii) **Decentralization of decision making.** Decision-making authority is being decentralized at the client and financing partner levels, both for official and commercial cofinancing. While decentralization should, in principle, speed up decision making, it also makes financing partnerships potentially more complex as multiple relationships need to be managed, requiring the balancing of flexibility and consistency. Awareness of approaches and financing products—many of which are becoming more sophisticated—has to be raised and maintained at various institutional levels.

(viii) **Emergence of new financing sources.** South–south cooperation, particularly in the form of sharing of experiences and knowledge but also through the emergence of regional financiers, is increasingly contributing to the development efforts of poorer countries. Also, private organizations increasingly offer grants through corporate and social responsibility programs that are looking for efficient and effective partners to combine development efforts. Moreover, there has been an increase in private giving through NGOs. These flows have so far barely been captured by ADB. Channeling these resources into ADB-supported projects can create a win-win situation for all parties involved.

15. While private investment in emerging markets and external aid flows are rising again, lack of institutional capacities to employ these flows effectively and efficiently throughout Asia remains a constraint. Despite the tremendous opportunities it represents, financial partnering is no doubt becoming more complex and technical, calling for special expertise in relationship and product management. As the leading regional development institution, ADB clearly has a role to play in supporting these trends and meet the challenges to the benefit of its DMCs.

C. Review of ADB's Past Cofinancing Strategies and Operations

1. Evolution of Cofinancing at ADB

16. **Administrative Beginnings.** Cofinancing has always been inherent in ADB's projects. During the initial years, ADB's cofinancing approach was relatively undeveloped and geared toward dealing with administrative aspects to fit financing by third parties with ADB arrangements, mainly for large ADB public sector projects for infrastructure.[16] Cofinancing was traditionally concerned with filling financing gaps in such projects, often on a parallel basis and late in the project cycle, or with applying funds that were offered to ADB from official partners, often reflecting donor priorities. This has contributed to cofinancing largely on an ad hoc and supply-driven basis. ADB's cofinancing operations mainly involved the finalization of cofinancing agreements, handling of relationships case by case, as well as data consolidation and reporting.

17. **Increasing Complexity.** A number of policy and strategy papers were formulated over the years to further detail ADB's cofinancing modalities, instruments, and charges.[17] This sought to bring about more specificity and consistency, but also resulted in greater complexity. The cofinancing strategy of 1995 advocated a more active role in bringing private capital to DMCs, including by applying CEPs, while continuing to promote official cofinancing, particularly in low-income countries. Reviews of the cofinancing strategy in 1999 and of cofinancing operations in 2001 confirmed this general approach, with minor incremental changes. An overview of the evolution and assessment of ADB's cofinancing strategies and approaches is in Appendix 3.

[16] General guidance was provided by ADB. 1973. *Joint Financing.* Manila (Working Paper 4-73); and ADB. 1979. *Cofinancing.* Manila (R22-79).

[17] ADB. 1981. *Co-Financing.* Manila (Working Paper 4-81)*;* ADB. 1982. *Co-Financing with Commercial and Export Sources.* Manila (R89-82); ADB. 1984. *Co-Financing with Official Sources.* Manila (R74-84, Revision 1, Final)*;* ADB. 1987. *Bank's Guarantee Operations.* Manila (R140-87); ADB. 1992. *Co-Financing Operations and Policies.* Manila (Working Paper 3-92); ADB. 1992. *Review of* the *Bank's Guarantee Operations.* Manila (Working Paper 4-92); ADB. 1995. *The Bank's Cofinancing Strategy.* Manila (R80-95); ADB. 1995. *Review of the Bank's Guarantee Operations.* Manila (R1-95); ADB. 1999. *Review of the Bank's Cofinancing Strategy* (unpublished); ADB. 1999. *Review of the Bank's Guarantee Operations.* Manila (R135-99); ADB. 2000. *Review of Service Charges for the Administration of Grant Cofinancing from Bilateral Sources*. Manila (R68-00); ADB. 2000. *Partial Credit Guarantee Charges*. Manila (R88-00); ADB. 2000. *Review of the Partial Risk Guarantee of the ADB.* Manila (R299-00); ADB 2001. *Review of ADB's Cofinancing Operations.* Manila (IN109-01); and ADB. 2003. *ADB Administered Grant Cofinancing Partial Administration Modality and Related Service Charges.* Manila (R289-03).

18. **Orientation of Lending from Own Account.** ADB cofinanced projects over the years to catalyze greater resource flows from official and commercial sources to DMCs. However, this objective was not reflected in the operational resource planning parameters, which focused on financing approvals from ADB's own account. This focus was also encouraged through high levels of lending headroom and a high capital adequacy within ADB, as well as the need to maintain positive net resource transfers for ordinary capital resources (OCR) lending operations and meeting income targets for ADB. Cofinancing was thus often perceived as an incremental rather than a core activity.

19. **Right Directions, Inadequate Implementation.** Overall, the broad rationale and assumptions underlying past strategies, which are anchored in ADB's Charter, largely still hold. However, given the operational focus on meeting ADB financing targets that were agreed on in the planning framework, attention to nonlending activities or arranging of third-party financing received less priority, particularly as mission leaders already had to deal with multiple and increasing other demands. In the absence of effective integration with ADB's overall strategic agenda and operational systems, past strategies that promoted cofinancing focused on activities more than on results. The limited recognition of concurrent institutional constraints—and lack of adequate support through incentives, systems, and resources—has limited the strategies' overall impact.

20. **Coordination with Other MDBs.** ADB's experience and issues are not dissimilar from those of other MDBs, which are also looking for ways to solve generic institutional issues related to cofinancing within an overall framework of greater results orientation. In general, MDBs are increasing institutional emphasis on financing partnerships, with more attention to "additionality" in resource mobilization and upstream involvement to develop partnerships earlier in the program and project cycle, combined with greater focus on relationship management. Despite their significant differences in business models and focus, MDBs share many issues and concerns, particularly related to external challenges and insufficient internal incentive structures. Since 2004, the heads of cofinancing operations of MDBs have met regularly to exchange views and experiences and to foster a coordinated approach to financing partnerships.

2. Performance

21. **Record Indicator versus Performance Parameter.** ADB traditionally records cofinancing as "financing from sources external to the borrowing country or external to the project proponents, arranged to fund ADB-assisted projects jointly or in parallel with the Bank loan".[18] Cofinancing is thus a subset of overall project financing, inherent in the financing plan, and presented as a record indicator in ADB's aggregate classification and reporting system.[19] Yet, as currently defined, cofinancing does not capture the value addition and impact of ADB in mobilizing or administering such financing, which may vary from project to project.

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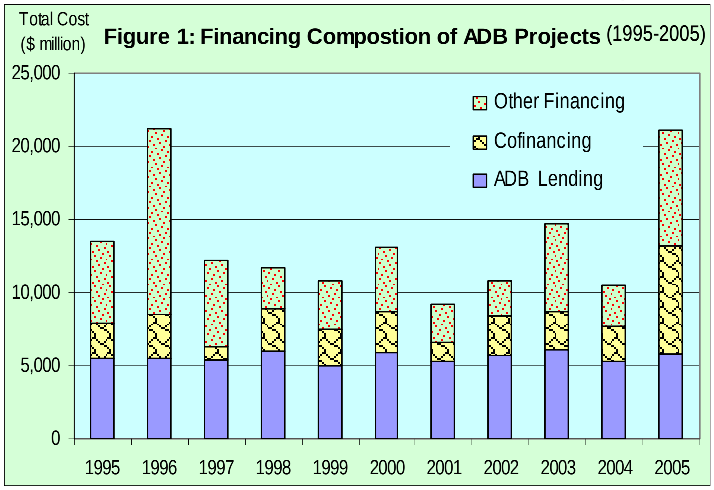
[18] This excludes contributions by the host government (counterpart funds), its official agencies, project beneficiaries, internal cash generation, debt financing by project sponsors, as well as equity from or arranged by sponsors. Cofinancing is classified according to its source as "commercial" or "official", as well as according to its financing terms in loans or grants (OM Section E1/BP).

[19] In some cases, the Board explicitly approves cofinancing if it involves direct financial intermediation and administration services provided by ADB. (This includes credit enhancement in the form of guarantees or syndications under the complementary financing scheme for commercial cofinancing, the partial administration of official loans, or full administration of project and TA grants.) Such cofinancing is therefore also included under the respective line items reported in official documents for ADB approvals of grants, guarantees and TA. In other cases, cofinancing is merely recorded as a part of the financing plan but not subject to explicit ADB approval.

22. **Fluctuating Volumes.** On most accounts,[20] ADB's cofinancing activities lack a clear trend overall, particularly in investment projects, where cofinancing has been driven largely by project selection and financing requirements. Over the past 10 years (except in 1996 and 1997) cofinancing of ADB projects has hovered around 30–50% of the non-ADB-financed portion (other financing). As the total project cost fluctuated widely while ADB loan approvals remained fairly stable, the absolute amounts of cofinancing also fluctuated considerably—from about $1.0 billion in 1997 to over $7.4 billion in 2005, with $2.0 billion to $3.0 billion for most of the other years. The share of cofinancing relative to ADB's lending varied from 17% in 1997 to 127% in 2005, but hovering around 40–50% for most years. Figure 1 provides an overview of the financing composition of ADB projects since 1995.

Figure 1: Financing Compostion of ADB Projects (1995-2005)



23. **Shift in Composition.** Over the years, however, the cofinancing composition has shifted. Grant cofinancing administered by ADB has increased steadily, and nearly 20% of all ADB investment projects in 2005 involved grant cofinancing. While their total amounts remain relatively small–about $224 million in 2005, or less than 4% of ADB's own lending–the trend is encouraging. Commercial cofinancing also increased, mainly driven by large domestic banks in the People's Republic of China and in India, but without a clear trend for international banks. Much of this was on a parallel basis without direct involvement by ADB in arranging or administering this financing. There was no clear trend in the use of CEPs, which on average accounted for less than 8% of total cofinancing over the past 10 years, with about 2-3 projects per annum.[21] In contrast, loans from official sources and export credit agencies declined, mainly because of the lower the number of large ADB-supported public infrastructure projects over the past decade which provided the traditional opportunities for such cofinancing. TA grant financing from external sources increased steadily, with a greater number of partners, accounting for more than half of ADB's TA portfolio. This is encouraging but further growth may be limited by the overall constraints on ADB's TA operations. Key findings of past performance are in Appendix 4.

24. The change in cofinancing portfolio mix is consistent with the broad directions of the 1995 cofinancing strategy.[22] However, in the absence of clearly defined performance parameters and evaluation criteria, this quantitative shift does not allow in itself a conclusive assessment as to the value addition and developmental impact of ADB's cofinancing operations.

25. Yet, ADB has been able to demonstrate its capacity to bring about innovative cofinancing solutions (Box), such as its role as lead agency for a sector-wide approach in Bangladesh's education sector which is now widely regarded as best-practice for donor coordination (2005); PPP support through guarantees and a combination of official and commercial cofinancing in the

[20] Cofinancing is not only measured in absolute dollar amounts but also in other terms such as number of projects, cofinancing partners, client countries, or relative project financing share.

[21] CEPs are expected to become more important in future with the expected increase of non-sovereign operations by ADB, due to ADB's innovation and efficiency initiative and scaling up of private sector operations.

[22] This is partly the result of deliberate actions, particularly related to grants for projects and TA, while much of it appears 'consequential' mainly because of project selection and the inclusion of domestic commercial banks (many owned by the public sector) that contributed to large public sector infrastructure projects.

Box: Innovative Financing Partnerships with ADB

Bangladesh Education Sector — Sectorwide Approach (2003)

The Second Primary Education Development Program (PEDP II) represents one of ADB's most notable achievements in bringing together a DMC government and development partners under an innovative sector-wide approach (SWAp). Under PEDP II, 11 development partners work together with the Bangladesh Government to support a holistic approach to education, harmonizing assistance and achieving greater efficiencies in administration, with a combined funding of $654 million in grants and concessional loans. This will bring quality primary education to children in Bangladesh. While the PEDP II focuses on primary education, the SWAp will likely play a catalytic role for change in the entire education sector in the long term.

ADB performed as lead arranger and administrator for a syndicate of six development partners who contributed $389 million in untied grants, including Canada ($20m), European Commission ($100m), the Netherlands ($50m), Norway ($40m), Sweden ($29m), and the United Kingdom ($150m). This was in addition to a $100m loan provided by ADB and closely coordinated with parallel contributions to the SWAp by the World Bank's International Development Association ($150m loan), Japan International Cooperation Agency ($3m grant), as well as UNICEF and Australia ($12m grant).

Nam Theun 2 Hydropower — Public Private Partnership (2005)

The Nam Theun 2 Hydroelectric Project, a 1,070-megawatt power project on the Nam Theun River in central Lao PDR, represents a landmark deal in international project finance. The magnitude of the project was clearly beyond the financing capacity of the Government of Lao PDR and could only be realized through a wide ranging partnership with the private sector. This also helped the Government to integrate the complex project with its development plan for economic growth and poverty reduction, as the project will generate significant revenues through taxes, royalties, and dividends, mainly through the export of electricity. It is part of the Greater Mekong Subregion regional cooperation initiative, and up to 95% of electrical energy generated will be sold to Thailand on a take-or-pay basis under a power purchase agreement.

The project is a joint partnership between the Government of the Lao PDR and a private sector consortium, Nam Theun 2 Power Company Ltd. (NTPC), comprising investors from France and Thailand. Its total base cost of about$1.25 billion will be financed with equity of $350 million and debt of $900 million, comprising least 27 financial institutions form the public and private sector (including ADB, IDA, European Investment Bank, Multilateral Investment Guarantee Agency (MIGA), Nordic Investment Bank, Coface, Agence Francaise de Developpement, Societe de Promotion et de Participation pour la Cooperation Economique, Export-Import Bank of Thailand, and 16 international and Thai commercial banks).

ADB's financial support, beyond financing the Government's equity participation in the project through a public sector loan ($20m) as well as a private sector loan directly to the project (up to $50m), included a political risk guarantee of up to $50m to cover selected Lao political risks (with a government counter-guarantee from the Lao PDR); as well as selected Thai political risks (without sovereign counter-guarantee). The guarantee support was closely coordinated with the World Bank and MIGA who also provided guarantee cover. This involved extensive cooperation between the various financing partners and was instrumental to mobilize some of the commercial loans to NTPC, and thus make the project happen.

Pakistan Earthquake Rehabilitation — Debt for Development Swap (2006)

After a disastrous earthquake hit northern Pakistan and other areas in 2005, Norway offered to write off some of Pakistan's bilateral commercial (export credit) debt obligations in exchange for grant contributions to the Pakistan Earthquake Fund (PEF), a special vehicle set up by ADB to channel its grant contributions and those of cofinancing partners to the Pakistan Earthquake Emergency Assistance Project (PEEAP). A series of agreements was negotiated between Norway, Pakistan, and ADB that routes repayments worth about $20 million over 2006–2008 through ADB into the PEF, in addition to contributions already received from Australia and Finland. This involved close coordination not only among the development partners, but also internally within ADB to resolve accounting, legal, procurement, and project administration issues. The agreement will ensure that Norway's debt reduction will translate directly into developmental benefits, with expansion of the PEEAP's scope to finance the reconstruction of more hospitals and schools, rather than general budget support. This is the first arrangement by ADB for this type of innovative financing partnership, with potential for selected replication in other countries eligible for debt-forgiveness.

Source: ADB

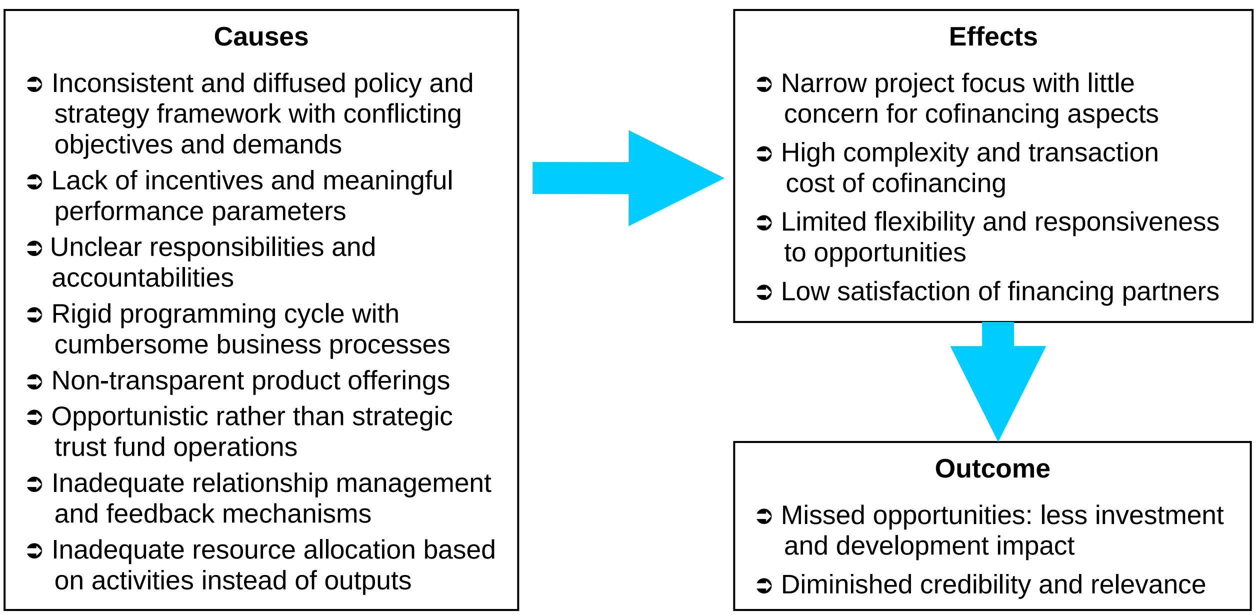
internationally recognized Nam Theun 2 Hydroelectric Project in the Lao People's Democratic Republic (2005); a debt-for-development swap in 2006 for Pakistan, with Norway converting bilateral debt repayments into grants for the ADB-financed Earthquake Assistance Project (2006); as well as other initiatives, including ongoing development of regional cofinancing facilities to support ADB's thematic priorities, among others. However, ADB has not yet been able to replicate such innovative transactions systemically or more broadly, or to publicize them widely to draw more focused attention to ADB's capacity as an innovative financing partner.

26. Despite these success stories in financing partnerships, the uneven performance overall and the feedback received from financing partners indicate that ADB did not fully reach its financing partnership potential, particularly for syndicated cofinancing of investment projects. Internal constraints appear to have been the key limiting factor.

3. Key Constraints and Lessons Learned

27. A number of internal constraints encountered are summarized in Figure 2, and detailed further in Appendix 3. They all contributed to a narrow project focus under which cofinancing aspects were not a primary concern. Coupled with the high complexity and transaction cost of cofinancing operations, the narrow focus has limited ADB's flexibility to respond to financing opportunities and disappointed a few cofinancing partners. It has also prevented ADB from more effectively using its capital to leverage much larger amounts of investment and thereby maximize the development payoff from its capital. The outcome has been investment and development impact below potential, and diminished ADB's relevance as development partner.

Figure 2: Internal Constraints – Causes and Effects



28. The conclusions that can be drawn from ADB's strategies and performance (Appendixes 3 and 4) provide valuable lessons for mapping future directions and approaches:

(i) **Strategic integration and partnership orientation**. Formulation and implementation of cofinancing strategies must connect with the rest of ADB's strategic directions and operational arrangements. The importance of cofinancing should be reflected adequately in ADB's key strategy documents, at the institutional as well as country level. Such other strategies should also provide for incentives that that align with the objectives for financing partnerships, beyond the focus on ADB's own financing parameters.

(ii) **Appropriate performance parameters.** Incentives should be matched with performance parameters to guide operations and measure success of financing partnerships. The cofinancing focus should move beyond filling financing gaps downstream in the processing cycle, to optimizing financing solutions for clients—as well as ADB's own capital base—with consideration for outcomes.

(iii) **Clear allocation of responsibilities.** The increasingly complex framework for cofinancing operations requires clearly articulated execution mandates and accountabilities. The Office of Cofinancing Operations (OCO) was tasked to "act as ADB's focal point for planning, promoting, and arranging cofinancing".[23] Doing so in a coordinated and efficient manner, however, encountered practical implementation problems as incentives for cofinancing were not aligned with operational departments: the regional departments and Private Sector Operations Department (PSOD), and representative offices that "assist DMCs in mobilizing cofinancing from external sources" and "promote resource mobilization" (footnote 23). Moving forward requires clear guidance on the specific role of various organizational units at various stages of the project-processing cycle.

(iv) **Flexible programming and business process.** ADB's planning mechanism for allocation of financial and staffing resources must allow for flexibility to respond to opportunities offered by the market. This needs to be supported by straightforward processing procedures, clarity of instruments, and a more flexible interpretation of cofinancing-related aspects in ADB's Charter.

(v) **Relevant and transparent instruments.** To maximize the potential of its CEPs for commercial cofinancing and to effectively leverage its capital base through credit enhancement operations, ADB must differentiate CEPs and loans with regard to capital backing and country limits.[24] ADB must also improve transparency in its partnership modalities for grants and concessional finance, and ensure knowledge transfer to ADB staff and the market to understand the products.

(vi) **Strategic focus in TA operations.** TA trust funds have been used unevenly, with weak demand particularly for those that were difficult to process because, among other reasons, they were micromanaged by donors or not integrated with ADB's operational agenda and priorities. In some cases, the donors' objectives differed from ADB's priorities, and many donors preferred certain sectors and regions (thereby often overlapping), while there was a scarcity of interest in cofinancing in other areas. A summary of various trust funds and facilities currently available is in Appendix 5. Further clarification of the strategic financing framework for TA operations will be required to better integrate trust funds into an overall financing concept.

[23] See Administrative Order 1.02.
[24] In 2005, the World Bank indicated that it would switch from counting 100% of the value of guarantees against its internal country lending limits to counting 25%.

(vii) **Importance of relationship management.** Cofinancing relationships need to be managed at various levels, coordinated, and grounded in strategic frameworks that reflect the partners' objectives. Institutional mandates relating to transactions should be clarified internally and communicated to cofinancing partners, and dealings must be matched with fast response times. Official donors must be provided with high-quality reporting on official cofinancing operations administered by ADB, including on development impacts beyond the financial and administrative reports routinely provided by ADB. ADB lags behind other organizations that give higher budgetary support to relationship management because they know that mobilization depends on the financing partners' degree of satisfaction.

(viii) **Appropriate resources.** ADB will require a critical mass of resources—and skills in particular—focused on financing partnerships. A more transparent resource allocation mechanism based on clear accountabilities, meaningful performance parameters, and activity recognition would be required to facilitate this.

D. Internal Strength, Opportunities, and Challenges

29. **Benefits of Partnering with ADB.** As the only MDB exclusively focused on Asia and the Pacific region, ADB offers a unique mix of regional expertise, public sector relationships, risk-bearing capacity, and implementation capability. ADB can also offer a broad range of much-sought-after financial intermediation and risk mitigation products and services such as the financial administration of grant and loans on behalf of third parties, various forms of credit enhancements, including guarantees, and financial syndication. Its ability to combine these instruments with official and commercial partners, domestic and international, for projects executed by the public or private sector or through PPP, allows ADB to tailor integrated solutions in a manner few other organizations can.

30. **Leverage on Internal Strengths.** By capitalizing on external market trends and its comparative strengths, ADB can derive significant opportunities for financing partnerships:

(i) **Public Sector Relationships.** ADB historically portrayed itself as the regional "family doctor", enjoying superior relationships with public sector clients, because of its exclusive focus on Asia and the Pacific region and a larger proportion of shareholders from this region than any other multilateral institution. It has successfully demonstrated its ability to perform as an 'honest broker' and trusted development partner that can forge PPPs. This role needs to expand as new clients emerge, particularly in the public sector beyond central governments.

(ii) **Wide range of partnership instruments and risk mitigation capacity.** ADB could also add considerable value to a range of intermediation products and services that are much sought after by official and commercial financing partners. These are particularly attractive to commercial parties, as ADB is in a better position than most to manage selected noncommercial risks because of its understanding of, and work to improve, the regulatory or macroeconomic policy environment. ADB is also able to convert demand for investment into viable opportunities for investors and creditors by promoting PPPs with balanced risk distribution, and to leverage additional private capital through its strong balance sheet and risk-bearing capacity.

(iii) **Ability to realize operational synergies.** Perhaps the strongest feature of ADB, particularly compared with other bilateral or multilateral institutions, is its potential to provide integrated solutions to development needs by combining its wide range of products in a single operation, including equity, debt, and guarantees in foreign or local currency to the public or private sector with or without sovereign counter-guarantee, supported by TA funded from its own resources or third parties.[25]

31. **Relevance, Credibility and Speed.** ADB must meet the high expectations of its clients and financing partners, who have increasing choices. Middle-income clients particularly have a wider range of financing options and increasingly express dissatisfaction with the slowness and relevance of ADB support. Official donors require increased accountability and performance measures in return for flexibility and increased funding. Commercial partners are interested in ADB's credit enhancement and risk mitigation capacity, but after marketing its potential capacities as a risk-sharing partner, ADB must deliver on the expectations without further delay.

32. **Overcome Institutional Constraints.** Translating the enormous potential for financing partnerships into a win-win situation for the mutual benefit of ADB's clients and financing partners will require ADB to be flexible within a clearly articulated framework. It must overcome its institutional constraints (para. 28) through better strategic integration, clearer focus and success measures, as well as adequate operating frameworks and feedback mechanisms. Figure 3 summarizes some key opportunities, challenges, and constraints.

Figure 3: Financing Partnership Opportunities and Challenges

Opportunities

External Trends

- Expanded scope for partnership
  - Increase in official aid
  - New financing partners
  - Capital markets, local currency finance
- Expanded client base (non-sovereign)

Internal Strength

- Wide product range and ability to offer integrated solutions
- Strong risk-bearing capacity
- Regionally based, strong public sector relations

Challenges

- Meeting the high expectations from clients and financing partners, and competition
- Managing the complexity of financing partnerships (products and relations)

Key Constraints (Internal)

- Lack of strategic integration and success measures
- Weaknesses in operating framework, arrangements and skills

33. **Critical Success Factors.** ADB has significant opportunities to enhance its institutional relevance to clients and financing partners, and thus ultimately to its shareholders, within and outside the region. ADB's ability to overcome its key institutional constraints by providing strategic clarity and changing its business model, effective management of relationships, and acquisition and management of specialist knowledge to deliver innovative partnership products will be critical to its success. At the same time, ADB risks failing to perform this partnership role effectively, its overall significance may diminish, and it may become marginalized.

[25] This advantage is diminishing as the World Bank Group, in particular, seeks to operationally integrate its comprehensive but fragmented product range.

III. MOVING AHEAD—STRATEGIC FRAMEWORK

A. Strategic Objectives

34. **More and Better Investment in Asia.** The overall objective of the FPS is to add value to ADB's clients by leveraging resources and development effectiveness through financial partnering arrangements for investments supported by ADB. The FPS thus reinforces and further details ADB's overall strategic framework, and the MTS II in particular. Its expected outcome is greater development impact of ADB's assistance, including greater development orientation of private investment and effectiveness of concessional finance associated with ADB's own funds. A logical framework for design and monitoring of the FPS is in Appendix 6.

35. **Greater Focus and Results Orientation.** The FPS will support an institutional transformation process to ensure ADB's continued relevance through greater operational focus on outcome-oriented partnership activities. It aims to reposition ADB as a predictable and proactive financing partner that adds value to clients, not one that is reactive and merely seeking to add cash to fill financing gaps. This involves appropriate links with other strategic initiatives within ADB, and clarification of performance indicators and incentive structures, as well as accountabilities, operational processes, instruments, and resources. Thus, the FPS seeks to provide a greater sense of purpose and direction, starting with a clear mission statement for ADB's financing partnership operations.

B. Purpose and Priorities

1. Mission Statement[26]

36. **Leverage Financial Assistance with Improved Terms for Greater Impact.** The purpose (or mission) of the FPS is to direct ADB's activities to

"promote, facilitate and participate in financing partnerships for greater development impact".

The FPS seeks to improve the terms, structures (including project design) and development effectiveness and increase the flow of financial resources from external sources for ADB-supported projects or programs for the benefit of a larger range of clients by combining ADB's capital and knowledge with others'. The FPS goes beyond the narrow focus of the traditional cofinancing concept, which sought to 'crowd in' financing partners to fill financing gaps in ADB-led projects. It adds a qualitative dimension by improving project structures and terms through ADB's involvement, implying collaborative dialogue, learning from each other's experiences to improve project structures and development impact, and increasing financing opportunities for ADB and financing partners. Consistent with the MTS II, it reinforces financial partnering as a mainstream activity inherent to ADB's operational model, rather than an add-on activity.

2. Priorities

37. **Focus on Value Addition[27] in Two Business Areas.** The analysis presented in section II and its related appendixes suggests that the greatest potential and benefits could arise by ADB proactively applying its intermediation products or services for value addition in two areas[28]:

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[26] The mission statement will provide strategic clarity and guide the operations of key units involved in financing partnerships and cofinancing activities. It aims to deliver a clear message that would promote the mindset and culture to more effectively transform ADB into a catalyst for development financing.

(i) **Concessional financing partnerships** to mobilize and syndicate grants and concessional loans for investment projects and SWAps, with active participation by ADB.[29] This will be supported by (a) deeper partnerships with official development partners; (b) the development of new financing sources such as in the Middle East, Asia, the European Commission, and the private sector through corporate and social responsibility programs; and (c) product development and innovation. Concessional cofinancing can be blended with a wide range of ADB products, including ADF and OCR loans and guarantees, to improve overall financing terms.[30] With the right sequencing and mixing of loan and grant financing or public subsidy, project structures can be developed that more effectively provide basic services such as water, sanitation, education, and health to low-income groups. Blending development grants with other financing in PPPs can also reduce risks for private investors and thus support the expansion in investments from more creditworthy populations to lower-income communities.

(ii) **Mobilization of commercial resources** through the wider and innovative application of ADB credit enhancement instruments and syndications, to attract commercial cofinancing, particularly for "frontier finance" in projects and programs that commercial financiers perceive as too risky without ADB involvement.[31] This will complement ADB's OCR lending operations, in particular to support PPPs, as well as special thematic facilities to support core strategic areas such as the environment and water sectors, the Asian bond market initiative, and regional cooperation and integration. The focus on expanding credit enhancement activities is supported through recent research undertaken by UNDP (footnote 10), OECD (footnote 9), and WEF (footnote 11).[32] It explicitly recognizes ADB's mandate and ability to leverage investment through the selective assumption of risks that commercial institutions are unable to accept but which ADB is in a better position to manage (para. 29). This further acknowledges ADB's distinctive ability to leverage its capital many times over by mobilizing financial flows through risk sharing.

38. ADB will also seek to maintain a stable and high volume of grant cofinancing for its TA operations, primarily through trust fund operations and the Japan Special Fund. This is in line with the operational guidance that TA operations overall are not a growth activity for ADB.

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[27] Value addition by ADB may include (i) additional investment with greater development orientation for clients and business opportunities for financing partners, (ii) improved project design and implementation efficiency; (iii) improved financial terms for clients and mitigating risks for financing partners, and (iv) reduction in transaction cost.

[28] This presents a narrowing and refocusing of the 1995 cofinancing strategy (footnote 5) that included seven activity areas for cofinancing.

[29] Such support may be through full or partial administration services by ADB for untied cofinancing (joint or parallel) or through cooperation agreements for improved coordination.

[30] For concessional loan cofinancing, the emphasis will in be on blending with OCR lending where costs can be reduced, or where large public sector projects have financing gaps. This presents a shift from the previous cofinancing strategies that focused on blending concessional loan cofinancing with ADF financing. In many other situations (without OCR financing), borrowers prefer either increased lending by ADF, which often is cheaper, or blending with grants which would be a primary strategic focus over loans in support of ADF and OCR operations.

[31] Syndications play a critical role in mobilizing private sector finance to developing markets, which often have weak regulatory regimes and challenging conditions, and where tenors are generally limited to shorter maturities. Syndications are required by the credit departments of some development finance institutions, particularly the European Bank for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC), to ensure that guarantees and/or loans extended are "market tested" and consistent with prevailing market terms and conditions.

[32] The WEF report, in particular, argues strongly for MDBs to better use guarantee and risk mitigation instruments and capabilities that are inherent in their nature as development finance institutions to attract increased commercial investment for development projects.

Rather, the partnership focus for TA financing will be qualitative—on strengthening coordination and streamlining procedures for easier access and efficiencies in processing, reducing transaction costs, and improving mechanisms for reporting and feedback to cofinancing partners on impact. Implementing this agenda will need to be coordinated closely with the work ongoing in ADB on TA financing reform. This is likely to result in greater selectivity and consolidation of trust fund operations to make them more demand-oriented rather than supply-driven.

39. For parallel cofinancing that is inherent in many ADB projects, but that does not require an active role by ADB in mobilization or syndication, coordination may take place between financing partners on a case-by-case basis with varying degrees of intensity during project design.[33] This often occurs for larger infrastructure projects as well as in private sector operations where ADB's financing share is usually lower. Clients and cofinancing partners may benefit from ADB's presence in the project through perceived risk mitigation or improved coordination on critical design aspects, including environmental and social safeguards. Such benefits, however, vary from project to project and may be difficult to assess systematically in the absence of an explicit service by ADB that financing partners value through a fee. Such cofinancing is usually driven by the project sponsors/counterparts and often subject to factors outside ADB's control. Such cofinancing difficult to program and monitor and will not be targeted explicitly, but continue to be captured in ADB's records to gauge financing opportunities that ADB shares with others.

40. Table 1 shows the emphasis to be placed on the various financing partnership modalities to complement ADB's assistance. The strategic focus is on coordinated cofinancing through syndicated structures, particularly on grants to blend with ADB sovereign lending (both OCR and ADF), and on credit enhancements to cofinance operations without direct sovereign recourse in the public and private sectors.

Table 1: Strategic Focus and Targeting of Cofinancing Modalities

	Financing Partnership Modalities						
	Grants			**Concessional** Loans		**Commercial** Loans	
ADB Assistance Modality	Trust Funds	Project Specific	Parallel	ADB Administered	Parallel	Credit Enhacements	Parallel
Loans							
- ADF		✓✓✓	✓	✓			
- OCR		✓✓✓	✓	✓✓		✓✓	
- OCR Non Sovereign		✓	✓	✓		✓✓✓	
Equity							
Grants (Investment)		✓✓	✓				
TA Grant	✓✓						
Other (External) /a	✓✓	✓				✓	
Total	✓✓	✓✓✓	✓	✓	o	✓✓✓	o

/a - Stand-alone project components/special initiatives administered by ADB (with separate project ID), but externally financed

(shaded) - indicates active involvement by ADB in mobilization/syndication, or administration

✓✓✓ - core strategic focus, to grow business

✓✓ - medium-to-high priority, to maintain high consistent volumes

✓ - lower priority, but actively pursued on a case-by-case, as appropriate

o - opportunistic, case-by-case but limited ADB involvement

[33] Such support may include, e.g., consultations with cofinancing partners during project processing, but would not involve any legal obligations by ADB and follow-up support.

41. **Sector Priorities through Country Strategies and Programs (CSPs).** The CSP process, which is guided by client demands and ADB's priorities outlined in the MTS II, will determine sector priorities and the application of various cofinancing modalities for sectors. This process will also take into account partner preferences. CEPs are expected to be applied primarily in infrastructure sectors suitable to attract commercial resources, in particular to support PPPs, while concessional financing partnerships may support social sectors with lower financial rates of return, including through SWAps, as well as 'soft' components for capacity building across all sectors. Blending of concessional finance with OCR will also be pursued more actively to increase the development orientation of market-based financing in infrastructure sectors. This can ensure financial viability of projects that may otherwise be difficult to finance on commercial grounds. Such concessional finance may also be combined in innovative ways with ADB's guarantee instruments to create "additionality" and attract or direct private resource flows to sectors that wouldn't be reached otherwise.

C. Success Measures

1. Cofinancing Definitions and Performance Parameters

42. **Focus on Direct Value-Added Financing Partnerships.** ADB's past cofinancing definition did not distinguish the degree of ADB's effort to mobilize and administer financial resources, making it unsuitable as performance measure. For internal performance measurement, direct value-added (DVA) cofinancing is a more suitable indicator. It includes cofinancing with explicit support–i.e., value addition–by ADB for mobilization or administration against a contractual obligations that is subject to Board or Management approval and provided often in exchange for a fee.[34] It corresponds to the broader concept of financing syndication, which describes a coordinated process of pooling funds from multiple sources–including loans and/or grants–and/or sharing of risks for a specific purpose. This also allows for the participation by ADB in arrangements led by others, including as a junior partner, if ADB's contribution to the overall success of the financing partnership can be clearly established and documented.[35] DVA financing partnership actively fortifies the cooperation between ADB, its clients, and other donors and lenders.

43. The DVA concept as proposed here qualifies the quantitative dimension of measuring financing partnerships. It is an indicator of ADB's active involvement to make a financing partnership happen, but does not provide a qualitative judgment of the financing partnership's contribution to the project outcomes, which is a separate matter (para. 47). It comprises joint as well as parallel financing partnerships for which ADB commits resources to assume a financial, fiduciary, or administrative responsibility in implementation.[36] It excludes, however, parallel cofinancing without clear contribution by ADB for its mobilization or administration.[37] This

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[34] Fees compensate ADB for the administrative cost in providing certain services. The willingness of financing partners to compensate ADB for its involvement may also be seen as an indicator for value-addition by ADB to the mobilization or administration of resources under DVA cofinancing.

[35] Project documents will appropriately justify the expected benefits of the financing partnership.

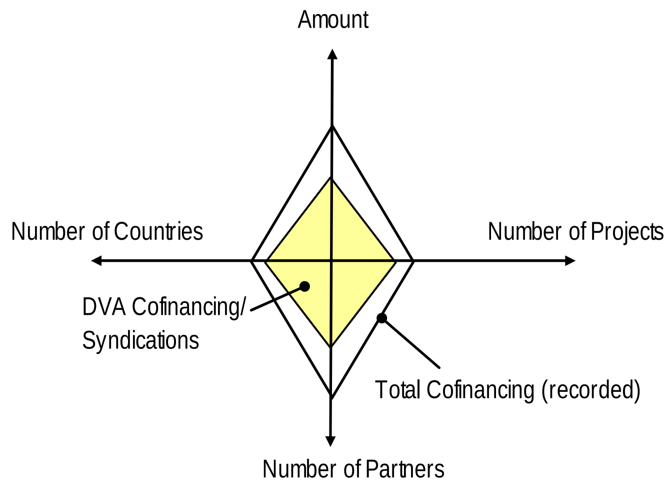
[36] It includes grants fully or partly administered by ADB; official loans that are partly administered by ADB; and CEPs offered by ADB to mobilize financing from commercial financing partners or for project specific risk transfers from ADB's non-recourse financing to third parties, including the use of credit derivatives, sell-downs, or reinsurance–activities that have not been yet pursued but are envisaged to make better use of ADB's capital. (This is consistent with the recommendations made in ADB. 2005. *Innovation and Efficiency Initiative: Pilot Financing Instruments and Modalities*. Manila, which calls for the "introduction of new forms of cofinancing through active financial syndications and risk sharing with commercial financing partners").

[37] Further differentiation may be pursued for such "non-DVA" cofinancing as this could entail different degrees of ADB involvement. Particularly for cofinancing with official agencies, ADB often coordinates with cofinancing partners

focused definition allows better tracking of financial flows provided by financing partners, as well as of ADB's own resource commitments to making financing partnerships happen. [38]

44. **Measuring Depth and Breadth.** Current indicators do not sufficiently measure the additionality brought about through various cofinancing instruments. Performance indicators are clearly needed that are adequate to encourage staff to promote cofinancing. At the quantitative level, value indicators measuring cofinancing amounts are proposed to be complemented by volume indicators that track the number of value-added cofinancing transactions and number of cofinancing partners/clients served to measure the broadening of cofinancing activities. Performance reporting may be considered per business line (for sovereign lending operations, non-sovereign operations, and TA grants) and on an aggregate level. The "financing partnership diamond" illustrated below could be one such tool to capture ADB's performance on various levels, instead of a one-dimensional focus on amounts only.

Figure 4: Financing Partnership Performance Diamond



45. **Leverage Indicators.** To allow for a meaningful monitoring of value-added cofinancing performance in comparison with similar institutions, performance indicators will be expanded to include the measurement of "leverage indicators". Such indicators will quantify the extent of official and private capital mobilized by ADB's DVA cofinancing operations relative to the financing from its own account. "Catalytic ratios" or mobilization ratios have been employed by other development finance institutions, including the International Finance Corporation (IFC), to measure how much each dollar of signed commitments for its own account mobilizes in terms of additional funding raised through credit enhancement and risk mitigation programs from other sources. While such ratios depend considerably on an institution's underlying business model (and are typically higher for non-sovereign and larger transactions with a lower share of financing from "own" account), these indicators may be adapted to complement other performance parameters.

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during project preparation and exchanges letters confirming participation in the project. In some cases, particularly for joint cofinancing without explicit implementation support by ADB, there may be intense coordination between financing partners, which may be regulated by non-contractual agreements. Such cofinancing will continue to be pursued and captured but may be less contingent on ADB's support.

[38] Ongoing MDB consultations aim to produce a standard definition of cofinancing that may be applied for external reporting and that will allow broad comparison. This definition will not be specific to ADB's operations (and is likely to be broader to reflect the wide range of business models applied by various MDBs). It will thus not be suitable for performance measurement specific to ADB operations.

46. **Commitments, not Approvals.** Cofinancing amounts will be recorded at the time of legal commitment (signing of cofinancing documents) rather than the approval stage, consistent with the shift advocated in the MTS II for ADB's own financing operations and the practice of other organizations. This will allow more meaningful tracking of financing and effective performance.

47. **Qualitative Dimensions.** The quantitative indicators must be complemented by a qualitative assessment of impact as well as client and financing partner satisfaction. This will require feedback mechanisms on improvements in project design, implementation performance, efficiency in cofinancing arrangements, and responsiveness of ADB as a financing partner. Indicators may vary depending on the nature of the project. It will be important to systematically capture the intended benefits of a financing partnership at the project level in the project documents, to establish a benchmark against which implementation and outcomes can be measured.[39] As financing partnership is not a stand-alone activity, impact measurement of DVA cofinancing is linked to how ADB measures progress in implementation and impacts of the underlying project it has financed. On a larger scale, the implementation performance of such projects, comprising quantitative and qualitative aspects, can then be contrasted with the performance of projects without cofinancing. ADB may also undertake periodic reviews and retrospectives on effectiveness of financing partnerships on a country, sector, or partner level.

2. Strategic Targets for Financing Partnerships

48. **Faster Growth of DVA Financing Partnerships than Own Financing Operations.** To gauge the success of the strategy's quantitative dimensions, ADB should aim to establish a clear upward trend in its two core business areas for DVA financing partnerships (para. 37). On average, the growth rate of DVA financing partnership commitments should be higher than that of ADB's own lending and investment operations, with the long-term goal of achieving a DVA cofinancing level higher than ADB's own financing operations on a sustained basis.[40] As secondary targets, ADB will measure the growth of official partnerships under general project coordination agreements (but excluding DVA support)[41], and resource mobilization in the form of general funding commitments for allocation to future transactions by ADB. For TA operations, external financing through financing partnership arrangements should be maintained, on average, at a higher level than financing by ADB from the TA Special Fund.

49. **Be the Partner of Choice—High Degree of Client and Partner Satisfaction.** On the qualitative level, ADB should establish a high and sustained degree of satisfaction by clients and financing partners with regard to ADB's financing partnership operations. Client and partner satisfaction may be seen as a proxy for broader impact and effectiveness parameters of cofinancing at the project level. The strategic objective for ADB in this regard should be to establish it as the partner of choice to deliver financing solutions for development in Asia, with a particularly strong reputation for responsiveness and innovation. This should be measured periodically through independent perception surveys.

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[39] Some potential benefits are listed in para. 8-11.

[40] One might, for instance, monitor 3-year moving averages of DVA cofinancing (amounts and project numbers) and measure against own lending volume or total financing cost. However, caution should be exercised In defining operational targets, including certain ratios at the institutional level—which could be motivated by the fact that other institutions have a similar ratio or that it sounds otherwise 'adequate'—without consideration for the institution's own business model, country strategies, and external environment.

[41] Unlike DVA arrangements, commitments by official funding agencies under such agreements are difficult to track during implementation as they carry a different degree of certainty at the time of ADB's financing approval, and they normally do not require systematic feedback to ADB during implementation.

D. Approaches

50. **Proactive Partnering—Beyond Gap Filling.** The FPS supports a paradigm shift from a narrow cofinancing approach that is reactive and input oriented (focused on filling financing gaps for projects downstream in the processing cycle) toward a genuine financing partnership approach that proactively identifies cofinancing and syndication opportunities early in the business cycle. Such arrangements seek to create synergies and add value (footnote 27) based on comparative strengths. Proactive partnering requires improved process and partnership management, including (i) focus on financing partnership earlier in CSP formulation, recognizing client demands and partnership outcomes; (ii) meaningful and effective financing partnership agreements with continued dialogue to improve planning certainty; and (iii) increase in opportunities with clear entry points for cofinancing and syndications. It also requires relevant and up-to-date instruments that are easy to understand and apply, and the ability to innovate and share knowledge with others, internally and externally.

51. **Improve Client Orientation and Selectivity.** In identifying financing partnership opportunities and establishing new cofinancing facilities, ADB will be guided by the demands of its DMCs as outlined in the CSPs. Also, they will need to be consistent with ADB's strategic directions (footnote 2) and resource allocations. This means that ADB should be more selective in responding to offers by other financing partners, even if it means forgoing potential cofinancing opportunities. Financing partnerships may be counterproductive if they divert ADB's scarce resources to areas of lesser priority and with little added value by ADB.

52. **Increase Opportunities and Provide Clear Entry Points for Cofinancing.** The demand for PPP in DMCs and the introduction of public sector lending without direct sovereign recourse in ADB's operations will increase the number of financing partnership opportunities, particularly through the application of CEPs. Likewise, the scaling up official financing partners to address the challenge of meeting the MDGs will increasingly require SWAps. ADB will seek to become more responsive to well-prepared financing proposals by financing partners, including participation as junior partner but with a well defined role, if they fit within the scope of the CSP and ADB's priorities. The concept clearance stage will provide a more effective screening mechanism, and serve as an entry point for cofinancing transactions. ADB will increasingly look at providing partnering opportunities beyond project-specific arrangements through thematic or program approaches in areas of strategic importance for ADB. This may comprise the establishment of special financing partnership vehicles in support of energy efficiency, the clean development mechanism, the water and infrastructure sectors, as well as regional capital market development, cooperation and trade, among others. Such facilities may be established on a country or regional level with seed funding by ADB. Subprojects or project components can also be fully financed by partners on a stand-alone basis but linked to the established ADB program or facility, and be supported through ADB credit enhancements or administration services.[42]

53. **Deepen and Expand the Range of Financing Partnerships.** To deepen and better focus relationships with financing partners, ADB will seek to develop selective thematic or subregionally focused financing partnership agreements. These should provide workable frameworks that enable ADB's operational departments to "upstream" financing partnerships in the business cycle based on mutually shared objectives. To increase the breadth of its cofinancing operations–i.e., undertake more transactions with more clients and financing partners–ADB will explore new funding sources and innovative approaches, including partnering

[42] This is similar to the approach applied in the past for the Japan Fund for Poverty Reduction (JFPR) or the Global Environment Facility (GEF). These agencies finance stand-alone components (with a separate project identification number) linked to ADB investment projects or programs.

with the private and nonprofit sectors for concessional financing. ADB will further link actively with multilateral thematic initiatives that relate to its operational priorities. Such initiatives are often supported with bilateral grants that are pooled and administered independently through special trusts.[43] This will require ADB to more actively dialogue with its financing partners to ensure that business models, priorities, products, and approaches are well understood. It also requires ADB to provide better feedback mechanisms on ongoing partnership and syndication arrangements.

54. **Improve Access to Knowledge and Foster Innovation.** Financing partnerships have increasingly become technical and sophisticated for official and commercial cofinancing arrangements, requiring specialist knowledge and product expertise. Thus, a central competency center will provide advisory, mentoring, and hands-on transaction support to operational departments for arranging cofinancing transactions. This will also manage innovations and introduce new approaches within ADB through research and development, consultation with financing partners, and knowledge sharing inside and outside ADB.

55. **Ensure Relevance of Products and Services.** Effective financing partnerships require effective instruments. ADB will review and refine its cofinancing modalities, products, and services, and simplify their application, increase their transparency, and rationalize their fee structures. For official cofinancing, ADB will pay special attention to further harmonizing approaches with other other MDBs and financing partners, while maintaining some flexibility to respond to special situations as well as to the needs of smaller economies.

56. **Introduce New Approaches Gradually.** The proposed changes in ADB's cofinancing priorities and approaches require a shift in ADB's business model, resources and mindset. They also require a realistic view of the institutional capacity to absorb the change this represents. ADB is strained by a number of simultaneous challenges (footnote 1 and 3) that require certain adjustments within the organization. Thus, the FPS's success could be increased through a gradual approach based on an effective support system to guide operations in a phased manner, rather than a 'big bang' approach.[44]

IV. MAKING IT HAPPEN—IMPLEMENTATION

57. **Focus on Change Management.** The FPS requires a deliberate approach and actions to manage the adjustment process toward an outcome-oriented business model for financing partnerships. Experience suggests that inadequate attention to underlying constraints related to ADB's business model and the factors that determine it–operational processes and support systems–have been key factors for the limited impact of past strategies (para. 19).

58. Thus, the FPS will support a change management process for financing partnerships, focused on three areas: (i) operational alignments, especially adjustments in business processes and transaction management, innovation and knowledge sharing, as well as relationship management; (ii) resource alignments; and (iii) change of underlying institutional conditions and behavioral attitudes. In doing so, flexibility must be maintained to allow responding to changing conditions and emerging trends. Given the multiple facets of financing partnerships, the FPS emphasizes effective teamwork to realize synergies across organizational boundaries.

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[43] Such as GEF, the Global Partnership for Output Based Aid, and the Private Development Infrastructure Group.

[44] This takes account of the experience of strategies that have been activity-driven without sufficient attention to other institutional constraints and resources, and thus ultimately had limited impact (para. 19).

59. **Phased Implementation.** The implementation of the strategic framework outlined in section III calls for the gradual phasing in of new approaches (para. 56) to avoid the pitfalls of a program overloaded with activities not consistent with resources and operational realities. Implementation will leverage on ongoing related change management initiatives (footnote 4).

60. Phase 1 will focus on a few selected countries and financing partners to create success stories for new, replicable, highly visible, and relevant cofinancing approaches. Quantitative cofinancing targets will be less relevant as performance drivers. It will be more important to get the structures and approaches right to better mainstream financing partnerships into ADB operations and demonstrate their practicability. Phase 2 (from 2008 onward) will build on the progress achieved in phase 1, with more transactions expanding to more countries and partners. It will be supported by more specific DVA cofinancing parameters for improved resource planning. It will consider further skills mix realignments and resource adjustments to support the expected increase in DVA cofinancing. This will be based on implementation experiences and a more systematic assessment of resource requirements in phase 1.

A. Operational Alignments

61. **Focus on Three Key Areas.** In phase 1, the focus will be on operational alignments in three functional areas to better integrate financing partnerships into ADB's business model and respond to some of the key issues (para. 24): (i) improved operational integration and transaction management of DVA cofinancing and syndications; (ii) effective management of innovation and knowledge, including product development and introduction and sharing of best practices; and (iii) improved relationship management, including communication and outreach to financing partners. An important aspect will be the clarification of organizational responsibilities for the various functions.

62. Operational alignments will be reflected in the relevant sections of ADB's Operations Manual (OM) as well as administrative orders (AOs) and staff instructions or guidelines, as appropriate.

1. Better Business Integration and Transaction Management

63. **Integration in the Planning Cycle.** The strategic framework envisages engagement with financing partners early in the programming and processing cycle. This is to be reflected in ADB's business processes under review. During CSP formulation, financing partnership objectives and opportunities will be more systematically assessed, taking into account institutional agreements or resource mobilization frameworks with key financing partners that may have been developed on a country, regional, sectoral, or thematic level. An improved planning and processing system will also provide for a suitable mechanism to identify cofinancing opportunities and projects with syndication potential early on, and allow for flexibility to respond to proposals offered by financing partners.[45] Further guidance will be provided for a more strategic management of TA resources through donor trust funds.

64. **Systematic Assessment at the Transaction Level.** Financing partnerships are reflected at the project level through cofinancing transactions or syndications. Cofinancing/syndication opportunities and the appropriate mix with funding from ADB's own resources will be systematically assessed at the concept clearance stage for each project. The

[45] Such opportunities often may be at short notice and in an advanced processing stage, allowing ADB to take advantage of the preparatory work and due diligence already done by partners.

potential benefits, issues, intricacy, and degree of direct involvement by ADB in arranging a financing partnership will be gauged at this stage. Based on this assessment, staff members from OCO may be assigned to advise the project team. Processes related to the selection of guarantee or loan arrangers, syndication, and underwriting, as well as procedures for dealing with official cofinancing and processing of grant applications will be detailed in the OM and separate staff instructions or guidelines. For DVA cofinancing, project documents (reports and recommendations of the President, TA documents, and project administration memoranda) will outline the cofinancing arrangements, including obligations or risks for ADB in implementation, and their benefits.

65. **Effective Advisory and Implementation Support to Project Teams.** Delivering DVA financing partnerships requires that project teams have access to specialist knowledge. Given the increasingly specialized and technical nature of cofinancing operations, most MDBs, including ADB, have specialized organizational units outside the operational departments to provide the focus and expertise required to deal with selected cofinancing aspects, including for trust fund management, official and commercial cofinancing, or syndications. This involves, among others, transaction-specific advice and assistance in identifying cofinancing sources, facilitating the conclusion of financing partnerships and cofinancing agreements, and monitoring their implementation, and consolidated reporting to financing partners. Advisory work is important in itself: the complexity and political sensitivity of some projects, particularly in infrastructure, means that good, unbiased advice can yield large pay-offs in terms of projects that are financially well structured and meet the needs of varying stakeholders. Advice provided through a specialist unit will ensure a critical mass and economies of scale for effective knowledge management, as well as consistency in arranging financing partnerships with checks and balances, as appropriate.

66. **Allocation of Responsibilities at the Transaction Level.** The FPS envisages financing partnerships as integral part of ADB's business cycle rather than a stand-alone activity. At the transaction level, financing partnership spans the complete project cycle, from identification/origination through processing, implementation, monitoring, and reporting. This process will be led by the operational departments (regional departments and PSOD), with hands-on advisory from OCO to actively support processing teams on transactions involving DVA cofinancing. For projects with non-DVA cofinancing, including parallel cofinancing without formal cooperation requirements, related activities (including contact with cofinanciers on safeguard policy compliance) are undertaken by operational departments. OCO will normally not get involved in such projects (other than for data consolidation and reporting). Specific activities and responsibilities for the management of cofinancing transactions are as follows:

(i) **Origination.** Operational units open a dialogue with potential cofinancing partners on specific project opportunities early in the programming cycle (para. 63). This will be supported by information and advice on partnership arrangements and priorities of potential financing partners. Opportunities for financing partnership and possible arrangements for individual projects (and the degree of required transaction support from OCO) will be assessed further during the concept clearance process. OCO will refer cofinancing opportunities offered to it by financing partners to the operational units.

(ii) **Processing.** Processing of the overall financial assistance package, including cofinancing, will be led by operational departments. For DVA cofinancing arrangements/syndications, OCO will provide product guidance and transaction support as required. For official and grant cofinancing, such support will entail the structuring and negotiation of instruments of contribution. For commercial cofinancing, this includes advice and active support in structuring CEPs (such as providing guidance on the proposed scope, terms, and conditions of guarantees, including coverage and pricing) and their negotiation in close cooperation with other departments concerned with this, as well as carrying out related loan and guarantee syndications services. Support also includes review and finalization of cofinancing agreements to ensure consistency in approaches.

(iii) **Administration, monitoring, and reporting.** Operational units will dialogue directly with cofinancing partners on all operational and technical implementation matters and keep financing partners informed of progress or implementation issues. Operational departments will be supported by OCO in administering DVA cofinancing and related agreements, in close cooperation with the Office of the General Counsel (OGC) and Controller's Department (CTL). Support may include processing of assignments and transfers of loan participations or reinsurance and risk transfer agreements in the case of commercial cofinancing, or amendments to official or grant cofinancing agreements in case of change of scope or project extension. CTL will ensure accounting and financial administration of funds administered or guaranteed by ADB, in close coordination with OCO and operational departments. Communication with cofinancing partners on financial matters and reporting in accordance with cofinancing agreements will be through OCO. OCO will also maintain a registry of all cofinancing transactions and monitor financing partnership agreements. For trust funds or thematic cofinancing facilities, operational and technical aspects will be led by the ADB project implementation unit (Appendix 5), while documentation, financial reporting and compliance monitoring of cofinancing agreements will be done by OCO.

2. Improve Relationship Management,[46] Communication, and Outreach

67. Building awareness of financing partnerships at various levels within and outside ADB is critical. Beyond transaction-level dealings, the development of closer partnership agreements (para. 53) and information dissemination on ADB's products and services, feedback through reporting on existing arrangements, and outreach activities are important in strengthening overall communication and relationships with cofinanciers and among ADB staff. These activities aim to build the shared vision, understanding, and trust required to deliver the FPS.

68. **Communication and Outreach Activities.** Communication with financing partners beyond the project level and outreach activities will be pursued more strategically, coordinated, and targeted to ensure clear and consistent messages. ADB will need to be more selective in participating in external events and in supporting key high-visibility events. Over time, this could also involve the organization of structured flagship events around core financing partnership themes (commercial and official) for a broad range of stakeholders.[47] This may involve the active participation of resident missions and regional representative offices and support by the Department of External Relations. Moreover, outreach events for ADB staff will be conducted regularly to promote knowledge sharing and best practices.

[46] ADB maintains diverse relationships at various institutional levels. This section is concerned only with relationships related to financing partnerships and cofinancing/syndications, and does not include relationships with borrowers or with other development partners on broader development matters. A coordinated approach for this is required as well, but is beyond the scope of this paper and addressed elsewhere.

[47] EBRD and the World Bank Group successfully introduced systematic institutional multi-stakeholder consultations on financing partnerships.

69. **Meaningful Monitoring and Reporting.** To provide adequate feedback to cofinancing partners on business performance and financial exposures, the classification system and reporting framework for financing partnerships will be refined. Annual reporting of financing partnerships will be improved to highlight key trends and discuss emerging issues in DVA cofinancing/syndications beyond the simplistic reporting of data as was done in the past. Specific reports will be rationalized, purpose-driven, and tailored to their audiences, following models successfully applied by other MDBs such as the European Bank for Reconstruction and Development (EBRD) and the World Bank Group. Further discussions with other MDBs aim to arrive at a harmonized and meaningful framework for reporting on cofinancing achievements.

70. **Responsibilities for Relationship Management.** Management of relationships with financing partners and related activities take place at various levels, and need to be well coordinated to ensure consistency of messages. At the project level, relationships with financing partners–in addition to dealings with clients (borrowers or project sponsors)–will be led by operational departments, with OCO support as needed. At the institutional level, this involves the development of broader understandings and institutional financing agreements, general information exchange, and targeted consultation and outreach. OCO will lead and coordinate that process. In all instances, operational departments, OCO, and other support and advisory units[48] are expected to closely coordinate with each other in dealing with financing partners.

3. Innovation and Knowledge Management

71. **Product Development and Introduction of Best Practices.** Improved responsiveness requires an adequate range of clear and well-understood partnership instruments. The current range is comprehensive but transparency and access could be improved. Instruments will be simplified, consolidated, and streamlined, particularly CEPs as well as trust fund operations. As far as practicable, this will be harmonized with market trends, demands, and best practices as well as developments in other MDBs. To improve the clarity and accessibility of its CEPs, ADB will review and amend its operational procedures and policies on guarantee operations to provide staff. ADB will also consider further streamlining and standardizing its financing partnership instruments and approaches with regard to eligibility, procurement, and safeguard policies, and rationalize fee structures. Improvements in the transparency of instruments may also include the further rationalization of trust fund agreements.

72. **Support for Thematic Initiatives.** ADB needs to continue developing innovative partnership products to support an increase in financing partnerships outside traditional project finance structures. In particular, ADB could consider umbrella facilities to link stand-alone components financed by partners to anchor investments by ADB including existing projects (consistent with ADB's supplementary financing policy to increase project scope). This would provide additional entry points for cofinancing partners, and support regional and thematic initiatives (para. 52). Implementation arrangements for those could be decided on a case-by-case basis with sponsoring units in ADB.

73. **Knowledge Sharing.** A key element for the effectiveness of ADB's financing partnership arrangements is the availability of related knowledge—particularly on products, processes, and opportunities—to ADB staff as well as to financing partners. ADB will strengthen arrangements for effective knowledge acquisition and dissemination. This requires a dedicated and

[48] In particular, the Regional and Sustainable Development Department (RSDD) on thematic initiatives, and the Strategy and Policy Department (SPD) on broader partnership agreements.

appropriately staffed knowledge broker to function as an institutional competency center and knowledge repository. This will also ensure a coordinated approach to promote financing partnerships and cofinancing approaches at the strategy and institutional level, including with financing partners. Activities and functions to be performed include continued education of ADB staff, through formal in-house seminars as well as on-the-job mentoring and counseling on various aspects of financing partnerships, and participating in institutional outreach activities to ensure integration into a broader knowledge network.

74. **Responsibilities for Innovation and Knowledge Management.** Overall responsibility for innovation and knowledge management related to financing partnerships will rest with OCO, which will function as ADB's competency center in this respect. Specific activities will need to be detailed in coordination with operational and other support units and reflected in annual work programs.

4. Clarify Functional Responsibilities and Organizational Adjustments

75. Table 2 summarizes the primary responsibilities for various aspects of financing partnership and related key result areas (KRAs) . This framework draws on ADB-wide expertise and relies on teamwork, with well-defined roles and responsibilities for KRAs. The responsibilities will be reflected in updated AOs and OM sections, and detailed further in the annual business plans of the lead units. Yet, the framework is flexible to encourage innovative partnership arrangements.

Table 2: ADB-wide Results Framework and Responsibilities for Financing Partnerships

Key Result Area	Outcome	Responsible Units	Indicators
Financial Resource Mobilization, Syndication, and Administration	Upward trend of DVA cofinancing with improved project structures and terms	RDs/PSOD for origination, project design (including financing structure), and processing OCO for advisory services on demand to RDs/PSOD on DVA cofinancing, including arrangements and documentation (in close cooperation with OGC); consistent application and finalization of cofinancing agreements, including for trust funds, cofinancing frameworks and facilities, syndications, and risk transfers (in close cooperation with operational and support units); and monitoring and financial reporting to partners	New cofinancing commitments and resource flows (value and number of projects/partners/clients) Amendments to financing agreements Financial/progress reports to cofinancing partners
Relationship Management (Financing Partners)	Financing partner satisfaction Positive name recognition	RDs/PSOD on transaction level; OCO on institutional level (in coordination with DER, RSDD, SPD). Close coordination overall among all concerned units	Partnership events; praises and complaints
Product Development and Special Facilities	Relevant intermediation products and services	OCO, with RDs/PSOD and other support units (OGC, TD, CTL, RSDD, OREI, SPD)	New innovative initiatives and products developed/piloted
Knowledge Management	Knowledgeable staff and partners	OCO, with RDs/PSOD and other support units (RSDD, OREI, BPMSD)	Knowledge acquired and disseminated Development of web-

			based information tools
Policy and Strategy Alignment	Policy and strategy framework consistent with FPS	OCO, SPD with strategy originating unit	Contribution to strategy and policy initiatives
Coordination and Management Support	Management awareness	OCO, in coordination with others as required.	Reports and briefs submitted to Management

BPMSD = Budget, Personnel and Management Systems Department; CTL = Controller's Department, DER = Department of External Relations; OCO = Office of Cofinancing Operations (or any successor thereto); OGC = Office of the General Counsel; OREI = Office of Regional Economic Integration; RDs = regional departments; RSDD = Regional and Sustainable Development Department; RMU = Risk Management Unit; PSOD = Private Sector Operations Department.

76. **Increase the Focus and Reorient OCO.** Financing partnerships and cofinancing demands have evolved in complexity and scale. Effective advisory support to operational departments at the transaction level, and performance of institutional functions, particularly related to managing innovation, knowledge, and relationships with financing partners, are crucial. These require a functional focus, with critical mass in key expertise areas. To better support this requirement, OCO will re-organize internally toward a technical expert and knowledge department based on the key product offerings (para. 38). This will provide greater focus on effective advisory and support to operational departments for processing transactions, as well as creating the essential conditions for financing partnerships, including through product development, knowledge sharing, and relationship management. OCO will be renamed the Financing Partnership and Syndications Office (FPSO) to more adequately reflect this refined mandate and communicate it more clearly to external parties.

B. Resource Alignments

77. The FPS will have medium-term qualitative and quantitative resource implications, whose extent will be estimated in more detail during the first phase, based on projection models for financing partnerships and cofinancing. To facilitate resource planning, operational indicators can be derived from country strategies, assistance portfolios and/or thematic initiatives involving financing partnership arrangements. The indicators could be analyzed further on their resource implications for various organizational units, and be specified for countries, sectors, and various cofinancing modalities as the basis for the annual resource-planning process.[49] Indicators for guarantee operations and risk transfers, in particular, will also improve financial resource planning and management by the Treasury Department. In the short term, the quantitative dimensions are not expected to be significant as new approaches will be phased in gradually.

1. Human Resources and Budgets

78. **Adjustments in Skills Mix.** Beyond any quantitative dimensions, the FPS will require a qualitative shift in resources through a change in skills mix in operational and supporting departments. Particularly during the initial phase of strategy implementation, this shift will be more relevant for the success of the FPS than the quantitative dimension. As financing partnerships will form part of the integral business model of operational departments, related activities are to be embedded in overall processes rather than performed on an incremental or ad-hoc basis. This shift in resource mindset will need to be supported by adequate support, training, and mentoring to be provided by OCO.

[49] Ideally, the potential areas for DVA cofinancing should be assessed early in the programming cycle, often beginning at country strategy formulation, and then confirmed at the transactional level at the start of the project-processing cycle (concept clearance).

79. **Staffing Requirements for Specialized Functions.** The FPS's success will depend on how effectively the operational departments and FPSO exercises its functions (Table 2). The resources available constrain it from implementing the FPS on a larger scale. To support the expanded scope of the FPS, the resource profile must be improved to draw in specialized expertise on new growth directions (such as for syndications and grant mobilization) not available within ADB. Resource requirements will be assessed further within the ADB-wide work program and budget framework for 2007-2009. Further resource allocations over time will be linked to increases in DVA cofinancing.

80. **Financing of Special Activities.** Certain activities may be linked to special initiatives on a discretionary basis, with resource requirements exclusive to such activity.[50] The related cofinancing activities are expected to generate fee income in exchange for ADB's DVA cofinancing services. In such case, ADB may support task-specific expenditures in support of incremental activities on a contractual basis, outside the regular budget allocation. Resource implications of special cofinancing activities will be assessed at an early design stage on a case-by-case basis, with consideration, during negotiation with financing partners, for the financing of incremental costs.

2. Information Technology (IT)

81. **IT Support for Knowledge Sharing.** The development of financing partnerships will need to be supported through enhanced IT support at various levels, including for knowledge sharing, transaction support, and financial administration. During the initial phase, the focus will be on information dissemination within ADB and externally. This will comprise an improved IT platform to ease access to relevant information, including product and financing partner information and the repository of existing cofinancing arrangements. Details will need to be developed further with the Office of Information Systems and Technology (OIST) during implementation, taking into account ADB's second information systems and technology strategy to ensure consistency with ADB's overall IT environment as well as resources. During phase 2, this will also look to better integrate financing partnerships with ADB's operations processing and management systems, and CTL's financial reporting systems.[51]

C. Managing Change in Conditions and Attitudes

82. **Leadership and Ownership.** As for any other change management process, the continued top leadership commitment to such change and the concurrent measures to reinforce greater results orientation in ADB operations will be crucial for the FPS's success. ADB's Management, particularly the heads of the operational departments, as well as OCO and SPD, will give increased attention to financing partnerships. To translate this in greater awareness at all levels of the institution, the public profile of successful partnership operations must be raised.

83. **Consistency of Policy, Strategic, and Operating Frameworks.** To ensure consistency in FPS implementation and effective coordination and integration with other strategic change initiatives ongoing within ADB (footnote 4), attention will be given to financing partnership aspects in such other initiatives as well as their implementing guidelines.

[50] Examples of such activities are special services required for due diligence during processing; the implementation of trust funds, cofinancing facilities, or large donor-funded TAs; and the preparation of special reports and audit.

[51] The World Bank has developed an advanced information system for financial management of trust funds, called "e-funds", which allows donors to track the financial status and disbursement information of financing partnership arrangements online. This may offer some useful indications for directions, to be considered during phase 2.

84. **Performance Recognition at the Institutional and Individual Level.** Over time, ADB's key documents will reflect DVA cofinancing as a performance parameter on a par with ADB's financing operations, and integral to ADB's overall assistance package rather than a secondary add-on activity. This is consistent with the MTS II, which calls for refocusing the measurement of ADB's institutional performance, from loan, equity, and TA approvals to increased "financial assistance committed through ADB", including DVA cofinancing services. Financing partnership activities and outputs will thus be recorded explicitly in operational statistics along with own lending operations. To translate institutional into individual performance, assessments will recognize staff members contributing to FPS objectives and activities. Contributions, for example, could be considered explicitly in performance evaluations where staff members would be recognized for creating innovative financing structures with financing partners.

85. **Building Team Commitment.** Financing partnerships, by definition, are about teamwork within ADB as well as with external parties. This requires a set of shared of values, objectives, and approaches, which the FPS aims to provide. The FPS outcomes will be delivered if the team approach involves commitment across ADB to a common objective, and if teams are rewarded.

D. Action Plan and Timetable

86. The alignments described above will be carried out during phase 1 as summarized in Table 3. OCO (or FPSO) will ensure overall coordination and monitoring for the ADB-wide implementation of the FPS.

Table 3: Implementation Plan – Actions, Responsibilities, and Timeline (Phase 1)

Implementation Area, Actions, and Outputs	Implementing Units	Timetable
A. Operational Alignments **A1. Business Integration and Transaction Management** A1.1. Early identification of DVA cofinancing opportunities in business cycle and reflection of financing partnerships in CSPs (para. 63) **Outcome**: Improved planning certainty of resource commitments by financing partners	ODs, in close cooperation with OCO and SPD	Immediate and continuing exercise
A1.2. Provide guidance on strategic allocation of TA resources from donor trust funds administered by ADB (para. 63) **Outcome**: Improved planning certainty of TA availability	SPD, in coordination with ODs, RSDD, and OCO	4th quarter 2006
A1.3. Issue guidelines for systematic assessments and processing of DVA cofinancing and disclosure in project documents (para.64) **Outcome**: Clarity on processes, to reduce internal transaction cost and avoidance of misunderstandings	SPD in close cooperation with ODs, OCO, and RMU	4th quarter 2006.
A2. Relationship Management, Communications, and Outreach A2.1. Develop strategic partnership arrangements on a regional or thematic level with selected financing partners (paras. 53, 67) **Outcome**: Better and earlier targeting of partnership opportunities and efficiencies in finalizing agreements	OCO, in close coordination with ODs and SPD	2007
A2.2. Review and develop improved reporting formats on financing partnerships. Tailor specific reports to audiences. Consider newsletters on opportunities and developments, as well as improved marketing materials on ADB's financing partnership operations (para.68–69) **Outcome**: Increased awareness and appreciation of ABD's financing partnership operations internally and externally	OCO, in close coordination with DER, ROs, SPD, and CTL	2007

A2.3. Reprioritize outreach activities and consider organizing flagship events for structured multi-stakeholder consultation. Conduct regular outreach events internally and externally (para.69) **Outcome**: Increased awareness of financing partnership operations	OCO, in close coordination with DER and ODs	2007
A3. Innovation and Knowledge Management A3.1. Review and update ADB's credit enhancement, guarantee, and risk-sharing products (para. 71) **Outcome**: Transparent and easy-to-understand instruments	OCO, in coordination with ODs, OGC RMU, CTL, and SPD	3rd quarter 2006
A3.2. Conduct training on and raise awareness of ADB partnership products and approaches, through internal training events and on-the-job mentoring (paras. 73, 78) **Outcome**: Knowledgeable staff members familiar with ADB products	OCO, in coordination with ODs and BPMSD	Continuous, over strategy period
A3.3. Develop special cofinancing facilities linked to ADB-supported sector, thematic, or regional initiatives (para. 72) **Outcome**: Increased number of cofinancing opportunities	RSDD, ODs and OREI in close coordination with OCO and OGC	Continuous, over strategy period
A3.4. Upgrade IT platforms and websites to disseminate information about financing partnerships (para. 81) **Outcome**: Improved IT access to information and knowledge	OCO, in close coordination with OIST, RSDD, and CTL	Ongoing; key modules to be available 2007
A4. Clarify Organizational Responsibilities and Adjustments A4.1. Update AOs and the OM to clarify responsibilities of organizational units for key result areas at the transaction and institutional levels (paras. 66, 70, 74–75; Table 2) **Outcome**: Improved teamwork through clarity on roles	For AOs: BPMSD, OCO, OGC, and ODs; For OMs: OCO and OGC	3rd quarter 2006
A4.2. Reorient and strengthen OCO as the central advisory services unit, and rename it FPSO (para. 76) **Outcome**: Focus on effective support of DVA cofinancing transactions, relationship management, and knowledge and innovation management	OCO, in coordination with BPMSD	3rd quarter 2006.
B. Resource Management B.1. Systematically assess the resource requirements to scale up cofinancing under phase 2 (paras. 80, 82) **Outcome**: Appropriate resource allocation across ADB	OCO and ODs, in close coordination with BPMSD	2007
B.2. Develop arrangements for cost recovery of processing and implementation of special financing partnership initiatives (para. 80) **Outcome:** Development and sustainable operation of special initiatives	OCO and ODs, in close coordination with CTL and BPMSD	2007
C. Change in Institutional Conditions and Attitudes C.1. Increase attention to financing partnership aspects in upcoming policy, strategy, and business process reviews, and issue related implementing guidelines to ensure consistency with the FPS (para. 83) **Outcome**: Consistent operating framework	SPD, in close cooperation with ODs and OCO	Immediate and continuing exercise, as required
C.2. Review the cofinancing classification system and success measures. Reflect financing partnerships and DVA cofinancing in ADB's performance statistics as an integral part of ADB operations, on a commitment rather than approval basis (para. 84) **Outcome**: Increased management attention to financing partnership	SPD (for resource planning), OCO (for tracking and data consolidation), COSO (for year-end reports)	To cover 2006 year-end reporting
C.3. Reflect financing partnership efforts by individual staff members in annual performance assessments (para. 84) **Outcome**: Increased staff attention and recognition for financing partnership activities	ODs, and support departments involved in financing partnerships, in coordination with BPMSD	Starting with 2006 PER exercise

BPMSD = Budget, Personnel and Management Systems Department, CTL = Controller's Department, OCO = Office of Cofinancing Operations (or any successor thereto), ODs = operational departments (including regional departments and Private Sector Operations Department), OGC = Office of the General Counsel, OIST = Office of Information Systems and Technology, OREI = Office of Regional Economic Integration, RSDD = Regional Sustainable Development Department, RMU = Risk Management Unit, SPD = Strategy and Policy Department.

V. CONCLUSION

87. Financing partnerships are an important element of ADB's mandate and operations, and of strategic significance to ADB's relevance as the premier development institution in Asia and the Pacific region. ADB is well placed to add significant value to its clients in DMCs as a catalyst for financing development. In doing so, ADB can build on its unique capability to offer a great variety of financing instruments under one roof, its well-established relationships with DMCs and knowledge of the region, and its superior risk-taking capacity, to bring about financing solutions in partnership with others.

88. To adequately respond to emerging trends, opportunities and challenges, ADB will refocus its priorities for financing partnerships as outlined in section III, and implement the alignments outlined in section IV. This will contribute to greater results orientation, development impact and relevance of ADB's assistance, combined with a reduction in business transaction cost.

RECENT TRENDS IN OFFICIAL CAPITAL FLOWS AND DEVELOPMENT AID[1]

1. The recovery in official development assistance (ODA) that started in 2001 continues as donors deliver on post-Monterrey aid commitments. Aid volumes are estimated to have increased by about 9% in 2005, to about $87 billion, excluding $19 billion in debt relief to Iraq and Nigeria. While nominal ODA expressed in US dollar has risen by more than 50% since 2001, the increase in real terms, adjusted for exchange rate movements and inflation, are more modest, at an average annual growth of 5.6%. If announced aid commitments are delivered, ODA volumes are expected to grow by nearly 50% in real terms between 2005 and 2010, and could rise to more than $128 billion by 2010 (measured in 2004 prices) if Development Assistance Committee (DAC) commitments are delivered. Several countries have committed to higher levels of aid beyond 2006 - the target date for the commitments made at Monterrey - but some of the largest donors have not done so.

2. Despite the progress in expanding ODA volumes since Monterrey, donors' aid efforts lag behind those of the early 1990s and earlier. At about 0.3%, ODA as a share of donor GNI in 2005 was about the same of the aid effort achieved in the 1970s, 1980s, and the early 1990s, and only about two thirds of the aid effort of the 1960s. Only five countries—Denmark, Luxembourg, Netherlands, Norway, and Sweden—have achieved ODA/GNI ratios of 0.7% or more, and six countries—Belgium, Finland, France, Ireland, Spain, and United Kingdom—have announced a timetable for achieving this level. Implementation of pledges will be vital to raising aid flows to poor countries. The target of $5 billion in annual assistance by fiscal year 2006 under the U.S. Millennium Challenge Account is now likely to be reached in fiscal year 2007. Even on announced pledges, Development Assistance Committee (DAC) donors' aid effort is expected to reach only 0.32% by 2010, below the level of the early 1990s. Among the priorities and actions that are being considered by the European Commission is higher ODA volume through the setting of new interim targets for the period beyond 2006, or through a timetable of gradual increases, with the objective of reaching the ODA to GNI target of 0.7% as soon as possible. This requires that donors commit to expanding aid efforts beyond 2006, perhaps to 2010 or even 2012. Yet, there is uncertainty related to a faster pace of aid growth as public budgets in developed economies continue to be under pressure.

3. At the same time, donors are allocating more aid to better performers - those countries with stronger policies and institutions – as well as to poorer countries. There is considerable variation among donors, however. For poor performing "low income countries under stress", well coordinated and appropriately sequenced and directed assistance can be effective in supporting their broader recovery.

4. The increase in bilateral development assistance is skewed towards non-cash assistance or so-called 'special-purpose grants'. Debt relief and technical cooperation account for nearly half of the increase in DAC members' ODA between 2001 and 2004. Emergency disaster relief and food aid also represented a significant portion of the increase. The increase in special-purpose grants cuts into the share of assistance available for direct funding of development goals. The increase in bilateral ODA allocated to flexible ODA during thus period was a modest $1.2 billion and the share of this category in total bilateral ODA commitments was only about 20% in 2004, down from a third in 2001 and well below the roughly 60% average of the 1980s.

5. While debt relief is crucial to resolving the excessive debt and debt service burdens of HIPCs, it does not imply a net resource transfer to these countries (as it is associated with past

[1] This Appendix is based on World Bank. 2006. *Global Monitoring Report*. Washington.

borrowing and debt). Debt relief levels will remain high (and will rise) in the near term as more countries reach their completion point under the enhanced HIPC initiative, and because of the recent decision by the donors to forgive up to 80% of Iraq's debt to the Paris Club. Additional debt relief to low-income countries beyond the enhanced HIPC initiative will also affect the size of this category. Donors will need to ensure that additional debt relief does not crowd the new financing needs of meeting the Millennium Development Goals.

6. Global and regional security concerns have served to raise aid flows as well. Aid to Iraq was sharply higher in 2004, rising to more than $4 billion from $0.1 billion in both 2001 and 2002. Likewise, aid to Afghanistan has risen more than four-fold between 2001 and 2004 to nearly $2 billion, and Jordan has seen an approximately three-fold increase in development assistance flows. Pakistan received large amounts of net aid (about $2 billion) in 2001 and 2002, but loan repayments (on previously rescheduled debt) reduced net flows in 2003 and thereafter.

7. Non-OECD countries are contributing significant amounts of assistance to less developed countries. Non-DAC ODA flows continued to grow in 2004, albeit at a much lower pace. These flows reached $3.7 billion or 4.7% of DAC ODA (more than twice the level in 2001). Saudi Arabia continued to be the largest provider of development assistance in this group. Its ODA contributions have grown from under $500 million in 2001 to $2.4 billion in 2004. Other non-DAC countries have also seen a rapid increase in their ODA. For example, the Czech Republic increased development assistance over three-fold in the past two years, providing $91 million in 2003.

8. Important contributions to the development effort in poor countries also are being made through South-South cooperation, particularly in the form of sharing of experience and knowledge. Comprehensive data on South-South development assistance is not available, but countries such as Brazil, the People's Republic of China and India have been particularly active in providing technical assistance to low-income countries. The potential for South-South assistance is expected to grow as these larger economies enjoy strong economic growth. The favorable trend in grants from private non-government organizations (using their own resources) is continuing. These grants totaled $11 billion in 2004 (compared with $8.8 billion in 2002 and $10.1 billion in 2003) and were expected to be sharply higher (by about $5 billion) in 2005 in the aftermath of the East Asia tsunami.

RECENT TRENDS IN PRIVATE CAPITAL FLOWS FOR EMERGING MARKETS AND ASIA

1. Private international capital flows in the Asian region have been highly correlated with sentiment towards emerging market investments. After inflows to Asia peaked at $114 billion in 1996, the year before the Asian Crisis, they dropped to minus $56 billion (representing a net outflow from the region) in 1998 before bouncing back to an all time high of $175 billion in 2005. The majority of these inflows (about 62%) were in the form of direct and portfolio equity investments. Volatility of capital flows was particularly acute in the case of bank loans. Following the Asian crisis, new lending by international banks trickled to a halt, especially to sub-investment grade countries, as their focus was mainly on recovery efforts while non-bank creditors expanded their activities to surpass bank financing in 2006. Foreign direct investment (FDI) has remained positive throughout and more stable, averaging about $60 billion per annum, largely driven by manufacturing investments in the People's Republic of China (PRC) and India. PRC alone accounted for about two thirds of total private capital inflows. India also experienced a resurgence of private inflows. In addition to a sharp increase in foreign bank exposure, foreign investors channeled more than $12.5 billion into the country in 2005 to purchase common stock. Other notable sources were remittances, in particular in the Philippines and in South Asia, as well as investments in sovereign bonds as a result of improved market conditions. However, infrastructure FDI in to the region amounts remains at less than 15 % of total regional FDI, far short of the requirements for infrastructure development.

2. Following some negative experiences in public-private partnerships (PPPs), private investment in infrastructure remains subdued. In the absence of adequate regulatory and governance frameworks, investors are particularly averse to accepting contractual risks with some public sector counterparties. In addition, a series of financial crises in emerging markets globally led many banks to exit the international project finance market. As a result, only about 10 to15 globally significant players remain. Much of the business of international banks is related to short-term trade finance, reflecting a trend toward conservatism in lending. The increasingly cautious approach by banks is further reinforced by the Basle II accord on capital adequacy, which requires higher capital backing for lending to emerging markets with lower credit ratings, and increased emphasis on risk issues. As domestic financial systems remain weak in many of ADB's development member countries (DMCs), continued access to international capital will be required in particular for long-term financing of infrastructure. Some new regional players are emerging to fill the gap, such as Development Bank of Singapore; however, it will take more time for such players to make a broader impact. All this translates into increased demand by commercial financing partners for credit enhancement products (CEPs) and risk sharing arrangements with institutions such as the ADB.

3. Since the Asian financial crisis in 1997, Asia has made considerable progress in developing its capital markets. Yet, a key shortcoming continues to be the a lack of quality issuers that can issue investment grade paper. In many cases, capital issues do not meet the minimum requirements that monoline insurers need to provide credit enhancement.

4. This notwithstanding, capital markets - both domestic and international - have become significant sources of development finance. Credit ratings of many of Asia's larger economies have continued to improve to reach investment or near investment grade levels, and despite the recent emerging market sell-off, credit spreads for emerging market issuers are still close to the historically low levels (see Table A2) of Q1 2006. This allows countries not only to raise funds at competitive rates, but also provides a benchmark for high-grade non-sovereign borrowers from

these countries to tap the international capital markets.[1] Some of ADB's traditional clients have already done so, although not all of them were able to get the long maturities they required. It is clear that collaboration with ADB can add significant value, as demonstrated through ADB's support of a bond issue by Napocor of the Philippines in 2002 that allowed the company to extend its borrowing maturity from 10 years to 20 years in the international bond markets, while reducing its interest costs. Similarly, there has been a marked increase in asset-backed securitizations (ABS) in Asia over the past several years. This market continues to hold great growth potential in Asia – and ADB through its CEPs could further contribute to its growth.

Table A2: Credit Ratings and Bond Spreads for Selected Asian Countries

Country	**Moody's**		**S&P**		**5 /10-yr spread over Libor (bps)** (June6)
	Dec 2001	**Junes 2006**	**Dec 2001**	**June 2006**	
China, Peoples Republic	A3	A2	BBB	BBB+	17 / 30
India	Ba2	Baa2	BB	BB+	65 / 95
Indonesia	B3	B1	CCC	B+	115 / 150
Malaysia	Baa2	A3	BBB	A-	32 / 41
Pakistan	Caa1	B2	B-	B+	165 / 203
Philippines	Ba1	B1	BB+	BB--	163 / 188
Thailand	Baa3	Baa1	BBB-	BBB+	30 / 50
Viet Nam	-	Ba3	-	BB-	90 / 118

Source: Bloomberg

5. Likewise, domestic bond market development has seen good progress, with the support of the ASEAN+3 Bond Market Initiative as well as other regional initiatives.[2] ADB can further support this development and encourage the mobilization and channeling of resources though domestic capital markets to ADB-assisted projects and programs.

6. Over the past decade, Asia has accumulated a considerable amount of savings. Recently there has been increased emphasis on channeling these savings back into domestic investments as currency mismatches between project revenues and debt service were one of the significant factors that led to the Asia Crisis. Local currency cofinancing has increased particularly in the PRC, through public sector banks. However, domestic financial systems - both banking and capital markets - are not yet sufficiently developed in most Asian countries to provide the long-term tenors that are required in particular for infrastructure finance. Other sectors - such as small- and medium-sized enterprises (SMEs), housing, and agriculture - require funds in local currency rather than foreign currency, and domestic banks often lack the required know-how to lend to these sectors. ADB can add value here by entering into risk sharing partnerships with international and domestic financial institutions for local currency finance, as was done in 2003 and 2005 for SME lending in Pakistan and the Philippines.

7. Increasing specialization in the financial industry has resulted in new financing models, with risk transfer occurring through derivatives, reinsurance, and other instruments. Finance is no longer just about providing funds for investment – it is a value chain with a variety of players,

[1] Capital market conditions became particularly benign for emerging market borrowers since 2004 and throughout 2005 with emerging market spreads at historically low levels.
[2] Detailed information is available at the Asian Recovery Information Center website: http://www.aric.adb.org.

including pension funds, insurance companies, specialist guarantee companies, brokers, advisors and others trying to allocate risks according to individual preferences and risk tolerance. New forms of reinsurance and guarantee structures are an important part of this, such as Credit Default Swaps (CDS) and reinsurance by public agencies (such as the Overseas Private Investment Corporation (of the United States of America) or the Export Development Corporation (of Canada)) of portfolios generated by private sector underwriters. Structures such as collateralized debt obligations (CDOs) and ABS are also emerging in some of ADB's more advanced DMCs. While seemingly complex, these structures offer more advantageous financing terms for clients while providing investors with more exciting returns.

8. Finally, the recent emerging market sell-off in the second quarter of 2006, triggered by concerns that further US rate hikes and high oil prices will slow the global economy, led to a dramatic widening of bond spreads, falling equity prices as well as a number of bond issues and IPOs being postponed. This episode, which could either be a 'temporary bear market' or the start of a something more ominous, further demonstrates the value that institution like the ADB offer by providing comfort to international investors and maintain investment flows into Asia through its CEPs.

EVOLUTION OF ADB COFINANCING STRATEGIES

1. Over the years, the purpose of cofinancing for ADB was to play a catalytic role in promoting greater resource flows from official and commercial sources to its developing member countries (DMC), and to ensure that these resources were used efficiently and effectively. The notion of playing a catalytic role to enhance resource flows to borrowing DMCs was included in the medium-term strategic framework for 1995-1998, but only alluded to in the long-term strategic framework of 2001 as well as the medium-term strategy (MTS) of the same year. It was reinforced more vocally as a strategic priority only in the MTS II for 2006–2008. ADB's past cofinancing strategies stated broad objectives in general terms - much of which still remains valid - but implementation proved difficult without being effectively integrated in ADB's overall strategic framework and priorities.

A. Historical Evolution and Approaches

2. A number of papers dealing with cofinancing have been submitted to the Board since 1973. Table A3 summarizes their key features and directions:

Table A3: Objectives of Past Cofinancing Strategies

Joint Financing, Working Paper 4-73	**Cofinancing with Commercial and Export Credit Resources, R89-92**	**Cofinancing Operations and Policy, Working Paper 3-92**	**The Bank's Cofinancing Strategy, R80-95**	**Review of the Bank's Cofinancing Strategy** (unpublished)
16 April 1973	**23 July 1982**	**17 March 1992**	**4 April 1995**	**October 1999**
The ADB's objective is (i) to help mobilize a larger inflow of foreign resources to meet the needs of ADB's developing member countries (DMCs); and (ii) to increase ADB's own ability to diversify its operations among DMCs and among the high priory projects available (para. 11).	ADB to expand its catalytic role by undertaking sustained promotional efforts to encourage commercial and export financing in the region, by (i) increasing awareness among commercial and credit sources of ADB's policy to promote cofinance; and (ii) encouraging borrowing DMCs to pursue such financing (para. 12).	ADB's objective for official cofinancing was to support the trend of channeling bilateral resources through multilateral agencies, and to ensure allocating resources to the highest priority needs and assisting DMCs in using funds as efficiently as possible (para. 32). ADB's objective for commercial cofinancing was to assist borrowing DMCs in the formulation and implementation of approaches to commercial financial markets to fill an appropriate share of their external funding requirements through country and project specific advice (para. 52.)	The basic objectives of ADB's cofinancing strategy are (i) to play a catalytic role in brining additional private capital to DMCs by assisting cofinanciers in the appraisal and management of risks; and (ii) to continue promotion of official cofinancing, with special emphasis on low-income countries (para. 47).	The basic objective of cofinancing operations remains to help leverage ADB's resources and expand ADB's catalytic role in directing official and private financial flows to its DMCs (page 2).

Source: ADB.

3. In 1973, the main focus of the strategy was to protect the interests of ADB (as an independent international finance institution) and its DMCs. It set out ground rules, such as that the viability of projects needed to be established (by ADB) prior to cofinancing a project, that the cost of cofinancing should not burden DMCs additionally, that ADB funds should not be used to

subsidize finance from other sources, and that ADB resources should not be used to enhance the interests of bilateral donors. Moreover, ADB's regular functions (project preparation, administration, and supervision) were not to be jeopardized through cofinancing.

4. In the 1982 strategy on commercial cofinancing and export credits, ADB recognized the increasing trend towards private flows and the need for them to meet growing demands for infrastructure investments. However, at the time, official cofinancing was still the preferred form of cofinancing, given its potential to be geared towards development concerns rather than purely commercial interests, country and sector priorities, and lending conditions. The Paper discussed the need for cofinancing to be additional to ADB's lending program, i.e., not replacing ADB's lending but providing additional funds over and above given resource flows, and not affecting ADB's efforts to raise funding for its own lending operations. The strategy suggested that cofinancing should become an integral part of country programming to ensure that cofinanced projects met "country program and project viability criteria".

5. The 1984 strategy on official cofinancing discussed a number of operational issues and underpinned a policy of pursuing cofinancing more aggressively. It recommended that ADB generate a larger stock of potentially cofinanceable projects in its country programs, hold frequent consultations with cofinanciers, make standby arrangements (advancing funding for components that may be cofinanced but for which cofinancing has not been secured), and greater flexibility in arranging financing packages and providing services, while limiting services provided for projects with tied cofinancing.

6. While cofinancing has been welcome since its inception, since the early 1980s ADB sought a more proactive approach, and new products were introduced, such as the Complementary Financing Scheme (CFS) and guarantee operations. The 1992 strategy suggested that ADB's strategy (i) shift from purely "gap-filling" objectives to "a broader goal of assisting DMCs in their overall resource mobilization efforts"; (ii) aim to secure official cofinancing in spite of decreasing funding by diversifying the number of cofinanciers and by strengthening relationships to existing cofinanciers; and (iii) assist DMCs in formulating and implementing their approaches to commercial financial markets.

7. By 1995, the strategy moved towards targeting the use of funding, e.g. aiming to generate concessional funding from official partners for DMCs borrowing from ADB's own concessional window, while using non-concessional funding for its own non-concessional operations, thereby encouraging financial flows from private sources through, among others things, guarantee arrangements and complementary financing schemes).[1] It set out a strategy "to get the maximum possible contributions from official cofinancing sources," aiming to explore potential new sources, obtain concessional funding from official sources, attract grant cofinancing for specific components of ADB-funded projects, and encourage competition in procurement under tied ODA. The strategy also included plans for reaching framework agreements on cofinancing principles rather than just individual project-based agreements, and to enhance the impact of official cofinancing activities. For private cofinancing, ADB aimed to maximize private capital flows, identify key projects in which ADB would play a lead role, make optimum use of expanded and diversified guarantee facilities, and offer risk-sharing options for those countries so far unable to attract private cofinancing. These objectives were further

[1] This does not fully recognize the benefits of blending concessional funds with ordinary capital resources (OCR) loans for projects with good developmental benefits, but low financial returns. In many cases, client countries with access to the Asian Development Fund (ADF) prefer increased ADF lending rather than cofinancing that in many cases offer less preferable terms. Likewise, the strategy appears have underestimated the significance of public-private partnership and the complexities of their processing within ADB.

reiterated in subsequent reviews of the cofinancing strategy and cofinancing operations in 1999 and 2001.

8. Over the years, ADB moved toward an increasingly proactive approach to cofinancing, actively pursuing opportunities for generating additional funding, rather than (as in the early years) defining policies to simply safeguard the organization's own policies. Strategies increasingly focused on exploring new sources and mechanisms for cofinancing, integrating cofinancing early in the project and country program cycle, and enhancing the impact of official cofinance. ADB saw its role as catalyst to mobilize additional funding for its DMCs, providing technical expertise in identifying and processing bankable projects, ensuring the effective use of resources, and reducing risks to borrowers and cofinanciers. The strategies were largely supply, product and activity-driven, and were opportunistic in approach, based on a premise that any additional cofinancing generated by ADB will be welcome, given an overall shortage of capital for development finance within the region.

9. To support the strategy, the Office of Cofinancing Operations (OCO) was created in 1996 by upgrading the Cofinancing and Coordination Unit that since 1992 had assumed a central role in coordinating and monitoring—rather than promoting—ADB's cofinancing operations. OCO was subsequently organized around three small product teams focusing on commercial, official and grant operations.[2] The key cofinancing instruments employed are channel finance or cooperation agreements for single donor and multi-donor trust fund accounts to finance primarily TA projects on a grant basis, investment project-specific agreements for cofinancing on a joint or parallel basis and through grants, concessional loans or commercial loans, or co-equity. Commercial loans from international private sector financiers often benefited from CEPs by ADB to mitigate project related risks. CEPs include the CFS, political risk guarantee, partial credit guarantee, and guarantor of record scheme.

10. From the beginning, ADB saw itself as a catalyst for promoting resource flows to DMCs. The role grew from a project-focused approach (providing technical expertise in preparing projects) to a promotional role of assisting DMCs in determining their strategies for mobilizing funding and bringing suitable projects to the attention of cofinanciers. Advantages to using ADB's cofinancing capacities for cofinanciers and borrowers were the assurance by ADB that projects would be viable (given ADB's technical expertise in preparing projects), cost savings through blending different modalities, reducing risks to borrowers and cofinanciers, and insurance of effective use of resources.

11. Overall, the basic rationale and underlying assumptions for those strategies still hold true today. However, a major shortcoming has been their formulation in isolation from ADB's overall strategic development agenda and its institutional performance parameters. As such, the strategies were not backed up appropriately with incentives, systems and resources required to realize the objectives that were kept in general terms, making a performance-based allocation difficult. This has limited their implementation, and thus their overall effectiveness and impact.

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[2] Increased focus on client and demand aspects was introduced in early 2004, with the creation of regional teams within OCO under a matrix structure to combine the strength of official and commercial product specialists for regional solutions.

ADB'S PAST COFINANCING OPERATIONS

1. Since 1970, cofinancing operations amounted to cumulative total of about $49.5 billion—$25 billion from official sources and $24.5 billion from commercial sources—providing additional resources for 692 ADB-assisted projects and programs. Of the total, $40.9 billion was provided for 649 public sector projects, and $8.6 billion was in support of 43 private sector projects. Table A4.1 shows ADB's total cofinancing over the years, with breakdown according to the main product categories (commercial, official and grants). Table A4.2 shows the recipient countries of cofinancing, most of which went to PRC, India and Pakistan.

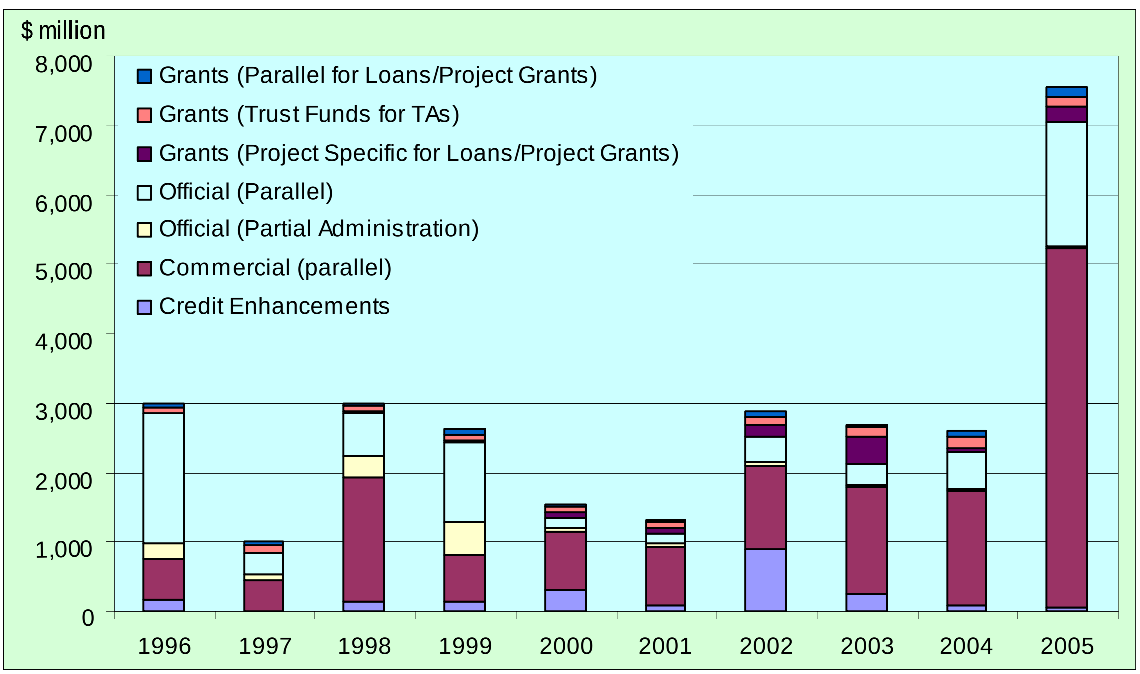
2. The energy sector accounted for $21.6 billion or 44% of cofinancing resources, followed by transport and communications ($12.6 billion or 26%), industry and trade ($3.7 billion or 7%), multi-sector ($3.5 billion or 7%), and other sectors ($8.1 billion or 16%). Table A4.3 shows the sector distribution of total cumulative cofinancing.

3. By the end of December 2005, ADB had issued a total of 17 partial credit guarantees and 9 political risk guarantees, mobilizing about $3.2 billion in commercial cofinancing through syndicated loans and capital market instruments

4. During 1970–2005 the cumulative total of ADB-administered grants for technical assistance (TA) projects and components of loan projects was nearly $1.5 billion.

5. A review of cofinancing volumes since the mid-1990s indicates a fairly stagnant level overall (except for 2005), similar to ADB's own lending operations. However, there has been a structural shift within the composition of cofinancing. Figure A4 shows the absolute cofinancing volumes, with breakdown by product type.

Figure A4: Cofinancing Arrangements, 1996–2005



6. Total cofinancing volumes fluctuated an average of between $2 billion to $3 billion for most of the years, with the exception of 1997 and 2001 when levels have been significantly

lower mainly due to external factors, and 2005 when the volume was much higher, due to ADB's participation in four 'mega-projects' with total cofinancing of $6 billion. As a relative proportion of ADB's own financing, the overall trend has also been fairly static. On average, cofinancing amounted to about 43% of total ADB lending and investments for the period 1991–1995, 42% for the period 1996-2000,[1] and 56% for the period 2001–2005 – only slightly above the average for the total period since 1970. Relative to the projects that have received cofinancing, the ratio has been about 1:1 overall, i.e. for those projects that have received cofinancing the amount of cofinancing has on average equaled ADB lending.

7. While there has been no marked trend that cofinancing ratios overall have changed in favor of higher overall cofinancing over the past years, there has been a structural shift in the composition of cofinancing. This shift is largely in line with envisaged strategies, albeit for different reasons and partially outside ADB's control. The share of grants as well as commercial cofinancing has been increasing, while export credits and official financing have declined. Related to this, there has been a shift in the partnerships structure, reflecting ADB's stronger emphasis since the mid-1990s on social sector operations that are of concern to bilateral donors, and away from lending to agriculture and traditional infrastructure that are the traditional domain of official financing and export credit agencies.

8. With regard to the composition of cofinancing along product lines, there has generally been an increase of parallel commercial cofinancing, much of which was driven by domestic banks in the PRC for large public infrastructure projects, as well as an increase of grant-financing with administration services by ADB (albeit from a very low base), in line with the directions of the 1995 cofinancing strategy. For other product lines, including loan administration services and credit enhancement operations by ADB against a fee, there was no clear trend.

9. The increase in grants is mainly due to increased bilateral assistance, reflecting the greater focus by some bilateral donors on grant financing, their shift to support programmatic approaches through multilateral organizations, and the increased efforts by ADB to mobilize such resources. Grant resources mobilized from the United Kingdom and the Netherlands, in particular, both show the biggest increase and account for the largest share of volumes over the past 5 years. This increase in grants also translates into increased grant volumes administered by ADB, which is not readily captured by statistics that are primarily concerned with "mobilization".

10. No clear trend could be established either when assessing cofinancing performance against other numerical parameters, such as number of projects with cofinancing, number of cofinancing partners, or number of beneficiary countries with cofinancing.

11. Over the past few years, ADB has also introduced new cofinancing modalities including grant financing from external sources for stand-alone components linked to ADB investment projects, such as through the Japan Funds for Poverty Reduction and the Global Environment Facility. It has also processed a number of projects under a sector-wide approach (SWAP).[2] There has been a moderately increasing trend for this type of cofinancing as staff become more familiar with it, but the full potential may not have been fully utilized in the absence of

[1] The relatively lower financing share for this period is due in particular to the higher ADB lending in 1997 as a result of the Asian financial crisis which was contrasted further with a decline of cofinancing during that year.

[2] An important example includes the SWAP for ADB. 2003. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the People's Republic of Bangladesh for the Second Secondary Education Sector Project*. Manila. This mobilized $389 million in untied grant cofinancing.

appropriate incentive parameters. Moreover, grants for components associated with ADB loan projects have also increased significantly since 1999 in value and number.

12. For TA projects, developments have been more pronounced and marked by a consistent and considerable increase in particular since the late 1990s. Since 1999, the number of new trust funds increased by 300% to 30; the number of TA grants processed annually increased by more than 400% to 96; the amount of TA grant financing (other than from the Japan Special Fund) increased by nearly 800% to nearly $80 million; the number of cofinanced TAs under administration increased by more than 540% to about 340; while the amounts for cofinanced TAs under administration increased by about 640% to more than $240 million. On the other hand, this increase has been moderated somewhat by a gradual reduction of TA financing from JSF. The outcome of all this has been less an increase in ADB's overall TA program, but a shift in the financing composition of ADB's TA program, with increased financing from external sources and less financing from ADB's own TA Special Fund. With constraints on ADB's own institutional capacity to increase its TA program, there are limitations on further growth of cofinancing of TA operations. The challenge will be to sustain the high external financing volume of the past while improving impact and results reporting to cofinancing partners.

13. The fee income generated out of cofinancing activities may also be seen as a good proxy for the overall magnitude and growth of activities. Over the past 5 years, cofinancing-related fees and income have increased by about 190% from about $2.4 million to approximately $7 million in 2005.[3]

[3] This includes administrative fees of about $2.5 million generated from TA administration and about $4.5 million from official loan administration and credit enhancement operations which also include risk premiums.

Table A4.1: Summary of Cofinancing by Year, 1970–2005[a]

Year	Commercial Sources		Official Loans		Grants		Total		ADB Loan
	No. of Projects	Amount ($ million)	No. of Projects	Amount ($ million)	No. of Projects[b]	Amount ($ million)	No. of Projects	Amount ($ million)	Amount ($ million)
1970	0	0.0	3	95.5	1	0.6	4	96.1	40.6
1971	0	0.0	1	3.7	1	0.1	2	3.8	3.7
1972	0	0.0	1	3.2	-	0.0	1	3.2	8.0
1973	2	14.5	6	145.5	-	0.0	6	160.1	92.5
1974	0	0.0	-	0.0	2	1.8	2	1.8	32.6
1975	1	9.6	3	254.5	-	0.0	4	264.1	132.7
1976	3	38.3	3	91.5	3	3.6	7	133.4	202.3
1977	1	11.5	7	81.2	1	0.5	8	93.1	133.0
1978	1	3.1	13	448.0	2	0.8	15	451.9	384.1
1979	1	31.8	18	340.6	4	2.9	20	375.2	578.5
1980	2	47.9	14	342.6	5	4.7	21	395.1	542.3
1981	6	210.9	18	503.9	5	6.1	25	720.9	890.4
1982	6	172.6	13	389.4	5	5.2	22	567.2	782.9
1983	5	210.4	11	146.8	5	9.5	20	366.6	866.1
1984	6	415.0	17	746.5	4	4.5	22	1,166.0	1,412.5
1985	5	336.0	14	314.0	5	8.4	19	658.4	939.1
1986	5	254.9	13	537.0	8	13.3	22	805.1	747.4
1987	5	160.7	9	145.4	10	89.4	22	395.6	1,023.0
1988	5	144.8	10	920.5	3	5.3	16	1,070.6	701.3
1989	8	340.0	18	1,130.0	6	11.2	28	1,481.2	1,598.3
1990	4	33.4	17	922.7	5	5.5	21	961.6	1,304.0
1991	6	977.9	14	940.4	3	8.4	21	1,926.7	1,754.0
1992	6	754.3	11	1,583.7	5	34.0	19	2,372.0	1,657.9
1993	11	1,623.4	17	1,427.9	3	24.0	23	3,075.3	2,081.6
1994	2	206.5	9	852.4	2	42.8	10	1,101.7	830.2
1995	4	324.0	12	1,951.8	6	122.4	19	2,398.2	1,919.2
1996	6	803.1	21	2,084.5	9	43.3	29	2,930.9	1,935.1
1997	6	442.1	18	395.6	9	69.4	29	907.1	1,823.8
1998	8	1,921.5	10	943.4	6	44.5	22	2,909.4	1,965.3
1999	7	819.6	14	1,627.7	11	107.0	25	2,554.3	2,508.0
2000	12	2,396.0	13	332.4	17	102.4	37	2,830.8	2,727.5
2001	8	932.7	11	187.0	12	98.1	26	1,217.8	2,096.8
2002	11	2,084.0	15	430.7	11	198.0	33	2,712.7	2,099.5
2003	12	1,787.3	11	342.1	9	433.2	28	2,562.6	2,644.8
2004	10	1,728.1	17	562.3	11	147.1	32	2,437.5	2,279.1
2005	11	5,227.1	13	1,805.4	17	352.5	34	7,385.0	4,005.2
Total	**186**	**24,462.8**	**415**	**23,029.8**	**206**	**2,000.4**	**692**	**49,493.0**	**44,743.0**

ADB = Asian Development Bank.

[a] Amounts and number of projects adjusted to reflect changes in cofinancing arrangements after year of approval.

[b] A project with more than one source of cofinancing is counted as one.

Source: ADB cofinancing database.

Table A4.2: Summary of Cofinancing for Investment Projects by Recipient Country, 1970–2005[a]

Recipient Country	Commercial Sources		Official Loans		Grants		Total	
	No. of Projects	Amount ($ million)	No. of Projects	Amount ($ million)	No. of Projects	Amount ($ million)	No. of Projects[b]	Amount ($ million)
Afghanistan, Islamic Republic of	2	56.1	3	9.7	2	24.0	6	89.8
Azerbaijan	0	0.0	1	21.4	0	0.0	1	21.4
Bangladesh	4	225.0	43	2,235.9	40	745.7	78	3,206.6
Bhutan	0	0.0	4	9.2	4	7.9	7	17.0
Cambodia	1	3.8	5	73.7	12	62.2	15	139.7
China, People's Republic of	57	10,205.6	8	359.5	6	20.1	63	10,585.1
Cook Islands	0	0.0	1	2.7	0	0.0	1	2.7
Fiji Islands	3	20.4	5	109.1	1	1.6	7	131.1
India	11	2,402.2	12	1,695.0	4	82.5	23	4,179.6
Indonesia	16	2,922.3	40	4,876.2	9	62.2	61	7,860.7
Kazakhstan	0	0.0	1	9.5	0	0.0	1	9.5
Kiribati	0	0.0	1	0.2	0	0.0	1	0.2
Korea, Republic of	8	483.9	0	0.0	0	0.0	8	483.9
Kyrgyz Republic	0	0.0	5	100.3	1	4.6	5	104.9
Lao People's Democratic								0.0
Republic	2	930.5	20	359.5	24	171.2	36	1,461.3
Malaysia	5	110.7	6	269.3	0	0.0	9	380.0
Maldives	0	0.0	4	22.8	0	0.0	4	22.8
Marshall Islands	0	0.0	0	0.0	1	0.5	1	0.5
Mongolia	0	0.0	8	151.2	3	51.5	8	202.7
Myanmar	0	0.0	10	50.6	2	1.3	12	51.9
Nepal	4	59.3	21	339.6	27	92.0	44	490.9
Pakistan	26	2,141.5	54	4,898.5	15	99.8	76	7,139.8
Papua New Guinea	1	10.0	5	57.3	5	40.0	11	107.3
Philippines	17	1,834.7	50	2,726.1	11	77.6	65	4,638.3
Samoa	0	0.0	8	29.4	4	17.5	10	46.8
Singapore	1	5.0	0	0.0	1	0.5	2	5.5
Solomon Islands	0	0.0	5	14.5	0	0.0	5	14.5
Sri Lanka	6	304.5	32	998.3	13	125.3	45	1,428.1
Tajikistan	0	0.0	3	19.3	1	6.0	3	25.3
Thailand	14	1,793.1	28	2,413.3	3	7.8	37	4,214.1
Tonga	0	0.0	3	4.8	0	0.0	3	4.8
Uzbekistan	0	0.0	5	116.0	1	6.0	4	122.0
Vanuatu	0	0.0	2	4.0	1	0.3	3	4.3
Viet Nam	6	804.2	20	808.2	12	225.7	32	1,838.1
Regional	2	150.0	2	245.0	3	66.7	5	461.7
Total	**186**	**24,462.8**	**415**	**23,029.8**	**206**	**2,000.4**	**692**	**49,493.0**

[a] Amounts and number of projects adjusted to reflect changes in cofinancing arrangements after year of approval.

[b] A project with more than one source of cofinancing is counted as one.

Source: Asian Development Bank cofinancing database.

Table A4.3: Summary of Cofinancing for Investment Projects by Sector, 1970–2005[a]

Sector	Commercial Sources		Official Loans		Grants		Total	
	No. of Projects	Amount ($ million)	No. of Projects	Amount ($ million)	No. of Projects	Amount ($ million)	No. of Projects[b]	Amount ($ million)
Agriculture and Natural Resources	5	42.6	70	2,310.1	62	241.5	130	2,594.1
Education	0	0.0	23	412.0	26	619.9	45	1,031.9
Energy	79	12,093.1	105	9,485.9	17	61.4	155	21,640.5
Finance	7	545.2	13	458.8	5	8.2	23	1,012.2
Health, Nutrition, and Social Protection	1	6.0	13	511.7	16	163.2	23	680.9
Industry and Trade	36	2,450.0	31	1,222.1	4	13.7	61	3,685.7
Law, Economic Management and Public Policy	0	0.0	2	518.0	8	159.2	9	677.2
Multisector	5	201.1	47	2,936.9	37	390.7	80	3,528.6
Transport and Communications	40	8,162.7	88	4,207.5	24	274.4	130	12,644.5
Water Supply, Sanitation, and Waste Management	13	962.1	24	966.8	7	68.2	36	1,997.1
Total	**186**	**24,462.8**	**416**	**23,029.8**	**206**	**2,000.4**	**692**	**49,493.0**

[a] Amounts and number of projects adjusted to reflect changes in cofinancing arrangements after year of approval.

[b] A project with more than one source of cofinancing is counted as one.

Source: Asian Development Bank cofinancing database.

Table A4.4: Cofinancing from Official Sources for Investment Projects, 1970–2005[a]

Cofinancier	No. of Projects	Cofinancing Amount Concessional	Nonconcessional	Total[b]
A. Bilateral				
Japan	105	5,600.2	4,389.9	9,990.1
Germany	45	1,078.5	17.2	1,095.7
United Kingdom	43	1,069.0	0.0	1,069.0
France	30	490.1	54.0	544.1
Saudi Arabia	11	513.7	11.0	524.7
The Netherlands	30	345.5	0.0	345.5
United States	15	215.4	0.0	215.4
Canada	16	200.0	0.0	200.0
Norway	33	184.1	0.0	184.1
Sweden	18	146.3	0.0	146.3
Australia	24	113.0	0.0	113.0
Denmark	15	111.8	0.0	111.8
Kuwait	6	108.3	0.0	108.3
Switzerland	16	90.6	0.0	90.6
Thailand	3	55.5	0.0	55.5
United Arab Emirates	2	56.3	0.0	56.3
Czechoslovakia	1	46.0	0.0	46.0
Korea, Republic of	2	34.6	0.0	34.6
China, People's Republic of	2	31.5	0.0	31.5
Iran	2	24.5	0.0	24.5
Belgium	4	24.2	0.0	24.2
Finland	6	18.1	0.0	18.1
Spain	4	17.8	0.0	17.8
India	1	12.5	0.0	12.5
New Zealand	6	11.2	0.0	11.2
Taipei,China	1	6.7	0.0	6.7
Italy	1	5.0	0.0	5.0
Bangladesh	1	3.6	0.0	3.6
Ireland	1	1.8	0.0	1.8
Singapore	1	1.7	0.0	1.7
Sri Lanka	1	1.6	0.0	1.6
Bulgaria	1	0.2	0.0	0.2
Subtotal (A)	**302**	**10,619.4**	**4,472.1 [c]**	**15,091.5**

Cofinancier	No. of Projects	Cofinancing Amount Concessional	Nonconcessional	Total[b]
B. Multilateral				
World Bank	103	2,923.1	4,468.1	7,391.2
OPEC Fund for International Development	74	559.8	0.0	559.8
European Investment Bank	14	0.0	524.8	524.8
International Fund for Agricultural Development	28	359.7	0.0	359.7
European Union	26	235.9	0.0	235.9
European Community	2	216.0	0.0	216.0
Islamic Development Bank	15	121.2	77.3	198.5
Nordic Development Fund	29	198.0	0.0	198.0
United Nations Development Programme	67	71.2	0.0	71.2
Nordic Investment Bank	4	0.0	55.5	55.5
Global Environment Facility	5	43.6	0.0	43.6
International Monetary Fund	1	30.0	0.0	30.0
European Bank for Reconstruction and Development		0.0	25.0	25.0
United Nations Children's Fund	4	9.4	0.0	9.4
United Nations Capital Development Fund	3	7.5	0.0	7.5
United Nations Population Fund	2	3.5	0.0	3.5
United Nations Office of Project Services	1	2.0	0.0	2.0
World Food Programme	1	2.0	0.0	2.0
World Health Organization	3	1.4	0.0	1.4
United Nations Drug Control Programme	1	1.3	0.0	1.3
International Labour Organization	1	1.0	0.0	1.0
Cities Alliance	1	0.9	0.0	0.9
UN Habitat	1	0.5	0.0	0.5
International Telecommunication Union	1	0.1	0.0	0.1
Subtotal (B)	**264**	**4,788.1**	**5,150.7** [c]	**9,938.7**
Total	**566**	**15,407.4**	**9,622.8** [c]	**25,030.2**

UN Habitat = United Nations Human Settlements Programme.

[a] Amounts and number of projects adjusted to reflect changes in cofinancing arrangements after year of approval.

[b] Amounts are listed from highest to lowest.

[c] A project with more than one source of cofinancing is counted as one.

Source: ADB cofinancing database.

Table A4.5: Cofinancing from Commercial Sources for Investment Projects, 1970–2005[a]

Source	No. of Projects[b]	ADB Amount ($ million)	Cofinancing Amount ($ million)[c]
China, People's Republic of	55	9,326.0	10,436.7
Japan	43	3,501.4	2,561.5
India	8	442.1	936.0
France	26	1,364.9	924.1
Thailand	2	110.0	554.0
Germany	13	1,131.0	435.6
United States	18	1,142.7	409.2
Korea, Republic of	8	349.0	215.5
Canada	11	758.9	196.1
Singapore	19	422.6	195.2
Australia	10	464.5	191.7
The Netherlands	12	698.0	168.5
World Bank	3	95.0	139.8
Belgium	8	290.1	137.4
Spain	4	485.0	134.7
Austria	4	395.7	122.4
Multilateral Investment Guarantee Agency (MIGA)	2	85.0	119.5
Bangladesh	2	236.0	114.2
Italy	5	157.0	113.6
Taipei,China	1	50.0	94.0
Switzerland	5	200.0	71.5
United Kingdom	5	190.5	60.8
Sri Lanka	3	70.0	52.5
Hong Kong, China	4	395.1	49.7
Philippines	1	191.4	36.1
Malaysia	4	329.0	22.2
Viet Nam	3	80.2	17.3
Sweden	2	167.6	16.0
Luxembourg	4	155.0	14.0
Bahrain	2	150.0	13.5
Fiji Islands	1	25.0	8.8
United Arab Emirates	2	219.0	7.9
Portugal	1	380.0	7.5
South Africa	1	50.0	6.0
Cambodia	1	20.0	3.8
Kuwait	1	100.0	3.5
Pakistan	1	52.0	1.2
Finland	1	169.0	0.7
Export Credit Agencies	23	1,997.3	2,707.7
Commercial Banks[d]	13	1,246.8	1,304.7
Commercial Lenders with ADB Partial Credit Guarantee[d]	6	309.7	843.7
Commercial Lenders with ADB Political Risk Guarantee[d]	5	491.0	587.0
Commercial lenders with ADB Complementary Financing Scheme[d]	2	70.0	216.0
Commercial Lenders with IDA Guarantee[d]	2	100.0	120.0
Commercial Lenders with MIGA Guarantee	2	55.0	55.0
Vendor debt-financed	1	35.0	36.1
Total	**186**	**24,448.7**	**24,462.8**

ADB = Asian Development Bank.

[a] Amounts and number of projects adjusted to reflect changes in cofinancing arrangements after year of approval.

[b] A project with more than one source of cofinancing is counted as one.

[c] Amounts are listed from highest to lowest.

[d] Information is not available on the nationality of cofinanciers that provided parallel cofinancing.

Source: ADB cofinancing database.

Table A4.6: Technical Assistance Projects with Cofinancing by Year, 1970–2005

	Bilateral		Multilateral		Total	
Year	No. of Grants	Amount ($ '000)	No. of Grants	Amount ($ '000)	No. of Projects[a]	Amount ($ '000)
1970	1	1,000.0	1	1,142.5	1	2,142.5
1971	0	0.0	0	0.0	0	0.0
1972	0	0.0	2	1,504.3	2	1,504.3
1973	0	0.0	2	695.0	2	695.0
1974	0	0.0	5	1,705.0	5	1,705.0
1975	0	0.0	5	1,240.5	5	1,240.5
1976	0	0.0	4	3,054.7	4	3,054.7
1977	0	0.0	11	2,758.0	11	2,758.0
1978	0	0.0	6	4,843.0	6	4,843.0
1979	0	0.0	21	8,242.6	20	8,242.6
1980	5	1,220.0	14	6,239.6	19	7,459.6
1981	8	2,210.0	11	7,652.7	19	9,862.7
1982	1	380.0	7	4,661.0	8	5,041.0
1983	7	2,398.0	7	5,628.0	14	8,026.0
1984	2	550.0	10	3,668.0	12	4,218.0
1985	5	2,753.0	10	11,655.0	15	14,408.0
1986	6	5,170.0	12	7,290.0	16	12,460.0
1987	7	1,824.0	17	14,075.0	24	15,899.0
1988	10	3,206.0	9	8,073.0	18	11,279.0
1989	10	2,995.0	8	10,075.0	15	13,070.0
1990	14	6,809.0	4	3,629.0	18	10,438.0
1991	15	12,211.4	3	2,605.6	15	14,817.0
1992	15	7,487.5	3	3,110.2	17	10,597.7
1993	16	15,990.0	3	2,092.4	18	18,082.4
1994	11	5,109.0	3	9,519.4	14	14,628.4
1995	17	7,942.0	2	653.9	18	8,595.9
1996	15	14,151.9	0	0.0	14	14,151.9
1997	17	8,275.5	0	0.0	17	8,275.5
1998	12	6,664.0	3	228.4	15	6,892.4
1999	19	9,101.6	3	830.0	22	9,931.6
2000	14	9,160.0	1	200.0	15	9,360.0
2001	24	15,894.9	3	1,015.0	26	16,909.9
2002	70	29,307.0	4	1,589.0	65	30,896.0
2003	97	67,927.0	0	0.0	87	67,927.0
2004	104	75,678.5	2	8,675.0	99	76,653.5
2005	104	70,772.0	5	7,139.4	95	77,911.5
Total		**386,187.2**		**145,490.1**	**726**	**523,977.4**

[a] Projects financed by a number of bilateral and/or multilateral grants are counted as one. Projects with supplementary financing in subsequent years are counted only once, at the time of Asian Development Bank(ADB) approval of the project, but amounts are reflected in the year of ADB approval of the supplementary financing.

Source: ADB-administered external grants database.

OVERVIEW OF TRUST FUND OPERATIONS
(as of 15 June 2006)

No.	Name	Focus (1) Countries (2) Sectors	Donors	Date (1) Est'd (2) Repl'd	Total Amount ($ million)	Available Amount ($ million)	Technical Lead [a]
A.	Single Donor Trust Funds						
1	Australia – Memorandum of Understanding on Channel Financing	(1) First Priority -Nauru, Solomon Islands Second Priority – Fiji Islands, Papua New Guinea, Vanuatu (2) There will be annual consultations between the Australian Government and the ADB to agree on the broad direction of the Program for the year including geographical and sectoral priorities.		(1) 4 Oct 93	15.0	Fully committed	
2	Australia-ADB South Asia Development Partnership Facility	(1) SARD countries (2) Enhanced governance, urban development, inclusive growth, human resource development, regional cooperation and integration		(1) 7 Jun 06	8.5		SARD
3	Belgium – Channel Financing Agreement	(1) Cambodia, Lao PDR, Viet Nam (2) Education; Public Health; Water Supply		(1) 28 Nov 96	2.2	Fully committed	
4	Canada – Administrative Arrangement Establishing the Canadian Cooperation Fund on Climate Change	(1/2) PRC, India - greenhouse gas emissions reductions (1/2) Indonesia – carbon sequestration (1/2) Pacific island DMCs – adaptation to climate change		(1) 13 Mar 01	3.24	0.12	REACH Steering Committee (Chair: RSDD)
5	Denmark – Channel Financing Agreement Establishing the Danish Cooperation Fund for Technical Assistance	(1) Bangladesh, Bhutan, Nepal, Viet Nam (2) Water and Sanitation; Health; Renewable Energy; Agriculture and Fisheries; Transport Infrastructure; Urban Development; Education; Private Sector Development (with particular attention to be given to crosscutting issues such as poverty alleviation, women in development, environment, good governance, human rights, and technical training)		(1) 21 Jul 00	1.8	Fully committed	
6	Denmark – Channel Financing Agreement Establishing the Second Danish Cooperation Fund for Technical Assistance	(1) ADB DMCs with annual per capita GNP of less than $2,500 equivalent as well as institutions of these DMCs. Regional activities involving sub-groups of member countries of ADB with an average per capita GNP below $2,500 equivalent are also eligible for allocations under the Grant. Special focus on Bangladesh, Bhutan, Nepal, Viet Nam (2) Technical operations on national poverty reduction programs and the achievement of the Millennium Development Goals; gender equality		(1) 26 Jun 03	3.0	Fully committed	
7	Denmark – Channel financing Agreement Establishing Danish Cooperation Fund for Renewable Energy and energy Efficiency in Rural Areas	(1) ADB DMCs with an annual per capita GNP of less than US$2,500 equivalent as well as institutions of these members (2) Renewable Energy and Energy Efficiency		(1) 18 Dec 01	3.6	Fully committed	REACH Steering Committee (Chair: RSDD)

No.	Name	Focus (1) Countries (2) Sectors	Date (1) Est'd (2) Repl'd	Total Amount ($ million)	Available Amount ($ million)	Technical Lead [a]
8	Finland – Channel Financing Agreement	(1) ADB DMCs that belong to Groups A and B1 (2) Environmental protection and development of renewable energy forms.	(1) 16 Jan 90 - $600,000 (2) 12 Mar 99 - $4,000,000 (3) additional contribution of $4,500,000 on 29 Jun 04 using Agreement of 12 Mar 99. $2.25 million was allocated to Environmt and $2.25 million to Energy Sector	9.1	1.4 (available for energy projects)	REACH Steering Committee (Chair: RSDD)
9	France - Channel Financing Agreement	(1) Cambodia; India; Indonesia; Malaysia; Pakistan; Philippines; PRC; Thailand; Viet Nam (2) Education; Energy; Finance; Health; Transport and Telecommunications; Water Treatment; Support for Privatization Programs; Organization of financial markets	(1) 25 Apr 89 amended on 14 Dec 1994 and 8 Aug 2000	26.9	2.96	
10	France – Channel Financing Agreement Establishing the Cooperation Fund for Project Preparation in the GMS	(1) ADB DMCs in the Greater Mekong Region (2) Project preparatory technical assistance operations to be designed, processed and administered at the sole discretion of ADB with regional cooperation focus in the GMS.	(1) 28 Dec 04	2.0	2.0	
11	Italy – Agreement Establishing the Italian Cooperation Fund for Consulting Services	(1) Bangladesh; India; Indonesia; Kazakhstan; Kyrgyz; Pakistan; Philippines; PRC; Tajikistan; Thailand; Uzbekistan; Viet Nam (2) Public and private infrastructure; development of small/medium enterprises; transfer of environmental technologies; health and education; urban development and water supply	(1) 17 Sep 99	2.7	0.8	
12	Italy – Channel Financing Agreement Establishing the Italian Cooperation Fund for Technical Assistance	(1) ADB DMCs (2) Development of small/medium enterprises; microfinance; private sector; energy; agriculture; environment	(1) 7 Oct 04	2.5	2.5	
13	Netherlands – Channel Financing Agreement	(1) Bangladesh, Cambodia – restricted to rehabilitation (2) Mongolia, Nepal, Pakistan, Philippines, Sri Lanka, Viet Nam – restricted to activities in the framework of the "transition" process (social development, poverty reduction and human development, women in development, environmental and natural resource management, law and development)	(1) 10 Dec 91	1.57	Fully committed	
14	Netherlands-Arrangement Establishing the Dutch Cooperation Fund for Promotion of Renewable Energy and Energy Efficiency	(1) ADB DMCs (2) Renewable Energy and Energy Efficiency	(1) 21 Dec 00	6.0	1.26	REACH Steering Committee (Chair: RSDD)

No.	Name	Focus (1) Countries (2) Sectors	Date (1) Est'd (2) Repl'd	Total Amount ($ million)	Available Amount ($ million)	Technical Lead [a]
15	New Zealand – Arrangement Establishing the New Zealand Cooperation Fund for Technical Assistance	(1) COO - Education; Outer islands development ; HRD Fisheries (2) VAN - HRD/Education; Private sector development. in rural areas; strengthening governance (3) SOL/PNG - General/Poverty reduction (4) TON - Education and training, Outer islands devt.; Community development assistance; good governance; public sector reform; private sector devt. (5) PHI - Community resource management (6) ASEAN Region - Trade-related capacity building; SME devt.	(1) 29 Oct 99	0.4	Fully committed	
16	PRC – Channel Financing Agreement Establishing the the People's Republic of China Poverty Reduction and Regional Cooperation Fund	(1) ADB DMCs but priority will be given to countries that are part of Greater Mekong Sub Region (GMS) and the Central Asia Regional Economic Cooperation (CAREC) (2) Research and analytical work; piloting innovative approaches; capacity building and institutional development in DMCs; dissemination, networking and cross-learning (e.g. workshops, conferences, publications, and website development)	(1) 10 Mar 05	20.0 *To be utilized at $4.0M annually	16.0	OREI
17	Spain – Agreement Establishing the Spanish Cooperation Fund for Technical Assistance	(1) Afghanistan; Indonesia; Mongolia; Pakistan; Philippines; PRC; Uzbekistan; Viet Nam (2) Water supply and sanitation; Education; Energy; Public health; Transport; Private sector devt.; Environment; public administration reform; Agriculture and rural development	(1) 23 Jun 00 (2) 9 Dec 03	5.0	0.78	
18	Sweden – Channel Financing Agreement	(1) First Priority: Cambodia and Viet Nam Second Priority: Countries around South China Sea (2) Institutional capacity; human resources development; awareness building; support to NGOs; marine and coastal environment and natural resources management	(1) 23 Nov 92	1.75	Fully committed	
19	Switzerland – Agreement Establishing the Swiss Cooperation Fund for Consulting Services	(1) Azerbaijan; PRC; India; Indonesia; Kyrgyz; Tajikistan; Turkmenistan; Uzbekistan; Viet Nam (2) Private infrastructure; private sector investment; transfer of environmentally sound technologies; financial sector adjustment operations	(1) 16 Jul 98 (2) 27 Mar 02	2.59	0.4	
20	United Kingdom – Memorandum of Understanding on Establishment of a Cooperation Fund for Technical Assistance	(1) India (2) Poverty-related assessment/surveys; social sector lending studies; studies on enabling environment for poverty reduction; poverty-focused monitoring, evaluation, and impact assessment work; poverty-focused conferences/workshops	(1) 7 Jun 01 (2) Amended on 21 Mar 05	85.0	54.0	INRM

No.	Name	Focus (1) Countries (2) Sectors	Donors	Date (1) Est'd (2) Repl'd	Total Amount ($ million)	Available Amount ($ million)	Technical Lead [a]
B.	Multi-Donor Trust Funds (Thematic)						
21	Governance Cooperation Fund	(1) ADB DMCs (2) The GCF supports government-led governance reform activities that can be shown to clearly and concretely improve transparency; accountability; predictability; and /or the participation. List of candidate activities by sub-areas: (a) Public Financial Management (both at the national and local levels); (b) Public Administration (both at the national and local levels); (c) Local Governance (sub-areas in addition to those under (a) and b); (d) Judicial and Legal Reforms; (e) Corporate Governance; (f) Participation of civil society in policy making ; (g) Anti-Corruption; (h) Others - all other activities that can be shown to fall within the scope of the Medium Term Agenda and Action Plan on Governance	Canada Norway Denmark	(1) 27 Nov 01	4.95	Fully committed	RSCG/RSDD
22	Cooperation Fund in Support of Formulation and Implementation of Poverty Reduction Strategies	(1) ADB DMCs (2) Projects in support of the formulation and implementation of national poverty reduction strategies in DMCs, including strengthening participatory and consultative processes, capacity building activities, advisory services, research support.	Netherlands	(1) 19 Nov 01	6.0	Fully committed	RSGS/RSDD
23	Cooperation Fund for the Water Sector	(1) ADB DMCs (2) Projects that support the promotion of effective water management policies and practices at regional, subregional, and country levels to catalyze the implementation of ADB's Water Policy in the Asia and Pacific region.	Netherlands Norway	(1) 10 Dec 01	20.0	Fully committed	RSAN/RSDD
24	Poverty Reduction Cooperation Fund	(1) ADB DMCs classified as A, B1, or B2 excluding India (2) Technical assistance for capacity and institution building to support poverty reduction strategy formulation, including studies on the enabling environment for poverty reduction, participatory poverty assessments and other poverty-focused surveys.	United Kingdom	(1) 4 Jul 02	55.0	Fully committed	RSGS/RSDD
25	Gender and Development Cooperation Fund	(1) ADB DMCs (2) Program of activities within the scope of ADB Policy on Gender and Development (1998) and Gender Action Plan (2001). Within this context the Fund will finance projects for the provision of policy advise, project preparation, training and capacity building, institutional support activities	Canada, Denmark, Norway	(1) 15 May 03	4.17	1.2	MKSS/MKRD
26	Poverty and Environment Fund	(1) ADB DMCs (2) TA projects and activities in the fields of protection, conservation and sustainable use of natural resources and ecosystem services; reduction of air and water pollution with direct impact on health and productivity of the poor; reduction of vulnerability to natural hazards and disaster prevention	Norway, Sweden	(1) 21 Jul 03	3.6	0.3	RSES/RSDD

No.	Name	Focus (1) Countries (2) Sectors	Donors	Date (1) Est'd (2) Repl'd	Total Amount ($ million)	Available Amount ($ million)	Technical Lead [a]
27	Cooperation Fund in Support of Managing for Development Results	(1) ADB DMCs (2) Promotion of results management techniques	Canada, Netherlands, Norway	(1) 23 Apr 04	2.93	1.2	SPD
28	Cooperation Fund for Regional Trade and Financial Security Initiative	(1) ADB DMCs with emphasis placed on assisting DMCs that are also APEC members and are most at risk with regard to money laundering, terrorist financing, or port and airport security (2) Feasibility studies, capacity building and development of policies, legislation, systems, and procedures towards strengthening DMCs' capacity to address anti-money laundering, combating financing of terrorism, promoting customs modernization measures to facilitate (a) detection and monitoring of cross-border movements of cash and monetary instruments, as well as goods and conveyances that may pose a security risk; (b) security-enhancing seaport and airport upgrades; (c) supply chain security; and (d) adherence to International Maritime Organization, World Customs Organization, and other international safety and security transportation standards. Activities that will complement the Asia-Pacific Economic Cooperation (APEC)'s Secure Trade in the APEC Region (STAR) Initiative.	Australia, Japan, United States	(1) 30 Jun 04	3.0	0.47	OGC
29	Cooperation Fund for Fighting HIV/AIDS in Asia and the Pacific	(1) ADB DMCs with priority to poorer DMCs; countries especially affected by or vulnerable to the HIV/AIDS epidemic, poor vulnerable and high risk groups which are identified as being predominantly injecting drug users, commercial sex workers and men-who-have-sex with men. (2) Activities to be financed should fall within 3 categories: Category 1: pilot demonstration of innovative approaches to fighting HIV/AIDS Category 2: knowledge base, policy and capacity building Category 3: program coordination, technical support, monitoring and evaluation	Sweden	(1) 17 Feb 05	12.78	Fully committed	RSAN/RSDD
30	Asian Tsunami Fund	India, Indonesia, Maldives, Sri Lanka, Thailand Emergency TA and investment projects to support reconstruction and rehabilitation	Luxembourg Australia	(1) 17 Feb 05	4.89	Fully committed	RSGS/RSDD
31	Pakistan Earthquake Fund	(1) Pakistan (2) Emergency grant financing for investment projects and technical assistance to support immediate reconstruction, urgent rehabilitation, and associated development activities	Finland Australia	(1) 1 Dec 05 (1) 24 May 06	5.29 20.0	Fully committed	PRM PRM
32	Republic of Korea e-Asia and Knowledge Partnership Fund	(1) All ADB DMCs (2) ICT, knowledge sharing	Republic of Korea	(1) 1 Jun 06	20.0		RSDD

No.	Name	Focus (1) Countries (2) Sectors	Donors	Date (1) Est'd (2) Repl'd	Total Amount ($ million)	Available Amount ($ million)	Technical Lead [a]
C.	Special Funds and Other						
	Japan Fund for Poverty Reduction	(1) ADB DMCs (2) Agriculture & Natural Resources; Education; Energy; Finance; Health, Nutrition & Social Protection; Multi-sector; Transport & Communication; Water Supply, Sanitation & Waste Management		(1) May 2000	344.9	153.10	OCO

[a] Responsible for internal promotion and donor liaison on technical/substantive aspects.
Note: OCO has responsibility in all cases for documentation, compliance oversight and reporting.
Source: ADB – Office of Cofinancing Operarations

FPS DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/ Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
Impact • Increased investment with improved effectiveness for poverty reduction in the Asia-Pacific Region	• See MTS II • Increase investment through projects with financing partnership • Qualitative improvement of projects with financing partnership	• ADB annual report • Annual report on financing partnership performance (prepared by OCO for Management and Board) • Surveys and evaluation reports	• Political and macro-economic stability in the region and globally • Private sector interest to invest in DMCs along ADB • Implementation of the MTS II
Outcome • Improved terms and structures with greater development impact of ADB supported projects or programs for the benefit of a larger range of clients, and increase in the flow of financial resources from external sources (other than ADB) • A high degree of client and financing partner satisfaction	• Increase of DVA cofinancing value at a faster rate than direct financing from ADB's own resources • Continued increase in number of projects with DVA cofinancing, financing partners and clients • Sustained high level of TA financing, greater than financing from ADB's TASF.	• ADB cofinancing statistics and reports compiled by OCO • Project completion and performance assessment reports • Feedback from financing partners and clients	• As above, plus • Ability of ADB to address issues identified in the FPS • Strong commitment of ADB Management to financing partnerships • Broad support and involvement of operational departments • Adequate processes, instruments, resources and skills
Outputs • Resource mobilization and transaction specific cofinancing agreements with value-addition by ADB • Improved relationship with financing partners • Innovative and market oriented partnership products and services	• Number of financing partnership agreements signed • Number of non-transaction specific cooperation agreements with cofinancing partners • Outreach/partnership events conducted • New products/facilities developed	• ADB cofinancing statistics and reports compiled by OCO • Feedback from cofinancing partners and clients • Action plan (Table 3 in the FPS)	• As above, plus • Financing partners aware of ADB's products and processes
Activities with Milestones 1. Implementation of action plan included Table 3 of the FPS 2. Processing and administration of financing partnership arrangements 3. Development of institutional support functions, including relationship management, product development, knowledge management, and strategy and operations alignment			**Inputs** Resources by various ADB offices/departments as outlined in the FPS

ADB = Asian Development Bank, DMC = developing member country, DVA = direct value added, FPS = Financing Partnership Strategy, MTS = Medium-term Strategy, TA = technical assistance, TASF = Technical Assistance Special Fund, OCO = Office of Cofinancing Operations.