ASIAN DEVELOPMENT BANK

# REVIEW OF

# ADB'S COFINANCING OPERATIONS

December 2001

## ABBREVIATIONS

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| ADB | Asian Development Bank |
| ADF | Asian Development Fund |
| CFA | Channel Financing Agreement |
| CFS | Complementary Financing Scheme |
| COFACE | Compagnie Francaise d'Assurance pour le Commerce Exterieur |
| CSP | Country Strategy and Program |
| DMC | developing member country |
| ECA | export credit agency |
| ECAP | Export Credit Arrangement Program |
| EIB | European Investment Bank |
| GEF | Global Environment Facility |
| IDCOL | Infrastructure Development Co. Ltd. |
| IFAD | International Fund for Agricultural Development |
| IsDB | Islamic Development Bank |
| JBIC | Japan Bank for International Cooperation |
| KfW | Kreditanstalt für Wiederaufbau |
| L/C | letter of credit |
| LTSF | long-term strategic framework |
| MFI | multilateral financial institution |
| MIGA | Multilateral Investment Guarantee Agency |
| NDF | Nordic Development Fund |
| OCO | Office of Cofinancing Operations |
| OCR | ordinary capital resources |
| ODA | official development assistance |
| OECD | Organisation for Economic Co-operation and Development |
| OPEC | Organization of Petroleum Exporting Countries |
| PCG | Partial Credit Guarantee |
| PPTA | Project Preparatory Technical Assistance |
| PRC | People's Republic of China |
| PRG | Political Risk Guarantee |
| PRI | political risk insurance |
| PSG | Private Sector Group |
| PSO | private sector operations |
| TA | technical assistance |

## NOTES

(i) In the context of ADB's operations, the term "country" refers to a member of ADB and does not imply any view on the part of ADB as to its sovereignty or independent status.

(ii) In this report, "$" refers to US dollars.

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# I. INTRODUCTION

1. The *official* cofinancing operations of the Asian Development Bank (ADB) commenced in 1970, and its *commercial* cofinancing operations began in 1973. Mirroring the subsequent growth and development of the world economy and the economies of its developing member countries (DMCs), ADB's cofinancing policies and operations have evolved considerably over the past three decades. Cofinancing operations during the last five years were guided by ADB's Cofinancing Strategy of 1995 (the 1995 Cofinancing Strategy).[1] The main objectives of this report are to (i) review cofinancing operations under the 1995 Cofinancing Strategy;[2] (ii) examine the changing environment during the review period (encompassing the years 1996-2000); and (iii) highlight areas for further development.

# II. COFINANCING IN ADB OPERATIONS

## A. The Mandate

2. Article 2(i) of the *Agreement Establishing the Asian Development Bank* (the Charter) provides a clear mandate for cofinancing operations by specifying that one of the key functions of ADB is "to promote investment in the region of public and private capital for development purposes." Article 2(v) of the Charter expands this mandate by providing that ADB should cooperate with international institutions and national entities, both public and private, "which are concerned with the investment of development funds in the region, and to interest such institutions and entities in new opportunities for investment and assistance."

3. ADB's Long-Term Strategic Framework (2001-2015) notes that the "role of a regional development bank such as ADB will remain essential for mobilizing and catalyzing resources for the development of the DMCs, with the nature of this role varying with the level of development and capabilities of the individual countries."[3] It further recognizes the central role of the private sector and of markets in the development process, and provides that ADB must respond to "the challenges of mobilizing private sector resources to address the region's increasingly complex development agenda."[4]

4. Accordingly, the objective of cofinancing operations is to support ADB's catalytic role in raising and directing official and private financial flows to its DMCs and to appropriately leverage ADB's financial resources.

## B. The Evolving Strategy

5. While ADB has always actively pursued cofinancing, early efforts in the 1970s were focused mainly on mobilizing external funds for ADB projects from official bilateral and

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1 R80-95: *The Bank's Cofinancing Strategy*, 4 April (referred to hereafter as the 1995 Cofinancing Strategy paper).

2 The 1995 Cofinancing Strategy paper recommended that cofinancing operations under the new strategy be reviewed after three years. However, preparation of this paper was rescheduled in the wake of the Asian financial crisis and the subsequent preparation and approval of revised policies with respect to ADB's partial credit and political risk guarantees, the private sector development strategy, and private sector operations, all of which have a material impact upon ADB's cofinancing operations.

3 Sec.M17-01: *Long-Term Strategic Framework of the Asian Development Bank (2001-2015)*, 21 February, para. 87.

4 Ibid, para. 26.

multilateral sources. In the 1980s, guidelines were adopted to promote official cofinancing and to attract cofinancing from market sources through appropriate incentives.[5] This culminated in the introduction of new commercial cofinancing products such as the Complementary Financing Scheme (CFS) and guarantees.

6. During the 1990s, ADB adopted a broader view of cofinancing. The *Working Paper on Cofinancing Operations and Policies* of March 1992 stated that ADB should consider becoming actively involved in external resource mobilization, rather than simply filling financing gaps in its projects.[6] The Bank's Medium-Term Strategic Framework issued in 1995 envisaged ADB as a catalyst institution that should increasingly transform its role to that of a project financier.[7] This paper put cofinancing on a par with direct ADB assistance by stating that cofinancing is an essential aspect of the mobilization of financial resources for each DMC. Specific aspects of cofinancing and guarantee operations were discussed in two policy papers: *The Bank's Cofinancing Strategy*, and the *Review of the Bank's Guarantee Operations*, both issued in April 1995.[8]

7. The 1995 Cofinancing Strategy paper summarized the objectives of ADB's cofinancing strategy as follows:

(i) to catalyze the flow of 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.

8. The 1995 Cofinancing Strategy paper then set forth the following guidelines for meeting these objectives:

(i) Official cofinancing on non-concessional terms would be mainly provided to growth-oriented projects in DMCs, and concessional resources would be targeted at Asian Development Fund (ADF) countries (i.e., those receiving ADF assistance exclusively).
(ii) Parallel commercial cofinancing would be encouraged for DMC projects that could attract private capital on a voluntary basis.
(iii) DMCs that were unable to obtain financing maturities long enough to suit their projects would be candidates for ADB guarantee support.
(iv) If guarantee support was not suitable for the requirements of a borrower, ADB would assist, where appropriate, to arrange CFS loans.
(v) ADB would take proactive measures to enable DMCs to obtain export credit on the best possible terms.

9. Emphasis was placed on the need to continue and expand capital market development as a source of project finance. The 1995 Cofinancing Strategy paper looked forward to the use of ADB guarantee support to provide political risk mitigation to private investors. It was expected that private sector projects would produce good cofinancing opportunities, noting that large bankable projects would be needed in the pipeline. Finally, the paper underscored the need for a dramatic expansion in commercial and export credit cofinancing.

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[5] R89-82: *Cofinancing with Commercial and Export Credit Sources*, 23 July; and R74-84: *Cofinancing with Official Sources*, 9 August.
[6] Working Paper 3-92: *Cofinancing Operations and Policies,* 17 March.
[7] *The Bank's Medium-Term Strategic Framework (1995-1998),* March 1995.
[8] R80-95: *The Bank's Cofinancing Strategy*, 4 April; and R81-95: *Review of the Bank's Guarantee Operations*, 4 April.

10. Against this background, ADB Management established an Interdepartmental Working Group on Cofinancing (the Working Group) in March 1996 to (i) examine issues and constraints; (ii) develop achievable cofinancing targets; (iii) recommend steps to catalyze external resources for ADB-assisted projects and programs; and (iv) operationalize the 1995 Cofinancing Strategy and guarantee policies, including the mainstreaming of cofinancing operations. The recommendations in the *Report of the Interdepartmental Working Group on Cofinancing*[9] were approved by Management in September 1996 (see Appendix 1 of this report for a summary of the recommendations). These recommendations guided ADB's cofinancing operations during most of the period under review. Consistent with the increased role of cofinancing in ADB operations, the Cofinancing Division was upgraded to become the Office of Cofinancing Operations (OCO) in July 1996.

## III. REVIEW OF ADB COFINANCING OPERATIONS SINCE 1995

11. Cofinancing operations during the review period were refocused and adjusted as necessary, in line with strategic objectives presented in the 1995 Cofinancing Strategy. In this regard, steps were taken internally to (i) identify commercial and export credit agency (ECA) cofinancing opportunities early in the programming and project processing cycle, (ii) streamline cofinancing products, and (iii) increase support for staff seeking to tap cofinancing.[10] Externally, ADB has continued to interface actively with a wide range of cofinancing providers, both official and commercial. Significant attention was given during the review period to (i) linking resource mobilization efforts to the thematic priorities of ADB operations, and (ii) working closely with potential public and private sector borrowers to identify how best to integrate cofinancing into their overall financing needs.

12. With respect to official cofinancing, both concessional and non-concessional lending as well as grant funding were mobilized during the review period to support ADB-assisted projects. Such cofinancing has enhanced the developmental benefits of ADB projects by providing resources for project components that complement ADB direct lending or produce other synergistic benefits. In terms of grant funding, there was a significant increase in the number of channel financing facilities from bilateral sources. This funding has proven to be extremely effective in increasing the poverty reduction impact of ADB-assisted projects. Recent examples of cofinancing initiatives aimed at strengthening the link between grant funding and poverty reduction include the establishment of a Cooperation Fund for India (focused on poverty reduction activities) and the Cooperation Fund in Support of the Formulation and Implementation of National Poverty Reduction Strategies. Both funds were approved in 2001. The recent establishment of a Governance Cooperation Fund is another example of how cofinancing supports implementation of ADB's poverty strategy.

13. Staff worked diligently during the review period to arrange innovative and cost-effective commercial cofinancing, supported by CFS or guarantees, as necessary.[11] Examples include a $950 million export financing facility in Thailand, a $65 million floating rate note facility to provide funding for small and medium enterprises in Sri Lanka, and a

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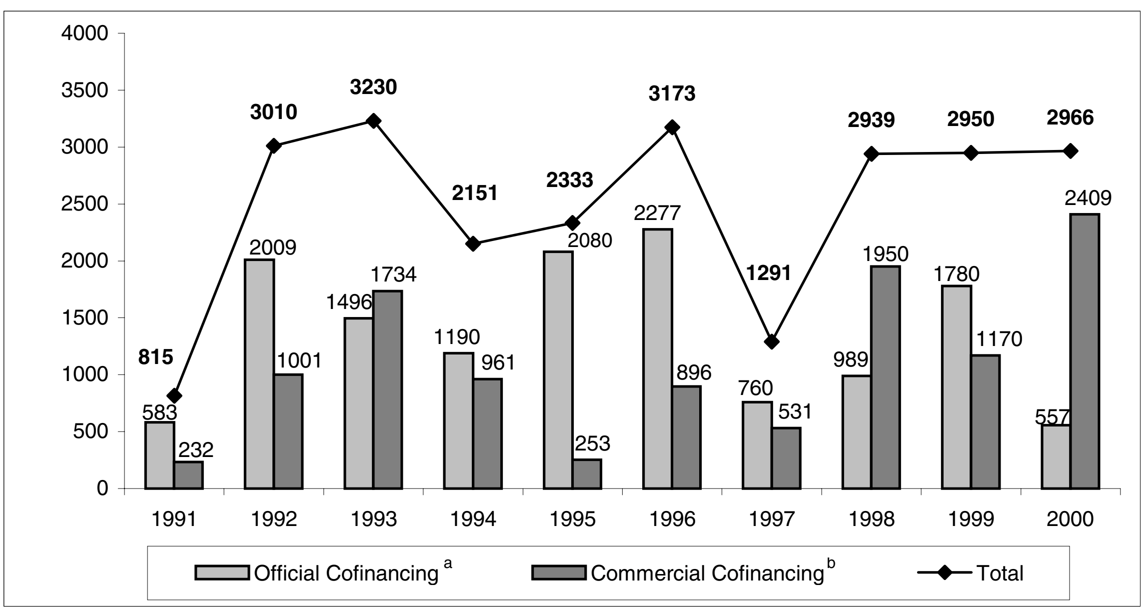
[9] *Report of the Interdepartmental Working Group on Cofinancing*, 23 July 1996.
[10] This support is detailed in para. 56.
[11] Specific examples of innovative cofinancing operations are provided in text boxes. The cost-effectiveness of commercial operations is enhanced by means of a competitive selection process in which potential cofinanciers submit priced (and if necessary, underwritten) offers. These offers are evaluated by ADB and the borrower to determine the top-ranked proposal and the mandating decision.

number of CFS and guarantee operations in support of private sector infrastructure projects throughout the region. The review period also featured the operational debut of ADB's Political Risk Guarantee, which was used to mobilize commercial cofinancing for projects in Bangladesh, Pakistan, and Sri Lanka.

## A. Overview

14. During 1996-2000, cofinancing mobilized from all sources amounted to $13.3 billion, comprising $6.4 billion from official sources (including $401 million in grant funds), and $7.0 billion from commercial sources (including $975 million in ECA cofinancing). This represented a 15 percent increase over the $11.5 billion of total cofinancing mobilized in 1991-1995, as shown in Figure 1.[12] Cofinancing from all sources was equal to about 42 percent of ADB's total direct lending during the last five years. A total of 155 ADB projects received cofinancing during the review period, an increase of 63 percent from the 1991-1995 period, when only 95 projects benefited from cofinancing. During the review period, the transportation and communications sector and the energy sector each accounted for about 31 percent of cofinancing volume, and the finance sector for 10 percent. In terms of the number of projects that received cofinancing during 1996-2000, 40 projects were in the social sectors, followed by 37 projects in the transportation and communications sector, 29 projects in the agriculture and natural resources sector, and 26 projects in the energy sector. See Appendix 2 for charts indicating the distribution of commercial and official cofinancing by sector, for 1991-1995 and 1996-2000.

**Figure 1: Official and Commercial Cofinancing, 1991-2000**
($ million)




a Official cofinancing consists of loans and grants.
b Commercial cofinancing includes export credit.

15. The increase in total cofinancing in 1996-2000 compared with the previous five-year period is due to a significant increase in commercial cofinancing, which grew from

[12] A detailed annual breakdown of official and commercial cofinancing is provided in Appendix 2, Table A2.1.

approximately $1.0 billion in 1991-1995 to about $6.0 billion in 1996-2000. The bulk of this increase (about $3.2 billion) comes from cofinancing provided by domestic financial institutions (mainly in the People's Republic of China [PRC]).[13] Official cofinancing and ECA cofinancing, on the other hand, decreased by $995 million and $2.2 billion, respectively, over the same period.[14] The decrease in official cofinancing is due primarily to the substantial reduction in cofinancing from other major multilateral financing institutions, particularly the World Bank.[15] This reflects a conscious effort on the part of ADB and the World Bank to increase coordination and avoid overlap in their respective lending programs. The decrease in ECA cofinancing, on the other hand, is due mainly to reduced demand for major infrastructure projects in the wake of the Asian financial crisis.[16]

16. The growth in the number of projects that received cofinancing during the review period is attributable to an increase in (i) the number of smaller social infrastructure projects, many of which require grant cofinancing; (ii) the number of DMCs receiving cofinancing; and (iii) the number of multilateral institutions and countries from which cofinancing was obtained, which grew from 29 in 1991-1995 to 51 in 1996-2000.

## B. Official Cofinancing

17. Official cofinancing, in conjunction with ADB's direct lending operations, has played a major role in the financing of priority public sector development projects in DMCs. In addition to its financial impact, official cofinancing has provided important complementarity to ADB-assisted projects and programs in terms of (i) improved aid coordination; (ii) enabling ADB to draw upon the sector expertise of other funding agencies; and (iii) enhanced implementation capacity in DMCs.

18. Diversification of official cofinancing sources has improved significantly, as evidenced by an increase in the number of official cofinancing sources from 23 in 1991-1995 to 34 in the last five years. In terms of resources, official cofinancing (including loan and grant cofinancing) contributed about 48 percent of the total cofinancing amount during 1996-2000. Of the $6.4 billion of total official cofinancing, $4.4 billion (69 percent) was provided by bilateral agencies and the rest by multilateral institutions. Japan was ADB's largest cofinancier during the review period and provided substantial assistance during the Asian financial crisis under the New Miyazawa Initiative. In addition to its financial contribution, Japan played a key role in enhancing the development impact of the ADB programs in which it participated, particularly in terms of increasing the incentives for DMCs to adopt difficult but much-needed policy reforms.

19. Grant cofinancing increased by 74 percent during 1996-2000, while official loan cofinancing decreased by 16 percent, compared with the 1991-1995 period. The continued significance of official cofinancing reflects (i) the increased demand for official cofinancing due to the financial crisis in the region; (ii) the increased demand for grant cofinancing under ADB's poverty reduction strategy; and (iii) greater awareness of cofinancing operations among ADB staff.

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[13] OCO started recording domestic cofinancing statistics in 1996, as recommended in the *Report of the Interdepartmental Working Group on Cofinancing,* 23 July 1996.

[14] These factors had a significant impact on progress in achieving cofinancing targets, as further discussed in paras. 53-55.

[15] Cofinancing with the World Bank dropped from $3.4 billion in 1991-1995 to $1.1 billion in 1996-2000.

[16] Such projects typically require significant amounts of imported capital equipment eligible for export credit.

### 1. Official Loan Cofinancing

20. Official loan cofinancing mobilized during 1996-2000 amounted to $6.0 billion, comprising almost $3.9 billion in concessional funds and $2.1 billion in non-concessional funds. As recommended in the 1995 Cofinancing Strategy paper, concessional funds have been utilized mainly in conjunction with ADF loans, whereas non-concessional funds have been used exclusively to supplement ordinary capital resources (OCR) lending.

21. Concessional loan cofinancing played an important developmental role in ADB's operations in low-income DMCs, which have restricted access to external resources and limited debt service capabilities. Specifically, such cofinancing provided significant operational leverage to ADB's operations in those DMCs that have access only to ADF funding, and where the scarcity of ADF resources has most restricted ADB's operations. Furthermore, in middle-income DMCs, where ADB can provide only OCR loans, concessional loans from official cofinanciers provided excellent financial complementarity, as such concessional cofinancing effectively lowered the overall interest rates. ADB's assistance to the social sector has benefited significantly from concessional cofinancing, particularly in terms of expanding the number of beneficiaries due to the additional resources provided (see Box 1). Such cofinancing has also effectively lowered the overall financing cost of a number of social safety net programs and environmental projects, which generally do not generate sufficient revenues to fully cover debt service.

**Box 1: Indonesia - Health and Nutrition Sector Development Program**

At the request of ADB, the Japan Bank for International Cooperation (JBIC) provided $300 million equivalent of cofinancing for the Indonesia Health and Nutrition Sector Development Program.[1] The combination of ADB assistance of $300 million and JBIC cofinancing made it possible for the Government of Indonesia to implement new approaches for maintaining health, nutrition, and family planning services during times of economic adversity and social upheaval.

The Program focused on ensuring that essential health, nutrition, family planning, and social services reached the poorest and most vulnerable population groups (pregnant women, infants, street children) during the recent crisis. It also assisted Indonesia to encourage administrative change, decentralization, and local autonomy; and to promote the importance of health to local government decision-makers.

Cofinancing from Japan played a critical role in strengthening the Program's policy component and expanding the scope of its poverty reduction efforts.

[1] Loan 1675/1676-INO: Health and Nutrition Sector Development Program, approved in March 1999.

22. Non-concessional official loan cofinancing, on the other hand, has provided vital financing to commercially viable public sector projects and selected programs, mainly in relatively high income DMCs and blend countries. Such non-concessional official loan cofinancing has significantly contributed to ADB's efforts to assist economic growth in the region, mainly through financing infrastructure and financial sector projects critical for such growth.

23. From 1996 to 2000, the Japan Bank for International Cooperation (JBIC) provided official loan cofinancing of $3.6 billion.[17] While concessional loan cofinancing from JBIC increased from $1.5 billion in 1991-1995 to almost $2.5 billion in 1996-2000, its untied (semi-commercial) loan cofinancing decreased from $1.7 billion to about $1.0 billion. During the period under review, JBIC cofinancing constituted about 27 percent of ADB's total cofinancing and 57 percent of its official loan cofinancing. Concessional loans from JBIC have supported ADB's operations in the energy, agriculture and natural resources, transport and communications, and social infrastructure sectors, and its untied (semi-commercial) loans cofinanced ADB projects and programs mainly in the energy, finance, and transport and communications sectors. Under the New Miyazawa Initiative, JBIC provided a total of $1.6 billion in cofinancing in 1998 and 1999. In 2000, however, official loan cofinancing from JBIC dropped to $109 million, and it is not expected to be significantly higher in the short term, due in part to cuts in Japan's official development assistance (ODA) budget.

24. During the last five years, Germany and the United Kingdom were the other major bilateral sources of official loan cofinancing, providing $187 million and $127 million of official loan cofinancing, respectively. Germany, through Kreditanstalt für Wiederaufbau (KfW), and the United Kingdom, through the Commonwealth Development Corporation, cofinanced mainly large infrastructure projects with tied loans. Other bilateral loan cofinanciers during the review period were Denmark, France, Kuwait, Netherlands, Norway, Spain, Sweden, and Thailand.

25. Multilateral institutions provided about $1.7 billion in concessional and non-concessional loan cofinancing during the review period, as compared with $3.7 billion during 1991-1995. Excluding the World Bank, with which cofinancing has dropped dramatically in recent years,[18] multilateral institutions provided $596 million in official loan cofinancing during 1996-2000, an increase of 84 percent over 1991-1995. These institutions include the European Investment Bank (EIB), International Fund for Agricultural Development (IFAD), Islamic Development Bank (IsDB), Nordic Development Fund (NDF), and the OPEC Fund for International Development (OPEC Fund).

26. Since cooperation between ADB and EIB was revitalized in 1993, EIB has been the second largest multilateral cofinancier after the World Bank. During 1996-2000, EIB's non-concessional loan cofinancing for ADB projects amounted to $197 million. Recently, however, EIB has refocused its public sector financing on regional projects (those benefiting two or more countries at the same time), which may affect future cofinancing with EIB. Cooperation with the OPEC Fund and NDF intensified starting in 1996, and, in contrast to the previous five-year period, both institutions became consistent contributors to ADB projects, cofinancing $162 million and $76 million, respectively, during 1996-2000. This level of cofinancing with both institutions is expected to continue in the medium term, as their concessional loan funds are complementary to ADB lending, and healthy project pipelines exist with both institutions. IFAD contributed a total of $75 million in concessional loan cofinancing during the last five years, $60 million of which was realized in 1996-1997. During the last five years, IsDB provided a total of $60 million in concessional and non-

[17] Japan's official loan cofinancing was provided by the Export-Import Bank of Japan (JEXIM) and Overseas Economic Cooperation Fund (OECF) prior to October 1999, when the two institutions were dissolved and JBIC was established. JBIC operations consist of (i) international financial operations (non-ODA), which used to be performed by JEXIM; and (ii) overseas economic cooperation operations (ODA), previously carried out by OECF.

[18] Cofinancing with World Bank declined by $2.3 billion over the five-year period 1996-2000.

concessional loan cofinancing for four projects.[19] IsDB cofinancing is expected to increase in the medium term as the Central Asian republics (CARs) are becoming a major area for collaboration with IsDB.

### 2. Grant Cofinancing

27. Grant cofinancing provides ADB's DMCs, particularly low income DMCs, with enhanced development assistance in two forms: (i) grants arranged in conjunction with ADB loan projects; and (ii) technical assistance (TA) for project implementation, advisory activities, and regional activities. Given ADF resource constraints, and the increased focus on poverty reduction, the key role of grant cofinancing, particularly in the social and environmental sectors, has been increasingly recognized.[20] Although the grant components of ADB loan projects tend to be relatively small, grant cofinancing has enabled ADB to include targeted poverty interventions in its projects, since DMCs are often unwilling to borrow for such activities. Grant cofinancing has been particularly effective for grassroots activities with participation from local communities in ADB's social projects. The expertise and experience brought by bilateral funding agencies have contributed to the sustainability of ADB-financed projects, while grant cofinancing has improved the concessionality of ADB lending to low income DMCs.

28. There has been a significant increase in the *amount* of grant cofinancing, mainly because of the increased number of, and donor interest in, stand-alone TAs and components of ADB loan projects requiring grant cofinancing. During 1996-2000, Japan provided $110 million in grant cofinancing to DMCs (in addition to its contributions to the Japan Special Fund and the Japan Fund for Poverty Reduction). This amount was about 15 percent higher than the $96 million Japan provided in 1991-1995 and accounted for 28 percent of total grant cofinancing, followed by the United Kingdom and Norway, each with 12 percent. From 1970 to 2000, 17 bilateral sources and 9 multilateral sources provided grant cofinancing for ADB's operations:

**(i) Bilateral Sources**

Australia
Belgium
Canada
Denmark
Finland
France
Germany
Italy
Japan
Netherlands
New Zealand
Norway
Spain
Sweden
Switzerland
United Kingdom
United States

**(ii) Multilateral Sources**

Global Environment Facility
International Labour Organization
Transport Corridor Europe Caucasus Asia
United Nations Children's Fund
United Nations Development Programme
United Nations Drug Control Programme
United Nations Population Fund
World Food Programme
World Health Organization

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[19] There was no cofinancing from IsDB during 1991-1995.
[20] The potential for using grant cofinancing to support private sector operations is also acknowledged, and discussed further in paras. 81-87.

29. The establishment of cooperation funds through the Channel Financing Agreement (CFA) modality accounts for a large portion of official grant cofinancing.[21] It is noteworthy that of the approximately $90 million equivalent in bilateral grants arranged for stand alone TAs and components of loan projects from 1996 to 2000, about $24 million equivalent (28 percent) was funded through CFAs, as compared with $17 million (or 28 percent of bilateral grants) during 1991-1995. Originally aimed to finance general TA activities, cooperation funds are increasingly being developed to support thematic issues such as poverty reduction, renewable energy, climate change, and governance.[22]

30. In March 2000, ADB approved a revised service charge structure for the administration of untied grants provided by bilateral donors. The new service charges, which are lower than those in the previous system but which still ensure the recovery of ADB's incremental costs of administering such funds, have substantially increased the attractiveness to donors of channeling their grant funds to DMCs through ADB. Three new funds were established in 2000, and five new funds have been established in 2001. Another important step in the mobilization of grant cofinancing is the recent agreement with the Global Environment Facility (GEF) on working arrangements for the transfer of project preparatory grant funds to ADB. About $2 million in project preparatory TA grants from GEF in 2000 is expected to lead to about $14 million in GEF grants for components of ensuing loan projects.

## C. Commercial Cofinancing

31. During the period under review, ADB played a catalytic role in structuring and arranging a wide range of commercial cofinancing operations. With few exceptions, these operations tended to be more complex than in previous years. The need for additional structuring, including the use of ADB credit enhancements, increased significantly following the onset of the financial crisis in mid-1997.

### 1. Parallel Commercial Cofinancing

32. During the years immediately prior to the financial crisis, foreign commercial banks and other foreign lending institutions were quite willing to lend in the Asian region and to participate in ADB projects as cofinanciers on an "uncovered" parallel basis – without any support or credit enhancement from ADB.[23] This situation reflected the fact that many DMCs in the region had reached a stage where they could attract foreign private capital on their own credit. During the three years prior to the crisis (1994-1996), six foreign currency loans were arranged for ADB-assisted projects on an uncovered parallel basis. These loans,

[21] Under a CFA, the donor enters into a comprehensive umbrella-type arrangement with ADB whereby (i) the donor provides a lump-sum untied grant fund to be administered by ADB (but the fund does not become part of ADB's own resources); (ii) the donor indicates its preferred sectors and recipient countries for the use of the fund; and (iii) the donor and ADB agree on the specific activities to be financed under the fund.

[22] In 2000, ADB approved a thematic cooperation fund with the Netherlands: Cooperation Fund for Promotion of Renewable Energy and Energy Efficiency ($6 million). In 2001, five additional thematic cooperation funds have been approved as follows: Canada: Cooperation Fund on Climate Change (Canadian dollars 5.0 million); United Kingdom: Cooperation Fund for India (£30 million); Netherlands: Cooperation Fund in Support of the Formulation and Implementation of National Poverty Reduction Strategies ($6 million equivalent); Canada: Governance Cooperation Fund (Canadian dollars 2.25 million); and Netherlands: Cooperation Fund for the Water Sector ($4.5 million equivalent).

[23] ADB credit enhancement products comprise the CFS (since 1993, used only for private sector projects), the Partial Credit Guarantee, and the Political Risk Guarantee.

totaling $417.1 million, were provided for four countries: PRC, Lao People's Democratic Republic,[24] Philippines, and Viet Nam. In contrast, during the three years immediately following the crisis (1998-2000), there were only two foreign currency loans provided for ADB-assisted projects on an uncovered basis. These loans, totaling $308.0 million, were provided for projects in PRC and Philippines.

33. As a result of the recent financial crisis, there is a greater awareness of the risks of borrowing foreign exchange to fund projects that have only local currency revenue. Between 1997 and 2000, about $3.2 billion in local currency was mobilized from domestic financial institutions for ADB projects, particularly in the PRC ($3.06 billion).

### 2. Complementary Financing Scheme

34. During 1996-2000, CFS was used to mobilize $469.5 million of commercial cofinancing for eight ADB-assisted private sector projects (Table 1).[25] Such cofinancing, provided on a highly selective basis, supported funding for private sector projects in Bangladesh ($20.0 million), PRC ($171.5 million), Pakistan ($60.5 million), Philippines ($191.0 million), and Viet Nam ($26.5 million).[26] Two CFS transactions received awards from leading international financial publications for their design and structuring: Fujian Pacific Electric Company Limited (PRC) in 1998,[27] and Chengdu Generale des Eaux - Marubeni Waterworks Company Limited (also in PRC) in 1999.[28] In the aftermath of the Asian financial crisis, the attractiveness of ADB guarantee support has increased significantly. Nevertheless, CFS continues to be an important credit enhancement product, particularly for foreign currency financing of private sector infrastructure projects.[29] In this regard, it is noteworthy that seven of the eight CFS transactions shown in Table 3 were completed after the onset of the crisis in mid-1997.

35. Since ADB acts as lender-of-record in CFS transactions, the commercial lenders participating in the transaction (CFS lenders) benefit from certain ADB privileges and immunities, including exemption from any restrictions on the conversion or transfer of funds. While important, such privileges and immunities cover only part of the political risk spectrum. To cover other political risks (such as expropriation, political violence, or breach of contract), some CFS lenders have made use of private political risk insurance (PRI). ADB has followed such developments closely and has expressed concern in cases where the proposed PRI cover would overlap with the mitigation of currency inconvertibility and transfer risks being provided by the CFS loan. Overlapping coverage of this type would, if not priced to reflect the benefits of ADB's CFS credit enhancement, diminish the perceived value of the risk mitigation provided under CFS.[30]

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[24] Loan 1329-LAO: Theun-Hinboun Hydropower Project, for SDR 35.066 million ($60.0 million equivalent), approved in November 1994. In this project, ADB's direct loan was used by the Government to capitalize a joint venture project company. In addition to parallel commercial cofinancing of $60 million, the project also benefited from $70 million of ECA cofinancing.

[25] This compares with $312.7 million in CFS cofinancing arranged for 12 projects during the previous five-year period.

[26] The selectivity of CFS usage reflects, inter alia, the approach set out in the 1995 Cofinancing Strategy.

[27] Loan 1610-PRC: *Fujian Pacific Electric Company Limited*, approved in February 1998.

[28] Loan 1669-PRC: *Chengdu Generale Des Eaux-Marubeni Waterworks Company Limited*, approved in February 1999.

[29] Since CFS relies on ADB's preferred creditor status and is designed to ensure preferential access to scarce foreign exchange reserves, it is not a suitable mechanism to provide cover for domestic lenders, or to mobilize local currency financing.

[30] The International Finance Corporation (IFC) has taken a similar position on this matter.

**Table 1: ADB Projects with CFS Cofinancing, 1996-2000**
($ million)

| Year | Country | Project | Amount | Term | Financing |
|---|---|---|---|---|---|
| 1996 | Pakistan | Fauji Kabirwala Power Company | 32.0 | 14 years | ADB direct loan |
| | | | 5.3 | - | ADB equity investment |
| | | | 60.5 | 12-year syndicated loan | ADB Complementary Financing Scheme (CFS) loan |
| 1998 | PRC | Fujian Pacific Electric Company Limited | 40.0 | 15.5 years | ADB direct loan |
| | | | 10.0 | - | ADB equity investment |
| | | | 150.0 | 12-year syndicated loan | ADB CFS loan |
| | | | 129.0 | 16-year export credit financing | Compagnie Francaise d'Assurance pour le Commerce Exterieur (COFACE) and Compañia Española de Seguros de Crédito a la Exportación (CESCE) insured facilities |
| | | | 218.0 | 12-year syndicated loan | Commercial loan without credit enhancement |
| | | | 30.0 | 10-year syndicated loan | Commercial loan without credit enhancement |
| 1998 | Viet Nam | Nghi Son Cement Corporation Limited | 30.0 | 15 years | ADB direct loan |
| | | | 26.5 | 8.5-year syndicated loan | ADB CFS loan |
| | | | 30.0 | 10.5-year direct loan | IFC A loan |
| | | | 26.5 | 8.5-year syndicated loan | IFC B loan |
| | | | 54.6 | 12.9-year direct loan | JBIC (non-ODA) loan |
| | | | 101.3 | 12.9-year direct loan | JBIC (non-ODA) loan |
| 1999 | PRC | Chengdu Generale des Eaux - Marubeni Waterworks Company Limited | 26.5 | 12 years | ADB direct loan |
| | | | 21.5 | 12-year syndicated loan | ADB CFS loan |
| | | | 26.5 | 12-year direct loan | EIB direct loan with commercial risk guarantee from commercial lenders |
| 1999 | Philippines | Maynilad Water Services, Inc. | 45.0 | 15 years | ADB direct loan |
| | | | 126.0 | 12-year syndicated loan | ADB CFS loan |
| | | | 59.0 | 12-year direct loan | EIB direct loan with commercial risk guarantee from commercial lenders |
| | | | 120.0 | 12-year syndicated | Commercial loan with |

| | | | | | |
|---|---|---|---|---|---|
| | | | | loan | political risk insurance (PRI) covered by COFACE |
| 1999 | Philippines | Philippine International Air Terminals Co., Inc | 40.0 | 15 years | ADB direct loan |
| | | | 40.0 | 15-year syndicated loan | ADB CFS loan |
| | | | 50.0 | 15-year direct loan | IFC A loan |
| | | | 75.0 | 15-year syndicated loan | IFC B loan |
| | | | 145.0 | 15-year syndicated loan | KfW-underwritten commercial loan with PRI from Germany |
| | | | 90.0 | 12-year syndicated loan | Commercial loan with private PRI |
| 2000 | Bangladesh | AES Meghnaghat Limited | 50.0 | 16 years | ADB direct loan |
| | | | 20.0 | 10-year syndicated loan | ADB CFS loan |
| | | | 70.0 | 15-year syndicated loan | ADB Political Risk Guarantee covering principal and interest |
| | | | 20.0 | 16-year senior loan | Infrastructure Development Co. Ltd. (IDCOL) |
| | | | 60.0 | 23-year subordinated loan | IDCOL |
| 2000 | Philippines | Manila North Tollways Corporation | 45.0 | 13 years | ADB direct loan |
| | | | 25.0 | 12-year syndicated loan | ADB CFS loan |
| | | | 55.0 | 13-year direct loan | Export Finance and Insurance Corporation insured loan |
| | | | 52.5 | 13-year syndicated loan | Commercial loan with Multilateral Investment Guarantee Agency cover |
| | | | 30.0 | 13-year syndicated loan | COFACE insured loan |
| | | | 45.0 | 13-year direct loan | IFC A loan |
| | | | 7.5 | - | Commercial letter of credit facility |

### 3. Guarantee Support

36. Since guarantee operations commenced in 1988, ADB has provided a total of 13 guarantees in support of commercial cofinancing. The first 10 operations utilized the Partial Credit Guarantee (PCG), while the remaining three operations, all in 2000, utilized the Political Risk Guarantee (PRG). Table 2 compares guarantee operations during the review

period with those of the previous 5-year period. The results show that, during the period 1991-1995, ADB provided PCG support for four projects, with aggregate guarantee coverage of $178 million. In contrast, during the review period (1996-2000) ADB provided guarantees for six projects, with total guarantee coverage of about $1.1 billion. These figures reflect the following noteworthy changes during the review period: (i) a sharp increase in the number of PRG operations; (ii) a sharp increase in leverage between ADB's direct loans and guaranteed cofinancing (amounting to about 3.8 times during the review period); and (iii) a more balanced mix of guarantee operations during the review period, consisting of three PCGs and three PRGs (compared with four PCGs and no PRGs during the previous period). The increase in guarantee operations suggests that revisions to ADB's guarantee policy, together with measures to streamline the PCG and the PRG, have begun to yield results.[31] There also appears to be a growing realization among ADB staff and DMCs that guarantee support can be used in creative ways to mobilize substantial additional resources for priority projects.

**Table 2: ADB Guarantee Operations, 1991-2000**
($ million)

| Year | ADB Direct Loan Amount | Number of Guarantees, by Type | | Guarantee Amount [a] |
|---|---|---|---|---|
| | | PCG | PRG | |
| **1991-1995** | **532** | **4** | **-** | **178** |
| **1996-2000** | | | | |
| 1996 | - | - | - | - |
| 1997 | 5 | 1 | - | 50 |
| 1998 | 55 | 2 | - | 795 |
| 1999 | - | - | - | - |
| 2000 | 226 | - | 3 | 251 |
| **Subtotal** | **286** | **3** | **3** | **1,096** |

- Indicates no value.
[a] Refers to present value of PCGs and face amount of PRGs.

### a. Partial Credit Guarantee

37. As ADB's most comprehensive credit enhancement product, the PCG can protect commercial cofinanciers against both the political and commercial risks of a project. The PCG has been used primarily to extend the tenor of commercial cofinancing for such projects. However, in the case of the $1.0 billion Export Financing Facility for Thailand (negotiated in the midst of the Asian financial crisis), the PCG was used to cover the initial years of the transaction, where the risk was perceived to be the greatest (see Box 2). A summary of approved PCG transactions is shown in Table 3.

[31] Increased risk perception among commercial lenders is another factor that has influenced the increased use of ADB guarantee cover.

**Box 2: Thailand - Export Financing Facility**

The Export Financing Facility was established in 1998 to provide critically needed liquidity for export-oriented businesses in Thailand. The Facility comprised a direct ADB (OCR) loan of $50 million, and $950 million in commercial cofinancing supported by a Partial Credit Guarantee. This Guarantee covered the first three years of the cofinancing, where the commercial lenders perceived the risk to be the greatest. In addition to providing liquidity support for exporters, the Facility was considered a benchmark transaction, marking the first time that Thailand had borrowed from the international financial markets since the onset of the Asian financial crisis. The $950 million cofinancing was underwritten and arranged by 10 major international commercial banks:

- ABN AMRO Bank, N.V.
- The Bank of Nova Scotia Limited
- Bank of Tokyo-Mitsubishi, Ltd.
- Banque Nationale de Paris, Singapore Branch
- Barclays Capital
- Citicorp Investment Bank (Singapore) Limited
- The Development Bank of Singapore, Ltd.
- DKB Asia Limited
- The Industrial Bank of Japan, Limited
- Sakura Finance Asia Limited

The large size of the cofinancing, coupled with a prestigious underwriter/arranger group and a global syndication effort (in which a total of 68 institutions participated), provided a tangible expression of support for Thailand and helped to restore investor confidence during a period of considerable financial uncertainty. This was a substantial achievement for a major DMC borrower in real distress, and could not have been achieved without ADB's commercial cofinancing and guarantee support.

**Table 3: PCG Transactions, 1996-2000**
($ million)

| Year | Country | Project | Amount | Term | Financing |
|---|---|---|---|---|---|
| 1997 | Sri Lanka | Small and Medium Enterprise Assistance | 5.0<br>50.0 | 10 years<br>10-year syndicated loan | ADB direct loan<br>ADB PCG covering bullet repayment at maturity |
| 1998 | Sri Lanka | Credit Enhancement Facility for Private Enterprises | 5.0<br>65.0 | 10 years<br>10-year floating rate note | ADB direct loan<br>ADB PCG covering bullet repayment at maturity |
| 1998 | Thailand | Export Financing Facility | 50.0<br>950.0 | 5 years<br>5-year syndicated loan | ADB direct loan<br>ADB PCG covering principal and interest in first 3 years |

38. The Review of the Bank's Guarantee Operations in 1999 (the 1999 Guarantee Review),[32] noted that PCGs had been used very moderately since guarantee operations commenced in 1989. This was attributed, inter alia, to the complexity of processing guarantees and the limited awareness of ADB's guarantee products, both within ADB and in DMCs. The 1999 Guarantee Review therefore recommended that further steps be taken to mainstream the use of guarantees in ADB operations, and to promote their broader acceptance by DMCs. To ensure that PCGs continue to provide an attractive means of mobilizing additional resources, a review of ADB's guarantee fees for PCGs, conducted in 2000, recommended that ADB maintain its guarantee fee on public and private sector projects with host government counter-guarantee at 40 basis points per annum on the present value of the outstanding guarantee obligation. This pricing applies to projects in all DMCs, notwithstanding the different credit ratings such countries may have in the international capital markets. To cover its costs of processing PCGs, ADB also charges a front-end fee of 10-90 basis points, depending on the ratio of the guarantee to the ADB loan.[33]

### b. Political Risk Guarantee

39. The PRG made its operational debut in 2000, when it was used in connection with three ADB-assisted projects. The first PRG was for the AES Meghnaghat Limited power project in Bangladesh. It forms part of a financing package including a $50 million ADB direct loan, a $70 million loan from a syndicate of commercial banks covered by the PRG, and a syndicated loan from commercial banks totaling $20 million under CFS.

40. The second PRG, for a project in Pakistan,[34] has a significantly different focus. It supports a letter of credit (L/C) facility and covers certain political risks taken by international banks confirming L/Cs issued by Pakistan banks to finance imports to Pakistan required for export production. This PRG facility has a maximum aggregate limit of $150 million and will be available to a large number of confirming banks on a revolving basis. In addition to PRG support, ADB is providing a direct loan of $150 million and an equity investment of up to $2 million equivalent (see Box 3).

**Box 3: Pakistan - Small- and Medium-size Enterprise Trade Enhancement Finance Project**

The project marked the first time that ADB used its Political Risk Guarantee (PRG) to support trade financing. Under the project, ADB will guarantee payment to international banks confirming Letters of Credit (L/Cs) issued by eligible Pakistan banks if the issuing bank fails to pay under the L/C as a result of specified events (such as foreign exchange inconvertibility, transfer blockage, or other pre-agreed political events). This is expected to lower the financing cost of much needed intermediate goods, and help Pakistan become more export competitive. The project will also help to keep Pakistan country limits open for international banks confirming import L/Cs, and ensure continued access to finance at competitive terms by Pakistan small- and medium-sized enterprises (SMEs) during periods of political or economic uncertainty.

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32 R135-99: *Review of the Bank's Guarantee Operations*, 31 August.
33 R88-00: *Partial Credit Guarantee Charges*, 22 March.
34 Loan 1796-PAK: *Small- and Medium-size Enterprise Trade Enhancement Finance Project*, approved in December 2000.

The PRG covers L/Cs up to an aggregate value of $150 million. ADB's direct participation took the form of a $2 million equity investment in the Pakistan Export Finance Guarantee Agency and a $150 million OCR loan to Pakistan.

SMEs are a vital part of Pakistan's private sector and, as a major source of employment and income generation, have an important role in reducing poverty. The project was processed as a genuine public-private partnership. It provides for sovereign political risks to be unbundled from commercial risks, with ADB shouldering the former and the commercial banks the latter.

41. The third PRG was for AES Kelanitissa (Private) Limited to construct a $104 million power station in Sri Lanka, the first private power project in Sri Lanka assisted by ADB and the country's largest private power project. The PRG played an important role in mobilizing a total of $52 million in debt financing from a syndicate of commercial banks (Table 4). The financing package also includes a $26 million direct loan from ADB.

**Table 4: PRG Transactions, 1996-2000**
($ million)

| Year | Country | Project | Amount | Terms | Financing |
|---|---|---|---|---|---|
| 2000 | Bangladesh | AES Meghnaghat Limited | 50.0 | 16 years | ADB direct loan |
| | | | 70.0 | 15-year syndicated loan | ADB PRG covering principal and interest |
| | | | 20.0 | 10-year syndicated loan | ADB CFS loan |
| | | | 20.0 | 16-year senior loan | Infrastructure Development Co. Ltd. (IDCOL) |
| | | | 60.0 | 23-year subordinated loan | IDCOL |
| 2000 | Pakistan | Small- and Medium-size Enterprise Trade Enhancement Finance | 150.0 | 15 years | ADB direct loan |
| | | | 2.0 | - | ADB equity investment |
| | | | 150.0 | Letters of credit up to 360 days (but may be extended up to 3 years on a case to case basis) | ADB PRG cover in favor of international commercial banks that confirm import letters of credit issued by Pakistan banks |
| 2000 | Sri Lanka | AES Kelanitissa (Private) Limited | 26.0 | 12 years | ADB direct loan |
| | | | 31.0 | 12-year syndicated loan | ADB PRG covering principal and interest |
| | | | 20.9 | 12-year syndicated loan | Parallel private sector PRI covering principal and interest |

### c. Utilization of Guarantees

42. Although it was contemplated in 1995 that PCGs and PRGs could be provided for private sector projects without a counter-guarantee from the host government, no private sector projects using PCG support were processed during the period under review, and the three PRGs issued to date have been counter-guaranteed by their respective host country governments. The reasons that ADB's guarantee products were not more widely used were discussed in the 1999 Guarantee Review. These included (i) the limited number of large private infrastructure deals in which ADB participated; (ii) the fact that, prior to the crisis, sponsors were able to access capital markets without ADB support; and (iii) the reluctance or inability of some DMCs to provide government counter-guarantee support (which is a prerequisite for all public sector PCGs).[35] The Review of the Partial Risk Guarantee of the Asian Development Bank*,* issued in December 2000 (the 2000 PRG Review),[36] provided additional information concerning the non-utilization of the PRG product and led to a number of modifications to the PRG, as summarized in Table 5.

**Table 5: Overview of the Approved Changes to the PRG**

| Item | Former Features | Current Features |
|---|---|---|
| Coverage Scope | Coverage focused on breach of contract for build-operate-transfer(BOT)/build-own-operate (BOO) projects | Coverage explicitly includes all major political risks. Sector coverage extended beyond BOT/BOO projects |
| PRG Prudential Limit | Same as PSO limit | Provides for a new PRG limit of twice the PSO limit |
| Coguarantee Program and Collaboration Program | None | Introduces a Coguarantee Program and a Collaboration Program |
| Coverage Terms | Mainly principal and base interest. Cover of credit spread allowed but not encouraged | Up to full interest cover |
| Fees | Market-based guarantee fees | Clearly defined market-based fee structure and pricing guidelines |
| Product Name | Partial Risk Guarantee | Political Risk Guarantee |
| Marketing | Product not widely promoted | Provides for a targeted Marketing program |
| PRG Focus Group | None | PRG focus group established |

[35] Article 11(iv) of the ADB Charter provides that ADB guarantees can be used only to guarantee loans "participated in by the Bank." This direct participation requirement has also been a factor in limiting the use of ADB's guarantee products.

[36] R299-00, *Review of the Partial Risk Guarantee of the Asian Development Bank*, 1 December.

43. Looking ahead, the PCG is expected to continue to be an important commercial cofinancing product for public sector borrowers due to its flexibility, additionality, and suitability for a wide variety of project applications. The PRG is showing significant potential for increased use in connection with private sector projects as well as public-private partnerships. This is primarily demand-driven, particularly in the wake of the 11 September 2001 attacks in the United States. Post 11 September, the appetite for political risk coverage (either in the form of guarantees or investment insurance) has increased significantly.

## D. ECA Cofinancing

44. From 1996 to 2000, 10 projects included export credit in their financing packages for a total of $975 million, as shown in Table 6.[37] The PRC received export credits of $128.4 million from France and Spain for a power project. Power projects in India, Nepal, and Pakistan received ECA credits from Republic of Korea, Canada, and Norway for $153.0 million, $35.0 million, and $29.8 million, respectively. Bangladesh received an export credit from Canada for $7.0 million for a bridge project. Viet Nam received a credit of $155.9 million from Japan for a cement project, and $63.0 million from France and Malaysia for a water treatment project. The Philippines received credits of $120.0 million from France for a water services project, $145.0 million from Germany for an international air terminal project, and $138.0 million from Australia, France, and United States for a road rehabilitation project.

**Table 6: ADB Projects with Export Credit, 1991-2000**
($ million)

| Year | Public Sector | | Private Sector | | Total | |
|---|---|---|---|---|---|---|
| | No. of projects | Amount | No. of projects | Amount | No. of projects | Amount |
| **1991-1995** | **11** | **2,694** | **3** | **470** | **14** | **3,164** |
| **1996-2000** | | | | | | |
| 1996 | - | - | 4 | 374 | 4 | 374 |
| 1997 | 1 | 7 | - | - | 1 | 7 |
| 1998 | - | - | 1 | 128 | 1 | 128 |
| 1999 | - | - | 2 | 265 | 2 | 265 |
| 2000 | - | - | 2 | 201 | 2 | 201 |
| **Subtotal** | **1** | **7** | **9** | **968** | **10** | **975** |

- Indicates no value.

45. Despite the importance given to export credit cofinancing in the 1995 Cofinancing Strategy paper, such cofinancing declined significantly during the review period, from about

[37] Export credit is usually provided by (i) a commercial bank or syndicate of banks with the benefit of insurance or a guarantee from an ECA; or (ii) a direct loan from an ECA, with repayment terms generally between 2 and 10 years, subject to the OECD Arrangement. Export credit usually comes in the form of a *buyer credit*, whereby the loan is made directly to the importer or buyer to allow it to fund the purchase of exported goods or services primarily from the ECA's country. Export credit can also be extended through a *supplier credit*, whereby a supplier makes a sale having deferred payment terms, with the benefit of export credit insurance protecting it (or its commercial bank) against the buyer failing to meet its obligation to make payments when they become due.

$3.2 billion during 1991-1995 to $975 million during 1996-2000. Even excluding an exceptionally large amount of ECA cofinancing ($1.6 billion) in 1993 for six large-scale gas, power, and telecommunication projects, ECA cofinancing was still down sharply in 1996-2000. It appears that this decrease was due mainly to (i) the reduced demand for large physical infrastructure projects generally in the wake of the Asian financial crisis; and, (ii) in particular, the decline in the number of large public sector infrastructure projects in ADB's pipeline having significant amounts of imported content eligible for export credit support. The decrease may also be partly attributed to the increased cost and less favorable terms of export credit for public sector projects as a result of new guidelines issued by the Organisation for Economic Co-operation and Development (OECD).[38]

46. The 1995 Cofinancing Strategy paper urged ADB to be more proactive in obtaining ECA support for public sector projects. Accordingly, to enhance ADB's collaboration with ECAs, and to strengthen its export credit cofinancing pipeline, an ECA Cofinancing Officer was recruited in 1998 to join OCO's commercial cofinancing team. By early 1999, a revised framework for an ECA collaboration program had been developed with the objective of assisting ADB's public sector borrowers to obtain export credit cofinancing on the best terms available under the OECD Arrangement. Key features of this program, which was formulated in consultation with major ECAs and other multilateral institutions, are summarized below.

47. **Early Identification of Projects.** ADB will seek to identify as early as possible those projects that require significant amounts of imported capital equipment and/or services eligible for export credit support. By identifying such projects early, appropriate procurement packaging will allow ADB to leverage its resources. To implement this part of the ECA collaboration program, ADB has presented workshops in a number of major DMCs to explain to government agencies and public sector borrowers how cofinancing with export credit can help them mobilize additional, affordable funds and how to identify those ADB-assisted projects that could effectively use export credit.

48. **Advance Notice to ECAs.** When bid invitations are sent, ADB will notify interested ECAs and provide them with summary project information. This allows ECAs with proactive marketing mandates to contact potential suppliers at an early stage to help them develop their supplier/buyer credit finance package or simply to provide them with indicative evidence of support.

49. **Two-Bid Procedure.** Bid invitations for contracts eligible for export credit will specify that a commercial/technical bid be submitted with a "cash price," excluding any financing costs (to avoid any cross subsidy). Bidders will also be required to provide a financial bid, which would include either (i) a supplier/buyer credit finance package that may, at the bidder's option, include ECA cover; or (ii) acceptable evidence of ECA support should the

[38] The OECD Arrangement on Guidelines for Officially Supported Export Credits provides the institutional framework for an orderly market for officially supported export credits. The Arrangement seeks to prevent an export credit race in which exporters compete on the basis of favorable financing terms or "subsidies" from their respective governments and encourages competition on the basis of the highest quality and the best service at a competitive price. The 1997 *Guiding Principles for Setting Premia and Related Conditions* were agreed to by participants in the OECD Arrangement. These new guidelines include the creation of an econometric model to assess country risk and the establishment of initial minimum premium benchmarks assigned to seven country risk categories. As a result of these guidelines, for some DMCs (depending on their country risk category) the cost of export credit offered by some ECAs has increased.

bidder be successful. The financial bid invitations will normally specify that the terms are consistent with the OECD Arrangement.

50. **ADB Support of 15 Percent Deposit Requirement.** If warranted, ADB may assist in arranging commercial cofinancing and guarantee support to cover the 15 percent down payment on supply contracts, since such amount is not eligible for export credit according to the OECD Arrangement. This support would ordinarily be in the form of a PCG to the commercial lender, and would be provided under separate loan documentation parallel to the ECA supported tranche.[39]

51. **Economy and Efficiency in Procurement.** ADB-financed contracts and cofinanced contracts with ECA cover will be bid separately to allow different procurement procedures. While procurement under ADB's direct loan will follow ADB's procurement procedures, procurement under export credit will follow the two-bid procedure described above to ensure transparent competition among suppliers from as many countries as possible. Accordingly, under ECA financing, borrowers and buyers may retain the ability to request revised commercial/technical bids and financial package bids.

52. **ADB's Role during Negotiations.** ADB will act as a facilitator among the borrower, the supplier, commercial lenders, and ECAs. Since ECAs and their lenders have different export credit programs and work under different legal systems, ADB is prepared to work with existing export credit program documentation and will not try to impose a standardized form of documentation on ECA-covered cofinancing.

## E. Cofinancing Targets

53. In its 1996 Report, the Interdepartmental Working Group on Cofinancing envisaged an increase in the average annual cofinancing ratio (measuring total cofinancing in relation to direct ADB assistance) from about 0.5 in 1991-1995 to 0.7 during the 1997-1999 period, mainly through a dramatic expansion of commercial and export credit cofinancing. However, the 1997-1999 period coincided with the Asian financial crisis, which distorted the cofinancing ratio substantially. For example, total ADB lending in 1997 increased by 70 percent, while total cofinancing decreased by 60 percent, resulting in a cofinancing ratio of 0.14. Furthermore, the envisaged increase in export credit cofinancing did not materialize. This was due to the fact that many large projects with significant cofinancing requirements were put on hold as a result of the financial crisis. Consequently, the average cofinancing ratio for 1997-1999 was approximately 0.35, while a ratio of 0.42 was achieved during 1996-2000.

54. The Working Group on Cofinancing also recommended the establishment of indicative average sector cofinancing ratios, and, starting from 1997, country-specific cofinancing targets. Table 7 shows a sector-wise breakdown of actual cofinancing ratios for 1991-1995, projected ratios for 1997-1999, and actual ratios for 1996-2000.

[39] This is designed to avoid potential conflicts between the procurement guidelines applicable to ADB-guaranteed commercial cofinancing and those applicable to export credits, and to preclude ADB's preferred creditor status from being extended to the ECA in the event of a rescheduling.

**Table 7: Cofinancing Ratios, 1991-2000**

| Sector [a] | Actual 1991-1995 | Projected [b] 1997-1999 | Actual | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | 1996 | 1997 | 1998 | 1999 | 2000 | Average 1996-2000 |
| Agriculture and Natural Resources [c] | 0.15 | 0.20 | 0.10 | 0.20 | 0.05 | 0.73 | 0.06 | 0.18 |
| Energy | 1.00 | 1.60 | 1.62 | 0.38 | 2.19 | 0.60 | 0.35 | 0.96 |
| Finance | n.a. | n.a. | - | 0.06 | 0.61 | 0.18 | 0.18 | 0.20 |
| Industry and Non-fuel Minerals [d] | 0.35 | 0.40 | 1.21 | 2.89 | - | - | 0.43 | 0.52 |
| Social Infrastructure | n.a. | n.a. | 0.21 | 0.04 | 0.18 | 0.70 | 0.36 | 0.30 |
| Transport and Communications | 0.30 | 0.45 | 0.23 | 0.32 | 0.34 | 1.13 | 1.35 | 0.65 |
| Private Sector | 0.70 | 1.60 | 5.50 | - | 4.90 | 5.30 | 3.20 | 4.33 |
| Bankwide | 0.47 | 0.70 | 0.58 | 0.14 | 0.49 | 0.57 | 0.51 | 0.42 |

[a] Sectors not listed by the Working Group are classified as "n.a."
[b] Projections made by the Working Group.
[c] Grouped as Agriculture/Social by the Working Group.
[d] Grouped as Industry and Finance by the Working Group.

55. An analysis of Table 7 indicates that, during the last five years, there have been no discernible trends in sector cofinancing ratios that can be used as a guideline for future country programming and cofinancing efforts. Experience has shown that even indicative cofinancing targets set at the beginning of a year can fluctuate considerably during the course of that year due to changes in the design or processing status of projects expected to have cofinancing possibilities. Recognizing the difficulty of establishing dependable sector and country-specific cofinancing targets, OCO is now providing only ADB-wide three-year rolling cofinancing projections. These projections are based on an analysis of ADB's current lending pipeline and historical aggregate trends. Rather than prioritizing specific sectors or DMCs, emphasis is on increasing total cofinancing in relation to overall ADB lending volumes.

## F. Mainstreaming and Upstreaming of Cofinancing

56. In line with the 1995 Cofinancing Strategy, there was considerable emphasis during the review period on upstreaming cofinancing operations in relation to ADB's country programming and project processing cycles. In this regard, it is now widely recognized that many potential cofinanciers do not want to merely fill a funding gap identified late in the project processing cycle, but prefer to contribute to the formulation of the project from the early stages.[40] Accordingly, involvement in project formulation is often a key factor in the decision by official cofinanciers on whether or not to provide cofinancing. Early identification of cofinancing possibilities is also important, since potential cofinanciers may have processing cycles that do not necessarily match those of ADB projects. Against this background, upstreaming of cofinancing operations is aimed at (i) formulating projects in such a way as to maximize the possibilities for cofinancing whenever feasible; and (ii) the early identification of potential cofinanciers to allow sufficient time for consultation and

[40] While this discussion applies primarily to official cofinanciers and grant cofinanciers, early communication ("market sounding") with commercial cofinanciers and insurers is also becoming increasingly important.

negotiation on cofinancing matters. To promote upstreaming, OCO is providing the following assistance:

(i) **Supporting Country Strategy and Program Work.** OCO meets annually with all project and programs divisions prior to country strategy and program (CSP) missions to systematically review proposed TA and lending pipelines in order to identify cofinancing opportunities and requirements. In addition, OCO staff serve on country teams, participate in some CSP missions, and provide inputs to the preparation of CSPs and sector papers. The main outputs of this work include (i) assessing the current involvement of other funding agencies in various sectors and opportunities for strategic partnerships with such agencies; (ii) identifying potential cofinancing opportunities and agencies for specific projects (in specific sectors or, in the context of CSP work, across sectors); (iii) confirming projects in the pipeline that have been broadly identified for cofinancing; and (iv) assessing which of the identified projects should be targeted for commercial cofinancing/ guarantee operations.

(ii) **Supporting TA and Loan Processing Work.** In the context of ADB's strategy to serve as a catalyst in mobilizing cofinancing, project preparatory technical assistance (PPTA) plays an important role. Both OCO and mission leaders make preliminary contacts with potential cofinanciers as early as PPTA fact-finding to generate interest in ADB projects. Relevant project information, including approved PPTA papers, is regularly sent to official funding agencies based on prior expressions of interest (including sector preferences) from such agencies. It is now common for many mission leaders to (i) hold consultation meetings with potential cofinanciers during PPTA review missions to brief them about the progress of the PPTA and on the ensuing project; (ii) request that potential cofinanciers join loan processing missions (preferably at the fact-finding stage); and (iii) invite cofinanciers to participate in loan negotiations as observers. In addition, OCO staff actively support ADB project processing missions by (i) providing advice on potential cofinanciers; (ii) discussing and/or firming up cofinancing issues in the field; (iii) consulting with potential cofinanciers at the headquarters level; and (iv) providing the mission leader with feedback on market soundings made with potential commercial cofinanciers.

(iii) **Preparing Detailed Profiles of Official Cofinanciers.** OCO has collected information on the activities of all of the major official cofinanciers in each DMC, including sectors of interest, assistance modalities, and contact points. Presented in matrix form and distributed to ADB operational departments and resident missions through the intranet, these profiles provide an easy reference to help staff identify which ADB projects may be of interest to potential cofinanciers. The profiles also help to facilitate aid coordination on sector policies and approaches. The profiles are regularly updated with the assistance of the other agencies concerned.

57. In addition to the above efforts, operational staff are devoting increasing time and resources to cooperating with potential cofinanciers at an early stage of project processing. Such efforts can be resource intensive, particularly when cofinanciers have differing views on policy or project design issues, or when they have different processing cycles or

requirements. These efforts are, however, compensated not only through the provision of additional funds, which could have not been made available from ADB's own resources, but also when the formulation of the project benefits from the cofinancier's experience and expertise in the sector concerned. ADB charges service fees for the administration of untied grants provided by official cofinanciers. These fees are intended to compensate for incremental costs incurred by ADB for processing and implementing activities related to untied cofinanced grants. In the particular case of GEF grants, service fees can be utilized by the concerned ADB units to mobilize additional human resources (e.g., staff consultants) to process and administer GEF grants.

## IV. THE CHANGING ENVIRONMENT

### A. Impact of the Asian Financial Crisis on Private Capital Flows

58. The Asian financial crisis significantly changed the relationship between DMCs and the international financial markets. Before the crisis, many DMCs had easy access to international capital on relatively good terms. International commercial banks were very active in syndicated lending and project finance activities in the region, generally without credit enhancements from multilateral institutions or ECAs. Following the onset of the crisis in 1997, however, the access of many DMCs to international financial markets was significantly hampered, although there was some improvement in 2000. Fewer international commercial banks have been willing to provide long-term lending to sovereign and corporate borrowers in the region. Those institutions still interested in long-term assets, and international bond markets, which have been relatively more open to Asian borrowers, are requiring higher spreads than before the crisis due to higher risk premiums on investments in emerging market assets. An exception to this restricted access has been funding for well-structured project finance transactions, particularly those assisted by multilateral financial institutions such as ADB. Such deals have been funded successfully by international commercial banks and other institutional investors at spreads near or slightly higher than those before the crisis. Given the constraints of restricted access and higher spreads, and to avoid currency and term mismatches, many borrowers in DMCs are now shifting to local currency borrowings (and minimizing foreign currency loans to the extent possible). As a result, the demand for foreign currency funding has declined significantly, while domestic currency borrowings are on the rise.

59. In the wake of the Asian financial crisis, the number of international commercial banks participating in Asian transactions has also declined significantly. This trend has been accentuated by mergers among a number of major international banks. Such mergers have, in general, resulted in an overall decrease in total lending by the merged bank. Among those banks that continue to operate in the region, a number of the smaller ones have scaled down the scope of their operations substantially, particularly with respect to lending operations.

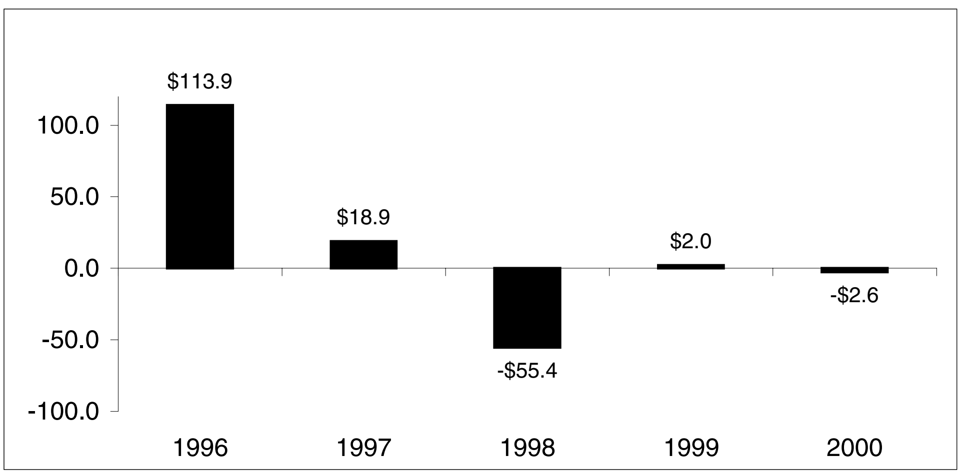
60. Statistics on private capital flows to Asia following the crisis reflect a significant decrease in the supply of available funds. In this regard, Figure 2 shows that net private capital flows to Asia amounted to $113.9 billion in 1996, the year just before the crisis.[41] Such flows declined dramatically to $18.9 billion in 1997 and to minus $55.4 billion in 1998 (representing a net outflow of funds from the region). While 1999 registered a positive

[41] Net flow is gross flow minus repayments during the year.

private capital flow of $2.0 billion, this trend was reversed in 2000 by a net outflow of $2.6 billion. The decline was particularly acute in the case of bank loans, which declined to minus $48.4 billion in 1997 and have remained significantly negative in 1998-2000 (Appendix 3). Net portfolio investments in Asia also declined significantly during the same period. An exception to this trend has been the flow to Asia of foreign direct investment, which has stayed in the range of approximately $50-60 billion per annum since 1996.

61. The level of capital market activities since 2000 provides reason for cautious optimism. International bond markets, for example, are continuing to improve as the economies of the region recover and corporations improve their balance sheets. However, the international bank loan market has not yet fully recovered, except for some well-structured project finance deals, including ADB-assisted cofinancing transactions. This reflects a worldwide decline in international bank lending to developing countries. In 1996, syndicated loans accounted for about 8 percent of total private financing for all developing countries worldwide,[42] compared with significant negative outflows of such loans in 1997 through 2000. In effect, new lending was halted while commercial lenders focused on recovery efforts. In such situations, ADB's credit enhancements, particularly guarantee support, can be of great help in tapping international financial markets at affordable terms.

**Figure 2: Net Private Capital Flows to Asian Developing Countries, 1996-2000**
($ billion)




Source: IMF: *International Capital Markets – Developments, Prospects and Key Policy Issues, 2001.*

62. The financial crisis has also significantly increased the need for innovative cofinancing approaches and products to mobilize resources for ADB projects. In this regard, greater emphasis is being placed on "carving out" different kinds of risks and allocating those risks among ADB and other concerned parties.[43] For example, a project that might have been financed prior to the crisis on a purely public sector basis is now being structured

[42] As shown in Appendix 3, syndicated loans in 1996 to developing Asian countries accounted for about 27 percent of total net private capital flows, reflecting the heavy reliance of such countries on syndicated lending prior to the crisis.

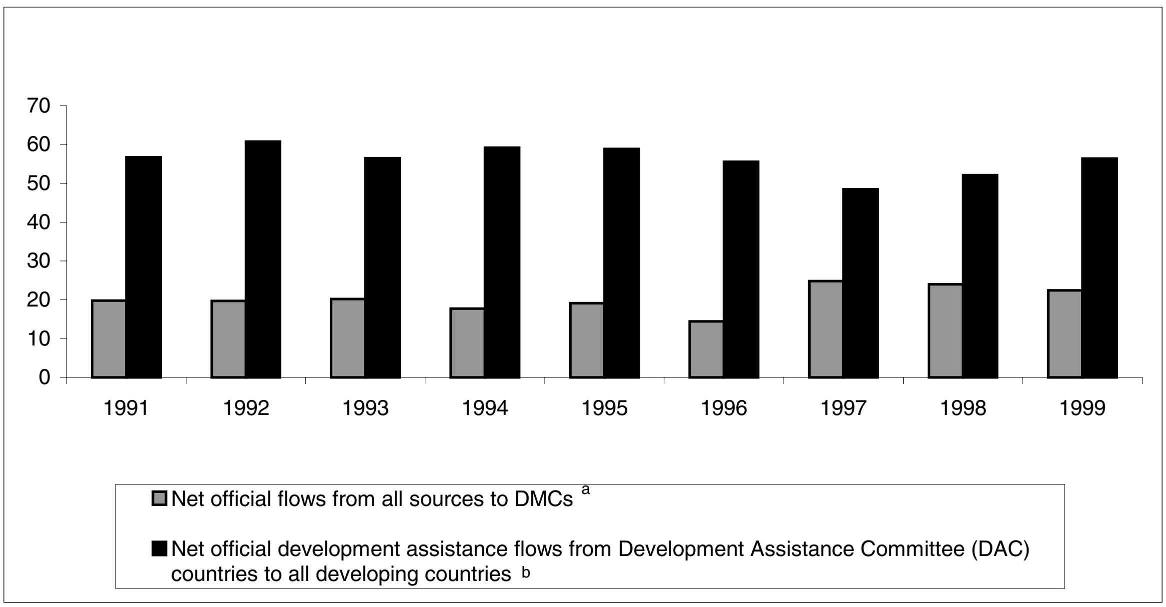
[43] The Philippines North Luzon Expressway Rehabilitation and Expansion Project (Loan 1769-PHI) in 2000 provides an example (described in Box 4) of how a refinancing option was incorporated in the project financing structure to mitigate downstream foreign exchange risks.

as a "public-private partnership," supported by a mix of both official and commercial cofinancing.[44] Similarly, ADB is attempting to work more closely with ECAs to share the risks of financing projects with significant foreign exchange content. More innovative structuring of the financing, as well as more creative use of credit enhancement products, could help to mobilize long-term funding from domestic sources. These new approaches are fully consistent with ADB's strategy to play a more catalytic role in mobilizing resources for its DMCs.

## B. Trends in Official Capital Flows

63. Official capital flows to ADB's DMCs were relatively stable from 1991 through 1995 (see Figure 3). Following a decline in 1996, the flow increased significantly in 1997 and remained relatively steady in 1998 and 1999, reflecting the substantial official assistance provided to those DMCs most affected by the Asian financial crisis. Since the increased flow was due mainly to crisis support loans from multilateral and bilateral agencies during and after the crisis, it is expected that official flows in the coming years will gradually return to precrisis levels, barring any unforeseen deterioration in Asian emerging markets.

**Figure 3: Net Official Flows to Developing Countries, 1991-1999**
($ billion)




[a] Refers to net flows of long-term public and publicly guaranteed debt (both concessional and nonconcessional) from official creditors and grants including technical cooperation grants.
[b] Refers to net flows of concessional financing from DAC countries of the Organisation of Economic Co-operation and Development to developing countries and to multilateral institutions.

Sources: ADB: *Key Indicators of Developing Asian and Pacific Countries,* 2001.
World Bank: *Global Development Finance,* 2001.
OECD: *Development Co-Operation,* 2000.

64. Several factors seem to be responsible for the constraints on ODA in the 1990s. First, there has been a general tightening of aid budgets in most funding countries since the

[44] For example, the Indonesia Gas Transmission and Improvement Project (Loan 1357-INO) in 1995 is being re-formulated to provide for a mix of public and private sector participation.

early 1990s. Second, economic recessions in many of the funding countries have shifted the attention of public opinion inward to such issues as domestic unemployment and social protection. Third, public opinion is increasingly skeptical about the effectiveness of aid. Fourth, the end of the Cold War era has brought about a decline in certain commercial and strategic interests that had previously justified aid flows. Finally, the surge in private capital flows to developing countries in the early 1990s may have reduced the perceived need for ODA. In view of these factors, it is unlikely that ODA flows, particularly those to ADB's DMCs, would increase significantly in the foreseeable future. Hence, it is expected that, as the region begins to recover, private capital flows, from both external and domestic sources, will become an increasingly important source of financing for development projects, particularly for commercially attractive infrastructure and financial sector projects.

## C. Strategic Considerations

65. ADB's Three-Year Rolling Work Program and Budget for 1998-2000 reflected an increased emphasis on the objectives of poverty reduction and private sector development. The emphasis was further elaborated in subsequent planning documents, including the current Long-term Strategic Framework (LTSF) covering 2001-2015. The LTSF points out that cofinancing is an important instrument for operationalizing ADB's strategic objectives. In addition to mobilizing additional financial resources, cofinancing creates a framework and incentives for enhanced coordination and cooperation between ADB and other key participants in the development process. Such coordination and cooperation can take many forms, including partnership building, mutual learning, enhanced project and program quality, and improvements in the policy and operational environment for project implementation.

66. A major crosscutting theme of the LTSF is to promote the role of the private sector in economic development. Cofinancing has become increasingly important as a means of facilitating greater private sector participation in development, as illustrated in the examples provided below.

(i) **Governance.** For many public sector borrowers, ADB-assisted commercial cofinancing provides their first exposure to private sector debt service discipline, financial standards, and reporting requirements. In such cases, cofinancing is a catalyst for improved governance and can help set the stage for additional private sector participation in government entities.

(ii) **Public-Private Partnerships.** The LTSF calls for ADB to facilitate effective partnerships between public and private investors in countries and sectors where there is a basis for commercial participation, but where the private sector may be reluctant to invest on its own. ADB's credit enhancement products (i.e., CFS, PRG, and PCG) can mitigate the risks for private investors and lenders. As such, they can significantly facilitate the structuring of successful public-private partnerships along the lines envisaged in the LTSF.

(iii) **Small and Medium Enterprise Development.** In line with its catalyst cofinancing strategy, ADB has sought opportunities to mobilize cofinancing for innovative projects, particularly those that have a significant poverty reduction impact. Since 1995, commercial cofinancing has been arranged for three small and medium enterprise development projects that contribute to poverty reduction.[45] Two of the projects (both in Sri Lanka) were supported by a PCG, while the third project (in Pakistan) utilized a PRG.[46]

67. ADB's efforts to mobilize cofinancing must be matched by parallel actions on the part of DMCs. As necessary, DMC governments should be encouraged to increase their efforts to mobilize cofinancing and to strengthen their external assistance coordination processes, with assistance from ADB if required. This can be part of the CSP dialogue between ADB and its DMCs. At the macro level, actions to enhance the effectiveness of cofinancing include the development of well-functioning financial markets, a sound legal system (including provisions to protect private investors), and policies to promote private participation in key economic sectors. At the institutional level, borrowers are typically required to strengthen financial management as a prerequisite for commercial cofinancing.

68. In the case of commercial cofinancing operations for public sector borrowers that are supported by an ADB guarantee, DMC governments must be willing to provide a counter-guarantee to backstop the ADB guarantee. Such counter-guarantees constitute a contingent liability on the books of the concerned government. At the height of the financial crisis, ADB PCGs for commercial cofinancing operations in Thailand and Sri Lanka were backed by counter-guarantees from the respective host governments. More recently, PRGs for private sector projects (in Bangladesh, Pakistan, and Sri Lanka) each benefited from government counter-guarantee support. While host government counter-guarantees are not a prerequisite for ADB guarantee support to private sector projects, the willingness of the respective host governments to provide such counter-guarantees provides added comfort to commercial lenders and investors, resulting in increased availability of funding and better terms than would otherwise be achievable.

## V. AREAS FOR FURTHER DEVELOPMENT

### A. Increased Mainstreaming and Upstreaming of Cofinancing

69. In the process of implementing ADB's revised business procedures, increasing attention has been given to cofinancing issues at the early stages of ADB's programming and project processing cycles. As noted earlier, OCO is increasingly involved in CSP work, through participation on each country team. During the country programming process, ADB staff and DMCs should be encouraged to more systematically include projects suitable for cofinancing, particularly commercial cofinancing, in the CSPs, and to identify strategies aimed at attracting private capital for priority projects.[47]

70. During the project cycle, coordination and information-sharing with potential cofinanciers is currently the norm. This has been facilitated by the preparation of profiles of all major official funding agencies in each DMC to enable staff to identify such potential

[45] The end-borrowers under the projects were predominantly export-oriented businesses that generate foreign exchange earnings, or domestic businesses with strong earnings performance.
[46] These projects are: (i) Loan 1522-Sri Lanka: Small and Medium Enterprise Assistance Project approved in June 1997 ($50 million syndicated loan supported by a PCG); (ii) Loan 1629-Sri Lanka: Credit Enhancement Facility for Private Enterprises approved in September 1998 ($65 million floating rate note supported by a PCG); and (iii) Loan 1796-Pakistan: SME Trade Enhancement Finance Project approved in December 2000 ($150 million revolving credit facility supported by a PRG).
[47] The Working Group on Business Change has modified the CSP format to require specific attention to cofinancing matters throughout the CSP process.

cofinanciers at an early stage of project processing. An area for further development is to ensure that projects are structured in a way to optimize their suitability for external financing. It is therefore important that project components be designed and packaged as early as possible to match the requirements of official and/or commercial cofinanciers. In this regard, the terms of reference for PPTA consultants should require an examination of such issues during project preparation. Also, the recent strengthening of resident missions is expected to provide significant opportunities for improving coordination with official funding agencies at the field level.

## B. Guarantees

### 1. Partial Credit Guarantee

71. There is considerable potential to expand the use of PCGs to help mobilize funding, in both local and foreign currency, for private sector projects. Increased local currency financing can benefit DMCs, cofinanciers, sponsors and ADB, and is emphasized in the Private Sector Development Strategy paper of 2000.[48] The benefits of using PCGs to support local currency cofinancing include

(i) providing opportunities for local investors to take blended project risk and ADB risk, giving them experience in evaluating project risk with the help of ADB's due diligence;

(ii) mobilizing surplus liquidity in local capital markets, enabling investors to invest in bankable projects and to mitigate the risks of such projects;[49]

(iii) enabling sponsors of BOT-type projects and host governments to negotiate power tariffs, tolls, and associated off-take agreements in local currencies, thus allowing project cash flows to match debt service requirements; this mitigates the foreign exchange risk, which is usually shouldered by consumers, who generally cannot or should not take such risks, but may ultimately be shouldered by lenders of the foreign exchange, in the event there is a project default and the lenders have to reschedule or write off the loan; and

(iv) providing additional investment opportunities for local capital markets, allowing yield and credit curves to broaden and extend further into the future, and facilitating development of hedge and swap markets.

72. ADB has already commenced discussions in several DMCs to determine how best to mobilize domestic debt, broaden and deepen the domestic corporate bond market, and improve secondary market liquidity. The Private Sector Operations paper[50] points out that PCGs can be a useful instrument to enhance the credit of private sector borrowers seeking to mobilize domestic currency financing. In this regard, existing ADB policy[51] provides that ADB can issue PCGs denominated in US dollars or another foreign currency to cover local currency loans or bond issues. To facilitate the use of PCGs to support local currency cofinancing of private sector projects, ADB is (i) working to identify and resolve potential implementation issues; and (ii) consulting with commercial cofinanciers, ECAs, and other

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[48] R78-00: *Private Sector Development Strategy*, 9 March.

[49] It should be noted that there are an increasing number of domestic financiers (e.g., in PRC and India) that are willing to cofinance major projects in local currency.

[50] R122-01: *Private Sector Operations: Strategic Directions and Review*, 3 September.

[51] As provided in para.18 of R135-99: *Review of the Bank's Guarantee Operations*, 31 August.

multilateral financial institutions that already have experience with the mobilization of local currency cofinancing.

### 2. Political Risk Guarantee

73. The 2000 PRG Review discussed how PRGs can fulfill a number of important tasks, such as

- (i) helping lenders and other debt providers protect themselves against a variety of political or sovereign risks, which impede the flow of private capital into DMCs;
- (ii) allowing lenders to focus on their comparative advantage in taking commercial, foreign exchange, and funding risks, while letting ADB focus on its comparative advantage in taking the political (or sovereign) risks associated with private sector projects;
- (iii) creating the enabling conditions for enhancing private investment in DMCs, as envisioned in the 2000 Private Sector Development Strategy; and
- (iv) substantially increasing the amount of commercial cofinancing available for ADB-assisted private sector projects.

74. ADB's PRG is similar in many respects to the PRI products offered by various ECAs, private insurers, and the Multilateral Investment Guarantee Agency (MIGA) of the World Bank. As provided in the 2000 PRG Review, ADB's PRG can be offered in parallel with other PRI providers or under an umbrella arrangement in which ADB acts as the guarantor-of-record.[52]

75. To the extent that the PRG can attract co-guarantors or co-insurers to ADB-assisted private sector projects, it provides a valuable way of mobilizing funds at reasonable rates, while minimizing balance sheet impact. Syndication or reinsurance of political risk is an established technique in which several guarantors, including ECAs and/or private sector guarantors, jointly or severally guarantee against political risks, leaving the commercial lenders to bear the commercial risks.

76. Given the potential importance of the PRG for private sector projects and for commercial cofinancing, the 2000 PRG Review also called for the creation of a focus group, to be chaired by the Private Sector Group (PSG), and to include representatives from OCO, Office of the General Counsel, Strategy and Policy Department, Treasurer's Department, and others. The focus group is responsible for the implementation of a number of important aspects of the 2000 PRG Review, including

- (i) initiating PRG pilot projects and developing close cooperation with MIGA, ECAs, and other experienced public and private sector PRI providers with significant institutional experience in underwriting, risk analysis, documentation, and pricing;
- (ii) collaborating with PRI providers to expand the availability of cost-effective PRI coverage for the more challenging projects in the region, which PRI providers might otherwise avoid;
- (iii) preparing operational guidelines for PRGs, which show how PRGs compare with the PCG and CFS;
- (iv) providing additional inputs for the Guarantee Committee to assist with the pricing of guarantees; and

[52] See paras. 61-63 of the 2000 PRG Review for details of the Coguarantee Program.

(v) developing a targeted communication strategy and training program for use within ADB and with the outside market.

## C. Export Credit Finance

77. As a result of the Asian financial crisis, the availability of uncovered parallel commercial cofinancing for both public and private sector projects supported by ADB became much more expensive, shorter in term, or simply not available.[53] While ADB's credit enhancement products provide valuable "cover" to commercial cofinanciers, for many DMCs export credit can provide an additional, and significant, source of cover to commercial cofinanciers for such projects.

78. Accordingly, to the extent that ADB continues to finance large public sector infrastructure projects that have significant capital equipment and/or services content eligible for ECA support, export credit can be an important source of cofinancing for such projects, especially in DMCs that continue to enjoy favorable premium rates under the OECD Arrangement.

79. The ECA collaboration program, developed in 1998 and 1999 to assist public sector borrowers obtain export credit cofinancing on the best terms possible, has not yet been fully implemented for a number of reasons. First, it will take some time for the education process to be completed, both within ADB and with DMCs. Such education is necessary to resolve questions regarding (i) the cost of export credit; (ii) its complexity; (iii) how to package procurement to avoid conflicts with ADB's procurement guidelines; and (iv) the concern of DMCs that the use of such export credit and any associated PCGs might result in a corresponding reduction in their access to OCR loans. Perhaps more important, however, is the fact that, since the onset of the Asian financial crisis, there have been very few large ADB-assisted public sector infrastructure projects in DMCs that are eligible for, or will benefit from, export credit. In part, this has been due to (i) the reduced demand for electric power, as in the case of PRC and Thailand; and, (ii) perhaps more importantly, the increased importance of the private sector in the construction, operation, and ownership of infrastructure projects traditionally undertaken by the public sector in many DMCs.

80. In view of the increasing role of the private sector in financing such infrastructure, ADB is endeavoring to find other ways to collaborate with ECAs. This includes working with ECAs to (i) adapt ADB's guarantee products so that they can facilitate cost-effective local currency financing; and (ii) expand the availability of extended political risk coverage (e.g., to mitigate the breach of contract risk associated with supply and off-take contracts with government or semi-government entities) for private sector projects.

## D. Mobilizing Financing from New Sources

81. Long-term capital flows to developing countries in the last decade can be characterized by the following trends:

(i) First, securitized financing is becoming increasingly important as a means of channeling long-term private capital to developing countries.

[53] "Uncovered" refers to cofinancing not having the benefit of a credit enhancement or export credit from ADB, ECAs, or other parties.

(ii) Second, heightened risk perceptions of emerging market assets and a flight to quality by most investors and lenders are making developing countries' access to international financial markets more difficult and costlier.
(iii) Third, as a result of factors (i) and (ii), DMC borrowers are increasingly looking to domestic (local currency) markets for long-term financing requirements.
(iv) Fourth, the use of credit enhancements available from ADB and other multilateral financial institutions (MFIs) is becoming more important to improve borrowers' access to international financial markets.

82. Against this background, potential sources of additional financing and risk mitigation for DMCs include (i) institutional investors with an appetite for lower credit quality and higher spreads; (ii) ECAs and private insurance companies that can provide guarantees or insurance for political risks and that generally take a long-term view on credits; (iii) investment funds, particularly debt funds, including those assisted by ADB; (iv) domestic financial institutions, particularly commercial banks and life insurance companies, that have substantial local currency funds to invest; and (v) grant providers, including foundations, trusts, and other philanthropic entities.

83. Innovative structures (such as the one shown in Box 4) or credit enhancements will be needed to tap conservative institutional investors such as pension funds or life insurance companies. Asset-backed securitization with the use of CFS would be one way to meet their credit requirements. Syndication with political risk insurers or co-guarantees with private guarantors or ECAs would be another innovation that would enable DMC borrowers to tap long-term money from international capital markets. Setting up debt funds with institutional investors, which can be tapped as cofinancing partners, could be another way to tap new sources. Proactively arranging syndicated loans with domestic financial institutions in DMCs can help access this important market.

**Box 4: Philippines - North Luzon Expressway Project**

ADB worked with the sponsors of this private sector project to formulate a financing structure that would mitigate post-completion foreign exchange risk. In this regard, the project includes a provision that following completion (when revenues have stabilized and the project cash flow has been determined with accuracy), ADB may consider refinancing the project's debt component, currently denominated primarily in US dollars, with a local currency bond issue, possibly supported by an ADB guarantee. Since the project generates local currency (peso) revenue, this approach offers a potentially effective way to deal with the post-completion risk of currency mismatch.

The proposed refinancing of the project's foreign exchange debt would be subject to the following: (i) refinancing will take place after project completion, so that local financiers do not need to take any construction risk (and can therefore focus only on the operating cash-flow risk associated with the project); (ii) the tenor achieved for the refinancing is equal to or longer than the remaining maturity of the original dollar debt; and (iii) the all-in cost of the local currency debt, inclusive of guarantee or other credit enhancements, is equal or less costly than the cost of refinancing by means of swap or hedge arrangements.

Separate Board approval for any ADB guarantee support would be sought at the time of the proposed refinancing.

84. As noted previously (paras. 27-30), considerable efforts were made during the review period to mobilize grant cofinancing for ADB projects. Traditionally, grant cofinancing has been sourced from official sources, particularly bilateral development agencies. It has been of significant value in enhancing the development impact of ADB-assisted projects and programs and must remain a priority of future cofinancing efforts. In addition, new attention is needed to mobilize grant cofinancing from *private* sources, such as foundations, trusts, and other philanthropic entities.

85. Mobilizing grant cofinancing from private sources will require a systematic effort, both internally and externally. OCO can facilitate this process by acting as a bridge between user departments in ADB and private grant providers.[54] Such grant providers have their own preferences, screening processes, and procedures. Other multilateral development institutions have gained significant benefits (financial and otherwise) from developing long-term relationships with private grant providers, and ADB should review the experience of such institutions for guidance in developing its own strategy for mobilizing private grant cofinancing.

86. In addition to providing funding for public sector projects, grant cofinancing can play a potentially significant role in the funding of private sector operations (PSO). In this regard, the Private Sector Operations Review of August 2001 (the 2001 PSO Review)[55] points out that grant TA cofinancing can be of particular value in facilitating the preparation of PSO projects in innovative areas or in new countries. For example, grant TA cofinancing could be used to assist in the preparation of public-private partnerships that could bring the benefits of modern information and communications technology to DMCs.

87. In addition to funding project preparation, grant resources can take the form of "grant equity" (or "grant capital") to fund project implementation. Grant equity can be particularly important for private sector projects that have social sector objectives, where the rate of return needs to be increased to make the project sustainable. Examples might include a microcredit project that needs additional start-up (grant) capital, or an "off-grid" power project in a poor remote area that requires grant capital to be bankable. Mobilizing grant cofinancing for PSO will require intensified cooperation among OCO, PSG, and other concerned organizational units. Such cooperation will be particularly important at the early stage of project processing.

## E. Catalytic Impact and Risk Exposure

88. ADB has traditionally looked to cofinanciers as a source of incremental financial resources, knowledge, expertise, and risk sharing. In respect of risk sharing, there is scope for ADB to more systematically consider its assistance based on (i) the willingness and cost-effectiveness of potential cofinanciers to take on certain types of risk; and (ii) the extent to which ADB is needed to play a catalytic role, particularly in terms of taking on risks that cofinanciers are not willing or able to assume. Such an assessment is particularly important in the context of private sector operations (which do not benefit from government guarantees). In general, ADB should endeavor to participate in such operations both as a catalyst and as a risk mitigator, providing direct financial support and assuming risks where

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[54] This effort should be closely coordinated with, inter alia, the NGO Coordinator and, for grant providers located in developed countries, the concerned Representative Offices (i.e., ERO, JRO and NARO).
[55] R122-01, *Private Sector Operations: Strategic Directions and Review*, 13 August.

necessary to make the project "bankable," and leaving the remaining financing and risk exposure with sponsors and cofinanciers.[56] The following list provides an illustrative ranking of ADB's financial products in terms of risk exposure and catalytic effect:

(i) **Uncovered Parallel Cofinancing**. This provides additional resources at little, if any, risk to ADB.[57]
(ii) **CFS**. This has a higher degree of risk as it entails the sharing of ADB's preferred creditor status with commercial lenders (but without a direct impact on ADB's balance sheet); the catalytic effect is also greater, as CFS increases the availability of commercial cofinancing.
(iii) **PRGs**. These are structured to mitigate specified political risks of primary concern to lenders.[58] This tool leaves commercial, funding, foreign exchange, interest rate, documentation, and other risks with commercial financiers, while leaving the specified political risks with ADB.
(iv) **PCGs**. This tool is the most catalytic of ADB's credit enhancements, providing comprehensive coverage of commercial and other risks. In addition, *local currency* PCGs can be used to mitigate foreign exchange risks.
(v) **ADB Direct Loans**. These are highly catalytic but also expose ADB to a relatively higher degree of risk than the other forms of debt financing.
(vi) **Equity**. This exposes ADB to the highest degree of risk. While equity is, by definition, "risk capital," it is also highly catalytic and an essential element of ADB's private sector operations.

89. The ranking in para. 88 is not meant to imply that one form of intervention is "better" than another. Rather it is meant to illustrate the need for Bank staff to carefully review the catalytic requirements and risk exposure characteristics of proposed projects, with a view to designing ADB participation in a way that is optimally balanced. OCO can assist in such reviews and provide advice on alternative financing and risk mitigation structures. Such assessments are particularly important in the case of private sector projects, as they can help to strengthen the overall creditworthiness of the project, thus enhancing its attractiveness for commercial cofinancing.

90. **Prioritizing Assistance for Public Sector Projects.** In addition to considering risk factors, ADB cofinancing assistance needs to take into account the capacity of recipient DMCs to mobilize external resources. For those countries where ADB applies a lower direct financing ratio (i.e., a 40 percent or 60 percent ceiling) to public sector projects, it can be argued that cofinancing should be given higher priority. This will enhance the ability of such countries to mobilize additional funds from other sources, including the private sector.

## F. Operational Implications

91. The increasing importance of cofinancing has important implications for ADB's staff and business practices. In terms of staff practices, the growing complexity of cofinancing operations suggests that training is a key consideration. Specialized training for OCO staff provides a solid foundation for cofinancing officers to effectively assist operational staff in structuring projects to prudently leverage ADB's capital resources and mitigate risks.

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[56] This view is consistent with the position taken in the 1999 Guarantee Review.
[57] While such cofinancing carries the least risk for ADB, it is in very short supply in post-crisis Asia, since the cofinanciers retain most, if not all, of the risk in such transactions.
[58] This includes "guarantor of record" transactions in which ADB syndicates its risk among PRI providers.

Training for operational staff is likewise critical, to heighten awareness of cofinancing opportunities and increase familiarity with specific cofinancing products and procedures.

92. Creation of a multiskilled cofinancing team within OCO has been a key factor in implementing ADB's cofinancing strategy. Consistent with its operational support role, OCO should continue to have lead responsibility for providing other departments with cofinancing-related information, training, and administration, as well as support on structuring and arranging cofinancing transactions.

93. With respect to business practices, cofinancing requirements and the potential for cofinancing need to be systematically and explicitly examined as early as possible in the programming and project cycles. Such upstream consideration facilitates innovative approaches to project design and the structuring of appropriate cofinancing interventions.

94. It must be recognized that for official and commercial cofinancing to be more fully integrated into ADB's operations, and for cofinancing considerations to be properly reflected in project design, additional staff time will be required. OCO is seeking to address this by allocating an increasing proportion of its staff resources to assist in such upstream activities. This matter needs careful monitoring to ensure that OCO has the necessary resources to carry out its responsibilities with respect to upstreaming and mainstreaming of cofinancing operations. It should also be noted that as the average number of projects receiving cofinancing during the review period has increased by more than 60 percent over the preceding five-year period, additional staff resources may be required (particularly in the Controller's Department to handle the disbursement, accounting and audit services required) if such trend continues.

## VI. CONCLUSIONS

95. Although ADB's cofinancing policies and products have evolved considerably over the last decade, the basic thrust of the 1995 Cofinancing Strategy is still relevant to the resource mobilization requirements of its DMCs. During the period under review, there have been significant changes in the supply and demand for cofinancing resources. In terms of official cofinancing, the supply is limited, but demand is increasing, especially for grant cofinancing. Grants have become essential for ADB to implement its poverty reduction strategy, especially with respect to cutting edge poverty and social sector activities, for which DMCs are often reluctant to borrow. With respect to commercial cofinancing, the supply of funds is less of a constraint than the shortage of cofinancing opportunities in ADB's pipeline. In this regard, the number of large growth projects suitable for commercial cofinancing has decreased, due primarily to a current slump in the demand for such projects in the wake of the financial crisis.

96. However, to the extent that suitable projects have been included in ADB's pipeline, commercial cofinancing has responded to the needs of both public sector and private sector borrowers. Particularly since the access of DMCs to international financial markets has been significantly curtailed pending recovery from the crisis, commercial cofinancing that incorporates ADB credit enhancements will continue to enable DMCs to access market-based sources of financing for priority projects. Insofar as ADB's poverty reduction strategy results in an increased emphasis on social sector projects and smaller rural infrastructure projects, neither of which have large imported capital equipment components, export credit

is not expected to play a significant role in ADB's public sector projects in the foreseeable future.

97. In spite of the many challenges associated with external resource mobilization, the need for cofinancing is greater than ever. The reasons for this include

(i) the key role of official cofinancing, particularly grant cofinancing, in mobilizing resources to support ADB's overarching goal of poverty reduction;
(ii) approval within ADB of policies that emphasize the need to better leverage ADB's limited resources through increased external fund mobilization;
(iii) greater emphasis within ADB on the need for early identification of opportunities for external funding;
(iv) approval of the Private Sector Development Strategy and the 2001 PSO Review, both of which emphasize the increasing importance of private capital in funding priority development projects;
(v) the proven value in the market of ADB credit enhancements to support commercial cofinancing and reduce the financing costs of public and private sector projects, particularly in the wake of the Asian financial crisis; and
(vi) a heightened awareness among staff of the need for close attention to DMC financing needs and the role of cofinancing in addressing those needs.

98. To fully realize the potential for expanded cofinancing, increasing emphasis is expected on resource mobilization techniques that

(i) are most effective in leveraging ADB's resources to attract substantial additional funding;[59]
(ii) attract sources of cofinancing that will share risk and thus reduce ADB's exposure;
(iii) help borrowers to avoid mismatches of currencies and tenors; and
(iv) tap nontraditional sources, including private grant providers (such as private foundations and trusts).

99. ADB has participated in a number of projects in which much of the local currency costs are financed by domestic banks. Lessons from the recent financial crisis suggest that ADB should place greater emphasis on local currency financing. The potential benefits of such financing to DMCs include

(i) avoiding the risks associated with using foreign currency to finance projects that generate local currency revenues; and
(ii) strengthening local capital markets and financial institutions.

100. To ensure that ADB achieves maximum leverage on its resources and mobilizes additional funds for its DMCs, there is a need for increased attention to cofinancing at all levels of the organization, with a clear institutional mandate to utilize cofinancing whenever possible. ADB will ensure that cofinancing requirements and opportunities are given systematic attention at an early stage in the project cycle by requiring the inclusion of sections on cofinancing in (i) all CSP papers and CSP updates; (ii) all PPTA papers; (iii) all project briefs for public sector projects and programs; and (iv) all concept clearance papers for private sector projects. Future loan projects and programs will be required to include cofinancing whenever appropriate or to justify the absence of any cofinancing

[59] This includes expanded use of PCGs, which provide additionality to country indicative planning figure (IPF) resources.

arrangements. OCO can assist in making such determination, based on its experience and expertise in this area.

101. ADB will continue efforts to expand its relationships with official and commercial cofinanciers. This will not only involve seeking new resources, but will also require efforts to ensure that cofinancing is used in the most cost-effective manner possible and that public skepticism about the effectiveness of ODA is adequately addressed through improved external relations.

102. ADB will seek to identify innovative techniques and procedures to facilitate commercial and export credit cofinancing of ADB-assisted projects. Consistent with this effort, and to keep pace with rapid developments in financing tools and techniques, staff will be given further training as necessary.[60] ADB will also continue to provide training to DMC officials on the potential benefits of its cofinancing program and guarantee products.

103. ADB will explore opportunities to use selectively its CFS facility to support private sector operations that are suited to such cofinancing. It may be necessary for ADB to adjust its CFS arrangement and administration fees to ensure that such fees are kept in line with current market pricing, particularly the pricing of other MFIs.

104. ADB will continue to promote the utilization of its PCG and PRG products, working in close cooperation with borrowers, commercial lenders, and co-guarantors as appropriate.

105. ADB will, as appropriate, seek to increase local currency cofinancing for ADB-assisted projects, using guarantee support as necessary.

106. ADB will seek to mobilize increased grant cofinancing, including grant TA funding, for public sector operations and for innovative private sector operations with components that require grant support.

107. ADB will intensify efforts to involve DMC governments as partners in the development and implementation of cofinancing strategies, particularly through the CSP process.

108. Given the increased importance of private capital (including commercial cofinancing and private grant cofinancing) to support ADB operations, consideration should be given to the establishment of a focus group on private capital mobilization, to be chaired by OCO, co-chaired by PSG, and including representatives from the Strategy and Policy Department, Treasurer's Department, Office of the General Counsel, Nongovernment Organization (NGO) Center, and other concerned ADB units.

[60] Such training will be provided to staff within OCO and to other ADB staff as appropriate.

## APPENDIXES

## RECOMMENDATIONS OF THE INTERDEPARTMENTAL WORKING GROUP ON COFINANCING[1]

1. **Cofinancing Target.** The 1991-1995 average cofinancing ratio (cofinancing/Asian Development Bank (ADB) lending) of approximately 0.5 should be increased to an average of 0.7 during 1997-1999. To achieve this, indicative average sector cofinancing ratios will be determined.[2] Country-specific cofinancing targets will be established gradually starting from 1997, initially to focus on five large borrowers (People's Republic of China, India, Indonesia, Pakistan, Philippines). Achievements in resource mobilization through cofinancing should be taken into account in the annual performance assessment of mission leaders on the basis of total financing mobilized (ADB lending plus cofinancing).

2. **Mainstreaming of Cofinancing.** Cofinancing activities should be effectively integrated into ADB lending operations and business processes through the preparation of country assistance plans, regional assistance plans, and Bank assistance plans. Cofinancing requirements should be identified and agreed upon during project preparatory technical assistance, country programming, and project fact-finding.

3. **Commercial Cofinancing.** Commercial cofinancing will be vigorously pursued for all suitable bankable projects in both the public and private sectors. ADB will take the lead role in identifying a few very large projects each year that will bring significant additionality. Commercial cofinancing opportunities need to be earmarked at an early stage in ADB's programming and project cycle. Increasing the commercial fund-raising from the markets by a factor of 4 by 1999 compared with the current level will require a steep increase in ADB's loan syndication activity to raise funds from the commercial banking market. Moreover, it is necessary to diversify the sources towards institutional investors in the capital markets. In the medium term, the share of such investors should be raised to 10-20 percent of the total commercial cofinancing.

4. **Guarantees.** Opportunities to use partial credit guarantees will be actively sought in public sector lending, especially to have additional leverage over and above the indicative planning figure. Such extension of credit guarantees will require proactive decisions to structure sufficient scope for commercial cofinancing at an early stage. Large infrastructure projects processed by the Private Sector Group will necessarily require political risk mitigation. To this effect, the substance of the counterguarantee requirement needs to be thoroughly reexamined.

5. **Official Cofinancing.** Mobilization of official development assistance resources requires significant efforts by operational staff at all levels, including early identification of projects and discussions about possible collaboration, closer aid coordination, exchange of program and project information, and possible joint appraisal missions. ADB must maintain effective communication channels with active cofinanciers and expand its cofinancing coverage to include other potential cofinanciers. Cofinancing with other

[1] From *Report of the Interdepartmental Working Group on Cofinancing*, 23 July 1996.
[2] See Table 8 in the main text of this report for an updated compilation of cofinancing ratios.

major multilateral financial institutions (MFIs) should not normally be pursued unless there is a strong justification, such as the scale of the project being too large to be sponsored by only one MFI.

6. **Export Credit Cofinancing.** ADB should be proactive in promoting export credit cofinancing to obtain the best possible terms for its developing member countries. An Export Credit Arrangement Program (ECAP) should be developed for public sector operations. It is expected that the ECAP facility will become operational within one year after a professional staff member for such cofinancing is assigned to the Cofinancing Unit.[3]

7. **Staffing.** Any possibility of reallocation from the positions identified for redeployment to cofinancing should be assessed in the context of additional resource requirements in project implementation resulting from increased cofinancing activities. Accountability should also be established with the increase of staff resources. The large expansion of commercial cofinancing in loan syndication and capital market issues will necessitate a considerable strengthening of commercial cofinancing staff resources in the next 2-3 years.

8. **Business Travel.** Effective cofinancing requires contact and consultations with potential cofinanciers. Accordingly, adequate travel allocation should be provided, as required, to operational departments to encourage program- and project-specific discussions with cofinanciers, including meetings at their head offices with mission leaders, managers, and project/program directors, in addition to regular consultations.

9. **Cost Recovery.** A review should be carried out by a small interdepartmental working group, with a view to establishing a comprehensive cost recovery mechanism commensurate with the ADB services required. The working group should consist of representatives from operations, Strategy and Policy Office, Budget and Management Services Division, Controller's Department, and the Cofinancing Unit (footnote 3). The working group should develop appropriate mechanisms for (i) handling the additional workload arising from administering the project during its implementation on behalf of the cofinancier (e.g., through the use of long-term consultants in the case of complex projects); and (ii) recovering the related cost.

10. **Future Work.** Working groups should be set up to pursue resource mobilization options in the areas of (i) fixed income investment funds; and (ii) ways to accelerate recycling of ADB's ordinary capital resources.

[3] Currently the Office of Cofinancing Operations (OCO).

## OFFICIAL AND COMMERCIAL COFINANCING STATISTICS

### Table A2.1: Official and Commercial Cofinancing, 1991-2000
($ million)

| | Official | | | Commercial and Export Credit | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| **Year** | **Loan** | **Grant** | ***Subtotal*** | **Commercial** | **ECA** | ***Subtotal*** | **No. of Projects** | **Cofinancing** | **ADB Lending** |
| **1991-1995** | **7,128** | **230** | ***7,358*** | **1,016** | **3,164** | ***4,181*** | **95** | **11,539** | **24,565** |
| **1996-2000** | | | | | | | | | |
| 1996 | 2,235 | 42 | *2,277* | 522 | 374 | *896* | 30 | 3,173 | 5,325 |
| 1997 | 688 | 72 | *760* | 524 | 7 | *531* | 33 | 1,291 | 9,344 |
| 1998 | 944 | 46 | *989* | 1,822 | 128 | *1,950* | 24 | 2,939 | 5,982 |
| 1999 | 1,676 | 104 | *1,780* | 905 | 265 | *1,170* | 27 | 2,950 | 4,979 |
| 2000 | 419 | 138 | *557* | 2,208 | 201 | *2,409* | 41 | 2,966 | 5,850 |
| **Subtotal** | **5,962** | **401** | **6,363** | **5,981** | **975** | **6,956** | **155** | **13,319** | **31,480** |

ECA = export credit agency.

**Figure A2.1: Official Cofinancing by Sector 1991-1995**

Total $7.4 billion

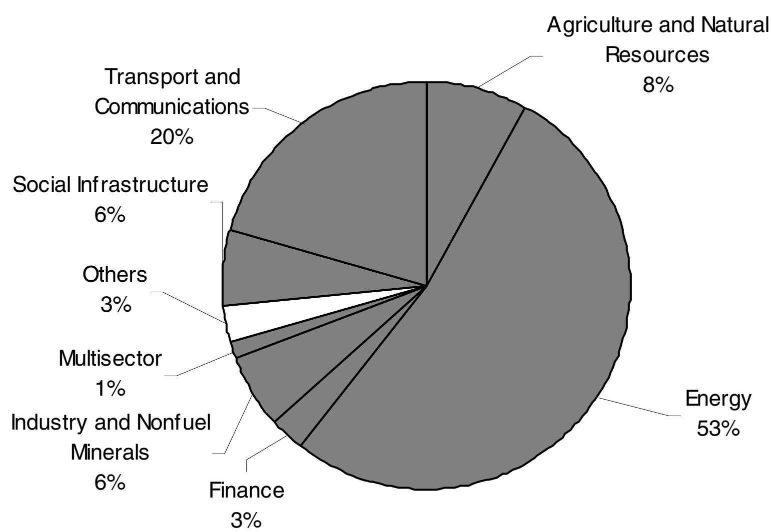



**Figure A2.2: Official Cofinancing by Sector 1996-2000**

Total $6.4 billion

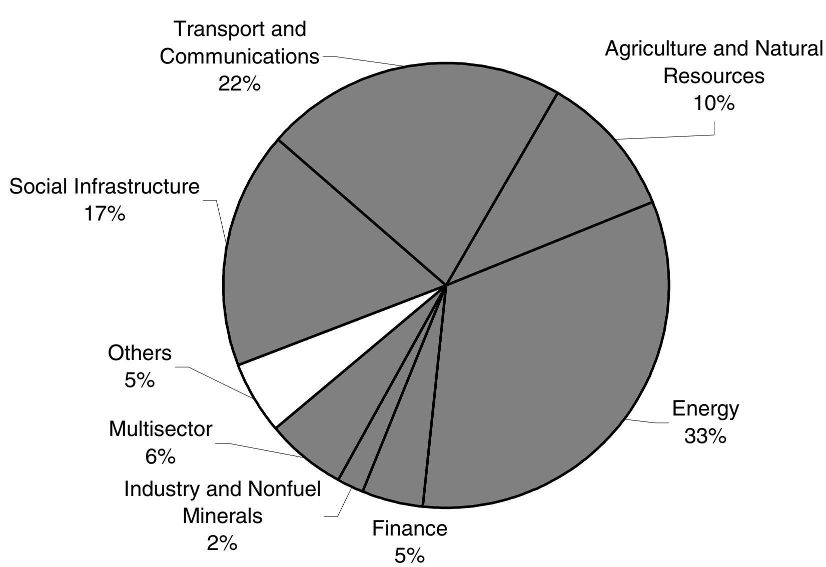
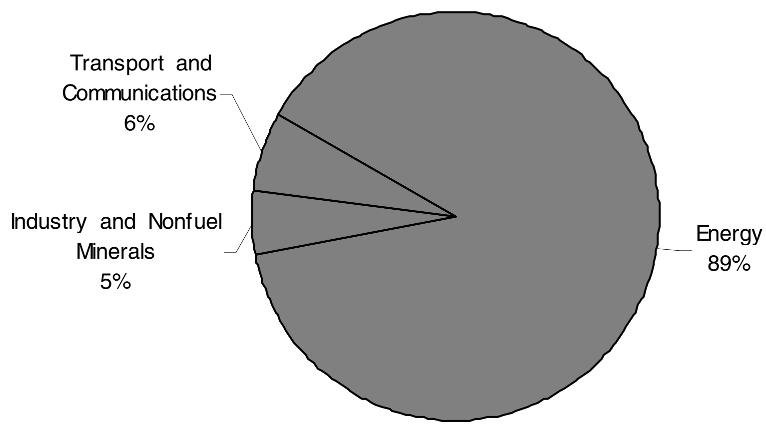


**Figure A2.3: Commercial Cofinancing by Sector 1991-1995[a]**

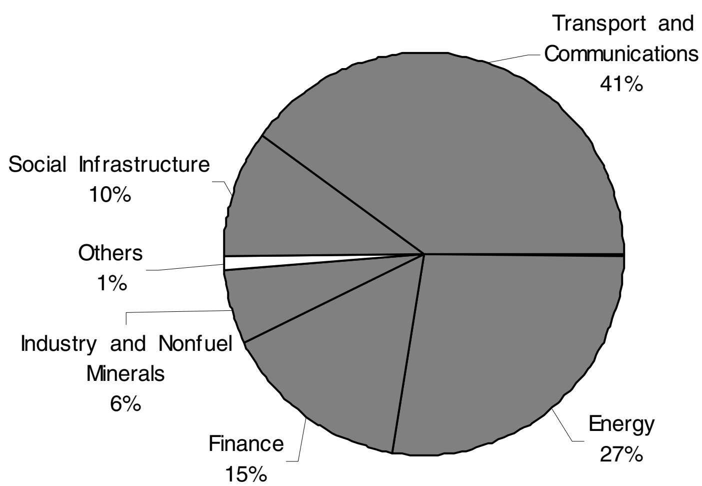
Total $4.2 billion




[a] Includes export credit cofinancing. Commercial cofinancing for the agriculture and natural resources sector was negligible.

**Figure A2.4: Commercial Cofinancing by Sector 1996-2000[a]**

Total $7.0 billion




[a] Includes export credit cofinancing. Commercial cofinancing for the agriculture and natural resources sector was negligible.

Appendix 3

## NET PRIVATE CAPITAL FLOWS TO DEVELOPING COUNTRIES, 1996-2000
## ($ billion)

| Item | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|
| **Developing Countries – Asia**[a] | | | | | |
| *Total net private capital flows* | 113.9 | 18.9 | -55.4 | 2.0 | -2.6 |
| Net foreign direct investment | 55.5 | 60.2 | 57.2 | 53.8 | 49.3 |
| Net portfolio investment[b] | 27.1 | 7.1 | 6.5 | 36.6 | 45.9 |
| Bank loans and other[c] | 31.2 | -48.4 | -119.1 | -88.4 | -97.8 |
| | | | | | |
| **Developing Countries – World** | | | | | |
| *Total net private capital flows* | 224.2 | 126.2 | 45.2 | 71.5 | 32.2 |
| Net foreign direct investment | 120.4 | 144.9 | 148.7 | 153.4 | 146.0 |
| Net portfolio investment[b] | 85.0 | 43.3 | 23.8 | 53.7 | 58.3 |
| Bank loans and other[c] | 18.7 | -62.1 | -127.2 | -135.6 | -172.1 |

[a] International Monetary Fund statistics for “Developing Countries - Asia” do not include data for certain ADB developing member countries (e.g., the Central Asian republics and some Pacific Island developing member countries).
[b] Includes bond and equity holdings by bank and nonbank investors.
[c] Includes syndicated bank lending, trade financing, and other smaller items.

Source: IMF. *International Capital Markets – Developments, Prospects and Key Policy Issues, 2001.*