Commercial Cofinancing and Guarantees

Office of Cofinancing Operations
Asian Development Bank
2001

ABOUT ADB

The Asian Development Bank (ADB) is a development finance institution established in 1966 to foster the economic and social progress of its developing member countries (DMCs) in the Asian and Pacific region (the region). As of 31 December 2000, ADB had 59 member countries, of which 43 are from the region. ABD's headquarters is in Manila, Philippines.

ADB assists DMC governments and government-owned entities through its public sector window. Public sector financing modalities consist of direct loans, grant assistance, and credit enhancements. ADB also assists the private sector through direct lending, equity investments, and credit enhancements. Direct assistance to the private sector is normally made without government guarantee.

The financial resources ADB uses to fund its lending operations include (i) ordinary capital resources, comprising subscribed capital, reserves and funds raised from international financial markets; and (ii) the Asian Development Fund (ADF), comprising contributions made by member countries, accumulated net income, and amounts previously set aside from paid-in capital. Loans from ADB's ordinary capital resources account for about 70 percent of cumulative lending, and are made to countries that have attained a more advanced level of economic development. Loans from ADF resources are offered on highly concessional terms, mainly to low-income countries.

ADB actively promotes cofinancing of its projects and programs, both as a means of mobilizing additional private capital and as a way of achieving greater leverage from the use of its own limited resources. Cofinancing is mobilized from official sources and commercial sources, including commercial banks, insurance companies, and export credit agencies.

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Abbreviations

BOO	build-operate-own
BOT	build-operate-transfer
CFS	Complementary Financing Scheme
DMC	developing member country
ECA	export credit agency
IFC	International Finance Corporation
L/C	letter of credit
LIBOR	London interbank offered rate
OCR	ordinary capital resources
OECD	Organisation for Economic Co-operation and Development
OCO	Office of Cofinancing Operations
PCG	Partial Credit Guarantee
PRC	People's Republic of China
PRG	Political Risk Guarantee
PRI	political risk insurance
PSG	Private Sector Group
SME	small and medium enterprise

Notes

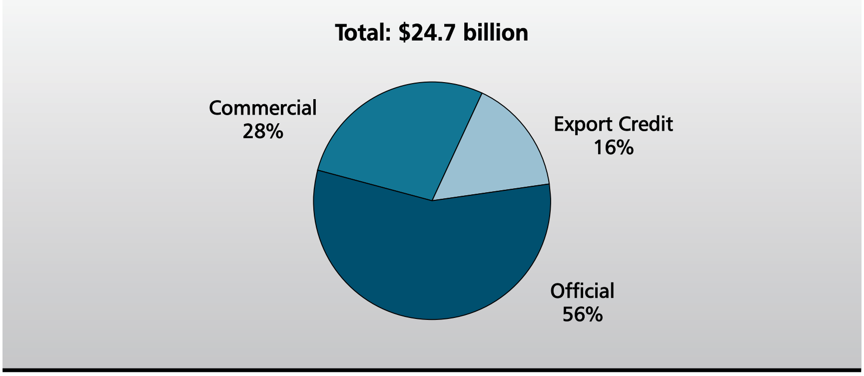
In this publication, "$" refers to US dollars. The term "country", as used in the context of ADB, refers to a member of ADB and does not imply any view on the part of ADB as to its sovereignty or independent status.

INTRODUCTION

This booklet describes the strategy, policies, and financial instruments that form the basis of the commercial cofinancing operations of the Asian Development Bank (ADB). It is primarily addressed to commercial lenders and related market institutions interested in participating in such operations.

Traditionally, cofinancing from official sources has accounted for the largest share of total ADB cofinancing. In recent years, however, official development assistance to DMCs has been declining, while cofinancing from commercial sources, including export credit cofinancing, has grown significantly. Over the last decade, commercial and export credit cofinancing amounted to $10.8 billion for 85 projects. This represented 44 percent of total cofinancing mobilized by ADB during the same period (*see chart below*).

Cumulative ADB Cofinancing by Source, 1991–2000



ADB has made a concerted effort to modify and update its commercial cofinancing policies and products to enhance their effectiveness for DMC borrowers, commercial lenders, and project proponents.[1] This is in line with ADB's commitment to improve project quality and financial sustainability, and to increase the role of private capital in funding ADB-assisted projects and programs.

1 For example, ADB undertook a major review of its guarantee policies in 1999 and 2000, resulting in a streamlining of procedures and an expansion in the scope of guarantee operations.

Bridging the Financing Gap

For nearly all DMCs, achieving and sustaining an acceptable level of economic development requires large investments in key economic sectors. In most cases, the funding requirements of such investments exceed the financing capacity of both the government and official development assistance providers (including ADB). In addition, the contribution of public sector funds to the total cost of these investments has declined in recent years. All of these factors have led to a gap in financing the necessary investments on which sustained growth depends.

ADB seeks to bridge the development financing gap in its DMCs through a combination of direct and indirect assistance. In the case of ADB's *public sector* projects and programs (for DMC governments and government-owned entities), direct assistance comprises loans and grants, while indirect assistance is mobilized by means of cofinancing from both official and commercial sources. As necessary, ADB utilizes its guarantees to facilitate commercial cofinancing of its public sector projects. In the case of *private sector* projects, ADB assistance consists of direct loans and equity investments, as well as credit enhancement to mobilize commercial cofinancing. Commercial cofinancing is thus an integral part of ADB's resource mobilization strategy, for both its public sector and private sector operations.

ADB's Commercial Cofinancing Operations

The primary objective of ADB's commercial cofinancing operations is to assist DMC governments and private sector borrowers in securing debt financing on suitable terms for ADB-assisted development projects. Commercial cofinancing is sourced from both domestic and international financial markets and is supported by ADB's credit enhancement products as necessary.

The policies that guide ADB's commercial cofinancing and guarantee operations address the unique financing and risk mitigation requirements of DMC governments and commercial borrowers. These policies are applied in the context of the specific requirements of individual projects.

For Additional Information

A separate publication, *Cofinancing–A Guide to ADB's Official and Commercial Cofinancing Operations*, is available from ADB's Office of Cofinancing Operations (OCO). Also available from OCO is a quarterly publication entitled *Project Profiles for Commercial and Export Credit Cofinancing*. This publication invites commercial cofinanciers to participate in ADB-assisted projects where specific cofinancing components have been identified. *Project Profiles* can also be downloaded from ADB's web site at **http://www.adb.org**.

In addition to providing the above information, OCO arranges seminars and workshops at which prospective commercial cofinanciers may learn more about ADB's commercial cofinancing operations. Finally, OCO welcomes inquiries regarding cofinancing and related matters (see Contact Information at the end of this booklet).

1 COMMERCIAL COFINANCING: CONCEPTS AND STRATEGIES

Cofinancing Defined

From ADB's perspective, cofinancing refers to additional financial resources mobilized for ADB-assisted projects from sources *other than*

- the borrowing country (in the case of public sector projects),
- the project proponents (in the case of private sector projects), and
- direct ADB assistance.

Cofinancing is mobilized from both official and commercial sources. Commercial or "market" sources of cofinancing include commercial banks, insurance companies, institutional investors, and export credit agencies.

The predominant types of commercial cofinancing used to fund ADB-assisted projects include

- syndicated loans,
- floating rate notes,
- bond issues, and
- convertible debt.

ADB's commercial cofinancing operations and credit enhancement products apply exclusively to *debt* financing, not equity investments.

Benefits of ADB's Commercial Cofinancing Operations

The main benefits of ADB's commercial cofinancing operations are summarized below.

For DMC borrowers

- additional financial resources to close financing gaps and enable priority development projects to be realized,
- debt financing on the best possible terms resulting from the use of ADB's commercial cofinancing products, and
- ADB assistance in securing export credit financing on favorable terms.

For cofinanciers

- sharing of ADB's preferred creditor status under the Complementary Financing Scheme,*
- comprehensive mitigation of risk through ADB's Partial Credit Guarantee,*

- mitigation of sovereign risk through ADB's Political Risk Guarantee,*
- access to ADB research and studies to help assess the scope for private sector participation in host countries, including commercial cofinancing and direct investments and
- additional comfort from ADB's direct participation in all of its cofinanced projects.

Cofinancing Arranged to Date

During the period 1970–2000, ADB arranged commercial cofinancing totaling $8.1 billion for 106 projects. On an annual basis, commercial cofinancing for both public and private sector projects has averaged $1.2 billion per year since 1996. This trend is expected to continue in the near term. (*See Appendix 1 for summaries of loan cofinancing, commercial and export credit cofinancing by recipient country and sector, and cofinanced projects receiving ADB guarantee support*).

Since 1996, ten DMCs have received commercial cofinancing totaling about $5.9 billion for 43 projects. The People's Republic of China (PRC) tops the list of recipients with about 60 percent of commercial cofinancing, followed by Thailand and India (*Table 1*).

Table 1. Leading Recipients of Commercial Cofinancing, by Country, 1996–2000[a] ($ million)

Recipient Country	Total	No. of Projects	%
China, People's Republic of	3,546	23	60
Thailand	950	1	16
India	433	2	7
Philippines	287	4	5
Pakistan	212	3	4
Sri Lanka	206	4	4
Bangladesh	170	1	3
Viet Nam	60	4	1
Cambodia	34	1	-
Kazakhstan	3	1	-
Total	**5,869**	**43**	**100**

a Includes commercial cofinancing mobilized from domestic and foreign sources.

* Each of these credit enhancement products is explained in more detail in subsequent sections of this booklet.

As for the geographic origin of this commercial cofinancing, during the five-year period 1996–2000, ADB obtained funding from private sector institutions in 28 countries, with additional commercial cofinancing sourced through multilateral institutions such as the International Finance Corporation (*Table 2*).

Table 2. Commercial Cofinancing for ADB-Assisted Projects, by Country of Origin, 1996–2000 [a] ($ million)

Country of Origin	Amount
Australia	13
Austria	50
Bahrain	10
Bangladesh	80
Belgium	93
Cambodia	4
Canada	74
China, People's Republic of	3,134
France	200
Germany	157
Hong Kong, China	14
India	16
Italy	95
Japan	360
Kazakhstan	3
Korea, Republic of	26
Luxembourg	6
Netherlands	110
Philippines	36
Singapore	97
South Africa	6
Spain	44
Sri Lanka	44
Switzerland	48
Taipei,China	94
United Arab Emirates	6
United Kingdom	48
United States of America	92
International Finance Corporation (IFC)	117[b]
Other Commercial Lenders	791[c]
Total	**5,869**

a For lenders in developing member countries, cofinancing is primarily in the form of local currency debt.
b Provided by commercial cofinanciers under the International Finance Corporation's B Loan program.
c Including cofinancing from unidentified domestic banks arranged directly by the borrowers on a parallel basis, as well as ADB-approved commercial cofinancing transactions which are still in progress.

ADB's Role in Commercial Cofinancing

ADB generally plays an active role in arranging commercial cofinancing for ADB projects or programs. Examples of such assistance include

- sharing ADB's due diligence relating to proposed projects with prospective cofinanciers,
- preparing invitations and soliciting cofinancing offers,
- evaluating offers received,
- mandating, negotiating, and documenting the cofinancing, and
- providing loan administration services under ADB's Complementary Cofinancing Scheme (*see page 13*).

ADB's Credit Enhancement Products

ADB currently offers three credit enhancement products to support commercial cofinancing:

- the Complementary Financing Scheme (CFS),
- the Partial Credit Guarantee (PCG), and
- the Political Risk Guarantee (PRG).

These credit enhancements are used only when necessary to mitigate risks associated with ADB-assisted projects or programs, which market institutions are unwilling or unable to undertake.

ADB's Direct Participation Requirement

ADB's credit enhancement products can only be used to support projects in which ADB has some direct participation. In the case of public sector projects or programs, a direct ADB loan is required to meet this participation requirement. For private sector projects, ADB's participation typically consists of a direct loan and/or equity investment.

There is no fixed ratio between the amount of ADB's direct participation and the amount of commercial cofinancing. However, ADB seeks to prudently leverage its direct assistance whenever possible. For example in the case of the Export Financing Facility in Thailand (a public sector operation approved in 1998), ADB provided a $50 million direct loan, augmented by $950 million raised through commercial cofinancing. In the case of the Fujian Pacific Electric Company Limited in the People's Republic of China (a private sector project approved in 1998), ADB's direct participation consisted of a $10 million equity investment and a $40 million direct loan, augmented by ADB-supported commercial cofinancing of $150 million.

A list of recent ADB projects with commercial cofinancing supported by ADB's credit enhancements is in *Table 3*. Detailed information and illustrative examples pertaining to ADB's credit enhancement products are provided in subsequent sections of this booklet.

Syndication Strategies

ADB uses a number of different syndication strategies in arranging commercial cofinancing. The objective in selecting a particular strategy is to achieve the most cost-effective means of financing possible, including the best possible terms and conditions for the borrower, and, where applicable, proper value for any credit enhancement provided by ADB. Prior to syndication, ADB discusses with the borrower/sponsor various syndication strategies. The strategy ultimately agreed on is that which best balances the needs of the borrower with the requirements of the market.

A transparent, competitive process is used to select the underwriters/arrangers of commercial cofinancing. Financial institutions that have expressed interest in a particular transaction are invited to submit a commercial cofinancing proposal. ADB then assists and advises the borrower in the evaluation of such proposals. While pricing is an important criterion for selection, other criteria may also be considered, depending on the structure of the transaction.

For underwritten transactions, lead underwriters are chosen, and general syndication is normally arranged under their management in consultation with the borrower and with assistance from ADB. For small transactions requiring participation by only a few banks, ADB may act as the arranger.

Table 3. Recent Commercial Cofinancing with ADB Credit Enhancements (1996–2000)[1]

Year	Country[2]	Project	Amount ($ million)	Term	Cofinancing[3]
1996	PAK	Fauji Kabirwala Power Company Limited	60.5	12-year syndicated loan	ADB CFS loan
1997	SRI	Small and Medium Enterprise Assistance	50.0	10-year syndicated loan	ADB PCG covering bullet repayment at maturity
1998	PRC	Fujian Pacific Electric Company Limited	150.0	12-year syndicated loan	ADB CFS loan
			129.0	16-year export credit financing	COFACE and 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
	SRI	Credit Enhancement Facility for Private Enterprises	65.0	10-year floating rate note	ADB PCG covering bullet repayment at maturity
	THA	Export Financing Facility	950.0	5-year syndicated loan	ADB PCG covering principal and interest in first 3 years
	VIE	Nghi Son Cement Corporation Limited	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 Co. Ltd.	21.5	12-year syndicated loan	ADB CFS loan
	PHI	Maynilad Water Services, Inc.	126.0	12-year syndicated loan	ADB CFS loan
			59.0	12-year syndicated loan	European Investment Bank

Year	Country[2]	Project	Amount ($ million)	Term	Cofinancing[3]
			120.0	12-year syndicated loan	COFACE insured loan
	PHI	Philippine International Air Terminals Co., Inc.	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	BAN	AES Meghnaghat Limited	20.0	10-year syndicated loan	ADB CFS loan
			70.0	15-year syndicated loan	ADB PRG covering principal and interest
			20.0	16-year senior loan	Commercial loans from IDCOL[4] without credit enhancement
			60.0	23-year subordinated loan	Commercial loans from IDCOL[4] without credit enhancement
	IND	Power Transmission Improvement (Sector)	120.0	15-year syndicated loan	ADB PCG covering principal and interest from 8 to 15 years
	PAK	Small- and Medium-Size Enterprise Trade Enhancement Finance	150.0	L/Cs 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 banks confirming import L/Cs issued by Pakistani banks at the request of eligible exporters.

Year	Country[2]	Project	Amount ($ million)	Term	Cofinancing[3]
	PHI	Manila North Tollways Corporation	25.0	12-year syndicated loan	ADB CFS loan
			55.0	13-year direct loan	EFIC insured loan
			52.5	13-year syndicated loan	Commercial loan with MIGA cover
			30.0	13-year syndicated loan	COFACE insured loan
			45.0	13-year direct loan	IFC A loan
			7.5		Commercial L/C facility
	SRI	AES Kelanitissa (Private) Limited	52.0	12-year syndicated loan	ADB PRG covering principal and interest

1 In accordance with ADB policy, ADB had some form of direct participation (e.g., a direct loan or equity investment) in each of the projects listed in this table.

2 BAN—Bangladesh, IND—India, PRC—People's Republic of China, PAK—Pakistan, PHI—Philippines, SRI—Sri Lanka, THA—Thailand, and VIE—Viet Nam

3 Refer to Notes section below for definitions of acronyms used in this table.

4 IDCOL, a financial institution owned by the Government of Bangladesh, will fund its loans to the project through existing credit lines from the World Bank, JBIC, and DFID.

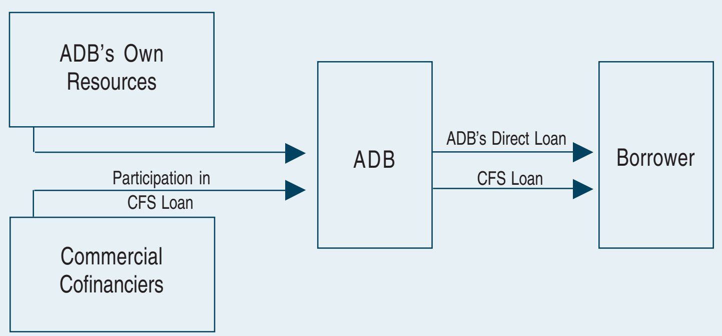
Notes:

CESCE	Compañia Española de Seguros de Crédito a la Exportación
CFS	Complementary Financing Scheme
COFACE	Compagnie Francaise d'Assurance pour le Commerce Exterieur
DFID	Department for International Development
EFIC	Export Finance and Insurance Corporation
IDCOL	Infrastructure Development Co. Ltd.
IFC	International Finance Corporation
JBIC	Japan Bank for International Cooperation
KfW	Kreditanstalt für Wiederaufbau
MIGA	Multilateral Investment Guarantee Agency
ODA	official development assistance
PCG	Partial Credit Guarantee
PRG	Political Risk Guarantee
PRI	Political Risk Insurance

2 COMPLEMENTARY FINANCING SCHEME

ADB's Complementary Financing Scheme (CFS) is a credit enhancement product that involves the prearranged sale to commercial lenders of participation in a cofinanced or "complementary" ADB loan without recourse to ADB for debt service.[2] The CFS is used solely to facilitate commercial cofinancing of ADB-assisted private sector projects. ADB is the "lender-of-record", since the complementary loan is made in ADB's name (*Figure 1*). *See the box at the end of this chapter for an illustrative example of an ADB-assisted project that features CFS-supported commercial cofinancing*.

Figure 1. The Complementary Financing Scheme



Cofinanciers Enjoy Preferred Creditor Status

Though funded by commercial lenders, the complementary loan receives the benefit of ADB's "preferred creditor status" since ADB is the lender-of-record. The complementary loan thus enjoys the same privileges and immunities as those applicable to ADB's principal loan, including

- exemption from restrictions on currency conversion and on the remittance of interest and repatriation of principal,
- exemption from withholding tax,

2 Complementary loans are sometimes referred to as "B" loans to distinguish them from the direct, or "A" loans, provided by multilateral institutions such as ADB or the International Finance Corporation.

- reduced likelihood of rescheduling in the event of an external debt crisis in the borrowing country,
- exemption from special debt provisioning requirements in some countries, and
- benefits from linking the complementary loan with ADB's direct loan through an optional cross-default clause (*see Glossary*).

Cofinanciers providing CFS loans also benefit from ADB's project appraisal, supervision, and loan administration services. In the case of the latter, ADB acts as a channel for disbursements and debt service payments.

The maturities of CFS loans (on a project finance basis) typically vary from seven to eight years for industrial and manufacturing projects, and from 10 to 12 years for BOO/ BOT infrastructure projects, which generally require longer-term financing.

CFS Fees

For CFS loans, ADB charges market-based fees for its own account, as well as for the account of the participating institutions (CFS lenders). The fees are based on the estimated costs of arranging and administering the CFS loan, and on standard market practice (*Table 4*). The *arrangement fee* is a one-time front-end fee, and is fixed at the lower end of the normal range of such fees charged by international commercial banks for syndicated term loans. The *annual administration* fee covers the cost of CFS loan administration expenses.

Table 4. CFS Fees Charged by ADB for its Own Account

Fee	Amount
Arrangement	75-100 basis points on the amount of the complementary (CFS) loan, with a minimum of $20,000
Administration	$5,000 per participating CFS lender per annum, with a maximum of $20,000 per annum.

Participating CFS lenders normally charge a management fee (or front-end fee) and an annual agency fee. If the cofinancing is underwritten, the institutions involved may also charge an underwriting fee. These fees, which are market-based, are charged to the borrower.

Eligibility

Any reputable financial institution can participate as a CFS lender, provided it operates on a commercial basis (i.e., it finances its loans from the market without budgetary allocation or government credit support). However, financial institutions are not eligible to participate in CFS transactions if their head offices are registered in the same country in which the ADB-assisted project is located.

Documentation

CFS documentation comprises

- a direct loan agreement between ADB and the borrower,
- a complementary loan agreement between ADB and the borrower, and
- a participation agreement between ADB and the participating CFS lenders.

The relationship between a CFS lender and the borrower is indirect, although the borrower is informed of the identities of such lenders.

Administration

As lender-of-record, ADB administers CFS loans on behalf of the participating CFS lenders with the same standard of care it exercises in respect of loans for its own account. In matters of critical importance to CFS lenders, ADB does not act unilaterally, but instead seeks the lenders' views and consent prior to taking action, as specified in the participation agreement.

During the period 1970–2000, ADB arranged 39 CFS loans for 37 projects in 9 DMCs, for a total of $1.17 billion.

CFS Loan—Example

Chengdu Generale des Eaux-Marubeni Waterworks Company Limited (PRC)

Type	:	Complementary Financing Scheme
Borrower	:	Chengdu Generale des Eaux-Marubeni Waterworks Company, Limited
Cofinanced Amount	:	$21.5 million
Tenor	:	12 years, including a 3-year grace period
Syndicate	:	7 commercial lenders
Project Financing	:	Debt:

ADB Direct Loan	$26.5 million	(15 years)
ADB CFS Loan	21.5	(12 years)
EIB Direct Loan[1]	26.5	(12 years)
Subtotal Debt	74.5 million	
Sponsors Equity:	31.9 million	
Total	$106.4 million	

Use of Proceeds	:	Construction of a modern water supply plant in the People's Republic of China with a capacity of 400,000 cubic meters per day, providing reliable water to nearly three million residents of the city of Chengdu. Ownership of the plant will be transferred to the Chengdu municipal government after 18 years.
Project Sponsors	:	Vivendi (France) and Marubeni Corporation (Japan)
Remarks	:	The project was the first BOT water supply project in the PRC, the first project financing to rely on municipal credit risk in the PRC, and the first private sector water project financed by ADB. The financing transaction won awards for excellence in project finance from three internationally recognized financial publications.

1 Commercial banks provided the European Investment Bank (EIB) with a commercial risk guarantee.

3 THE PARTIAL CREDIT GUARANTEE

Key Features

Under the Partial Credit Guarantee (PCG), ADB provides comprehensive coverage to commercial cofinanciers of all commercial and political risks for a specified portion of a borrower's debt service obligation. PCGs can be used to support commercial cofinancing of both public and private sector projects. Depending on the requirements of the project, the PCG can be used to guarantee a variety of debt instruments. For example, it can be used to guarantee part of the debt service under a syndicated loan, or under a floating rate note or bond, provided these are issued for the purpose of financing the ADB-assisted project. (*The three examples that appear at the end of this chapter provide illustrations of PCG coverage*.)

PCGs have generally been used to guarantee debt service during the later maturities of a commercial cofinancing. This may be appropriate when lenders are not willing or able to provide a financing tenor long enough to match the cash flow of a project. Alternatively, PCGs can guarantee a portion of principal and interest payments payable throughout the term of a borrowing.

Consistent with ADB's policy of risk-sharing with cofinanciers, the PCG is designed to cover that portion of the debt service that the cofinanciers are not prepared to take, leaving the remaining portion to the cofinanciers on an uncovered basis.

Mindful of the lessons learned from the Asian financial crisis, ADB is exploring ways of using the PCG to support *local currency* cofinancing. This is consistent with ADB's strategy of developing local capital markets and helping project sponsors reduce the foreign exchange risks associated with cross-border loans requiring debt service in currencies different from those of the cash flow of the project.

Amount. There is no limit on the amount of PCGs for *public sector* projects or programs; however, all public sector PCGs must have a host government counter-guarantee. For *private sector* projects for which there is no host government counter-guarantee (or indemnity), ADB's single project exposure limit (comprising direct lending and/or equity investments and PCG support) is $50 million or 25 percent of project costs, whichever is less.[3]

Fees. For public sector PCGs, ADB charges a standard fee of 40 basis points (0.4 percent) per annum on the present value of the outstanding guarantee obligation, plus a front-end fee to cover ADB's processing costs. For private sector PCGs, both the guarantee fee and the front-end fee are charged at market rates.[4]

ACCSF Guarantee

ADB also offers guarantees financed under the Asian Currency Crisis Support Facility (ACCSF). The ACCSF guarantees are comprehensive in nature (covering both commercial and political risks) and are designed to support ADB-assisted projects in the following five countries: Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand.

ACCSF guarantees are extended in accordance with ADB's guarantee policy. As a credit enhancement product for public sector projects, ACCSF guarantees may be issued to support government-issued obligations such as loans or bonds denominated in Japanese yen or other major currencies. All ACCSF guarantees require government counter-guarantees, and must be committed by March 2002.

3 In calculating this limit, ADB's direct lending and/or equity exposure is equal to the *face value* of the commitment, while PCG exposure is calculated on the basis of the *present value* of the PCG guarantee obligation.

4 In the case of PCGs for private sector projects that have a host government counter-guarantee, the guarantee fee and front-end fees payable to ADB are the same as for public sector PCGs.

Partial Credit Guarantee—Example 1

Export Financing Facility (Thailand)

Type	: Syndicated loan supported by ADB Partial Credit Guarantee
Borrower	: Export-Import Bank of Thailand
Cofinanced Amount	: $950 million
Tenor	: 5 years
Guarantee Coverage	: The PCG covers principal and interest due for years 1 to 3, with extension to year 4 if Thailand is rated below BBB/Baa2.
Counter-Guarantor	: Thailand
Syndicate	: 68 commercial lenders (from Asia, Europe, and North America)
Project Cost	: $1 billion (including $50 million ADB direct loan)
Use of Proceeds	: Onlent to export-related enterprises in Thailand
Remarks	: This was the first term financing arranged for Thailand since the start of the Asian financial crisis in July 1997. The success of the loan and the impressive amount raised acted as a catalyst for subsequent post-crisis commercial lending to Thailand.

Partial Credit Guarantee—Example 2

Credit Enhancement Facility for Private Enterprises (Sri Lanka)

Type	: Floating Rate Note (FRN) supported by ADB Partial Credit Guarantee
Borrower	: DFCC Bank
Cofinanced Amount	: $65 million
Tenor	: 10 years
Guarantee Coverage	: The PCG covers repayment of principal at final maturity. The Government of Sri Lanka guaranteed interest.
Counter-Guarantor	: Sri Lanka
Syndicate	: 9 financial institutions
Project Cost	: $70 million (including $5 million ADB direct loan)
Use of Proceeds	: Onlent to commercial clients by DFCC Bank
Remarks	: This issue set a milestone as the longest tenor achieved by Sri Lanka in the capital markets. Investors received added comfort through a cross-default clause (between the FRN and ADB's direct loan), a sinking fund, and ADB's monitoring of DFCC Bank's performance.

Partial Credit Guarantee—Example 3

Northern Luzon Transmission and Generation Project (Philippines)

Type	:	Fixed rate Euroyen bond supported by ADB Partial Credit Guarantee		
Borrower	:	National Power Corporation (NPC)		
Cofinanced Amount	:	12 billion Japanese yen (JPY)		
Tenor	:	20 years		
Guarantee Coverage	:	The PCG covers repayment of principal at final maturity. The Government of the Philippines guaranteed interest.		
Counter-Guarantor	:	Philippines		
Syndicate	:	9 financial institutions		
Project Financing	:	Debt:		
		ADB Direct Loan	$244.0	million
		ADB PCG on Bond	142.0	(JPY12 billion equivalent)
		Japan Exim Bank	244.0	
		World Bank	109.5	
		KfW (Germany)	27.8	
		Subtotal Debt	767.3	
		NPC (internal funds)	129.0	
		Total	$896.3	million
Use of Proceeds	:	Expansion of transmission and distribution network in Northern Luzon and expansion of Masinloc power station.		
Remarks	:	As the first multilateral cofinancing bond in the yen market and the longest tenor to be tapped by a Philippine borrower in the international capital market at the time of issuance (November 1995), this was a landmark transaction that significantly reduced the borrower's all-in cost of financing.		

4 THE POLITICAL RISK GUARANTEE

Key Features

The Political Risk Guarantee (PRG) facilitates commercial cofinancing of ADB-assisted projects by guaranteeing payment of all or part of the project's debt service against specific political (or sovereign) risks. PRG coverage can include any combination of the following:[5]

- currency inconvertibility and/or nontransfer (CI),
- confiscation, expropriation, nationalization, or deprivation of project assets (CEND),
- political violence, such as strikes or civil disturbances, that negatively affects the project (Political Violence), and
- breach of contract, such as nondelivery by state-owned entities of inputs (e.g., fuel supplies) or nonpayment for outputs (e.g., power or water) (Breach of Contract).

PRGs are primarily designed to facilitate private sector development, either through public or private sector projects. (*Several examples of projects with PRG support are provided at the end of this chapter.*)

PRGs are well suited to cases in which commercial lenders are prepared to take on the commercial (or credit) risks of a project, but require assistance from a multilateral institution or private insurer in mitigating political risks. Since the political risks covered by a PRG relate to outcomes under the direct or indirect control of the host government, the government may provide a counter-guarantee (or indemnity) to ADB. This provides further assurance to cofinanciers and ADB of the host government's commitment to the project.

Amount. If the PRG is counter-guaranteed by the host government, there is no limit on the amount of the PRG. For projects with PRG support for which there is no host government counter-guarantee, ADB's total assistance may be up to $100 million or 50 percent of project costs, whichever is less (with such assistance calculated on a face value basis).[6]

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5 Additional details concerning each of these areas of coverage are provided in the Glossary.

6 The proportion between ADB's direct participation (e.g., in the form of a loan and/or equity investment) and PRG support is determined on a project-by-project basis, with a view to appropriately leveraging the PRG support.

Fees. The PRG fee structure has three components: (i) a front-end fee, (ii) a standby fee, and (iii) a guarantee fee. The amount of each of these fees is determined separately for each PRG by ADB's Guarantee Committee. The front-end fee covers due diligence and other up-front costs. The stand-by fee applies to the amount of cofinancing covered by the PRG that has not yet been disbursed.[7] The amount of the guarantee fee depends on the perceived level of the risks covered, and on whether or not the PRG is counter-guaranteed by the host government. If the PRG is counter-guaranteed, ADB charges a guarantee fee of 40 basis points per annum on the guaranteed amount. If the PRG is not counter-guaranteed, the guarantee fee is charged at market rates.

Cooperation with Political Risk Insurers

ADB's PRG can be structured to make it compatible with the Political Risk Insurance (PRI) products offered by other agencies, including the World Bank's Multilateral Insurance Guarantee Agency, private sector PRI providers, and export credit agencies (ECAs). Because of the size of some projects requiring PRI cover (particularly large infrastructure projects), and in recognition of the importance of risk sharing and collaboration, ADB can offer its PRG in parallel with other PRI providers, as described below.

Parallel PRG Coverage. Under this arrangement, public and private PRI providers offer PRI to the same project alongside or in parallel with ADB, under their respective names, terms, and conditions. This arrangement benefits PRI providers that (i) do not need the benefits of ADB's preferred creditor status or "umbrella" and (ii) offer insurance, rather than guarantees, on terms that cannot be easily reconciled with those of ADB's PRG.

ADB as Guarantor-of-Record. Under this format, ADB issues a guarantee for the entire amount of coverage requested by the borrower, but retains only a portion of the exposure under the guarantee for its own account. The remaining exposure is underwritten by private sector PRI providers. ADB is the guarantor-of-record for the entire amount covered, but assumes liability only for the portion retained for its own account. Recoveries, if any, are shared between ADB and the other PRI syndicate participants on a pro rata basis.

To cover the administrative expenses incurred in structuring each transaction and to compensate ADB for "fronting" the other PRI syndicate participants, ADB will charge the participants an administration fee. This fee will be determined by ADB on a case-by-case basis.

7 For PRGs with a counter-guarantee, the standby fee is included in the guarantee fee.

The PRG collaboration structures described above enable project proponents to utilize PRI cover from multiple providers, thus facilitating projects that, without a sufficient amount of PRI cover, might not go forward. The host government can also take comfort in having a multilateral institution such as ADB involved in the project, to help ensure inter alia the technical and financial viability of the project. Project lenders benefit from the increased PRI cover in more difficult and challenging markets, while enjoying the comfort of an ADB guarantee, coupled with ADB's direct participation in the project.

Political Risk Guarantee—Example 1

AES Kelanitissa (Private) Limited (Sri Lanka)

Type	:	Syndicated loan supported by ADB Political Risk Guarantee
Borrower	:	AES Kelanitissa (Private) Limited
Cofinanced Amount	:	$52 million
Tenor	:	12 years
Guarantee Coverage	:	The PRG covers breach of contract by the Government of Sri Lanka under the implementation and other agreements, including payment obligations relating to · currency convertibility and transfer risk, · expropriation and confiscation, change of law and events, which make project agreements unenforceable, and · breach of fuel supply and power purchase agreements.
Counter-Guarantor	:	Sri Lanka
Syndicate	:	To be syndicated
Project Financing	:	Debt: ADB Direct Loan $26.0 million Cofinanced Loan under PRG 52.0 Subtotal Debt 78.0 Equity: AES Corporation 24.0 Hayleys Limited 2.0 Subtotal Equity 26.0 Total $104.0 million
Use of Proceeds	:	Construction and operation of a 163-megawatt diesel-based combined cycle power station.
Remarks	:	ADB's PRG support is expected to enable the borrower to mobilize long-term (12-year) debt of $52 million from commercial cofinanciers at significantly better terms than it could achieve on its own credit.

Political Risk Guarantee—Example 2

SME Trade Enhancement Finance (Pakistan)

Type	:	ADB Political Risk Guarantee facility guaranteeing payment to international banks confirming letters of credit (L/Cs) issued by Pakistani banks to finance imports of intermediate goods for eventual export.
Guarantee coverage	:	The PRG covers 100 percent of the obligations under each eligible L/C, provided that failure to pay by the issuing bank is caused by: - currency inconvertibility or transferability blockage; or - other agreed political risk events directly affecting payment.
Counter-Guarantor	:	Pakistan
PRG Facility Amount	:	Aggregate value of all L/Cs guaranteed under the Facility not to exceed $150 million.
Facility Agent	:	An international commercial bank with extensive experience in trade finance. The Facility Agent will be mandated by ADB to enter into master risk participation agreements with a number of confirming banks. The Facility Agent will act as a conduit between ADB and the confirming banks in administering and helping promote the Facility in Pakistan and overseas.
Availability Period	:	Six years. During the availability period, new eligible L/Cs may replace the L/Cs that have matured. L/Cs may have a term of up to 360 days, but may on a case-by-case basis have a term of up to 3 years.
ADB Direct Participation	:	Loan—$150 million to Pakistan for Foreign Currency Export Facility Equity—$2 million invested in Pakistan Export Finance Guarantee Agency Ltd.
Rationale for ADB Guarantee Support	:	At times of political uncertainty, offshore suppliers that sell much-needed imports to Pakistan have encountered difficulties in obtaining confirmation of L/Cs issued by Pakistan banks, or have done so at an exceptionally high cost. The PRG effectively mitigates Pakistan country risk, thus helping keep Pakistan country limits open for international banks confirming import L/Cs issued by Pakistan banks during periods of political and economic uncertainty. The Facility should ensure that Pakistan exporters have continued access to trade finance and effectively reduce the cost of imports for export production, thus enabling Pakistan exporters to compete on terms similar to those of their international competitors (without being penalized unduly for Pakistan's country risk).

5 EXPORT CREDIT

Export credit cofinancing for both public and private sector projects is an important element of ADB's commercial cofinancing operations. The demand for export credit in the region has shown steady growth, due in large part to the funding requirements of capital-intensive infrastructure projects, coupled with a reduced appetite on the part of commercial lenders for uncovered term financing in the period following the financial crisis.

While ADB's credit enhancement products—the Complementary Financing Scheme, Partial Credit Guarantee, and Political Risk Guarantee—provide valuable "cover" to commercial cofinanciers, export credit agencies (ECAs) can provide significant additional risk mitigation.

Export credit is typically provided by ECAs either

- directly, as a loan, with repayment terms generally from two to ten years, subject to the OECD Arrangement,[8] or
- indirectly, as insurance or a guarantee provided by an ECA to support a commercial loan.

Direct export credit usually comes in the form of a *buyer credit*, whereby credit is provided directly to the importer or buyer to allow it to fund the purchase of exported goods or services primarily from the country in which the ECA is located. Export credit can also be extended through a *supplier credit*, whereby a supplier makes a sale based on deferred payment terms, with export credit insurance protecting the supplier (or its commercial bank) against the buyer's failing to meet its obligation to make payments when they become due.

Export credit is often part of a project finance package put together by a structured trade or project finance unit of a commercial bank. The mandate of most ECAs is to fill a financing "gap" and cover the risks that the commercial market is not willing to take.

Collaboration with ECAs in Public Sector Projects

To tap this important source of cover, and to assist public sector borrowers in obtaining affordable and competitive commercial cofinancing, ADB began in

8 An agreement among the member countries of the Organisation for Economic Co-operation and Development that regulates export credit terms.

1998 to strengthen its collaboration with ECAs. In addition, ADB has explained the benefits of ECA support in its ongoing policy dialogue with DMC governments and their executing agencies. The key features of intensified collaboration between ADB and ECAs are described below.

Early Project Identification. At the earliest stages of formulating its public sector projects, ADB seeks to identify those that may require a significant amount of imported capital equipment and/or services that would be eligible for export credit. Such projects and their export credit possibilities are listed in ADB's *Project Profiles for Commercial and Export Credit Cofinancing*, which is distributed to all major ECAs and potential cofinanciers. By identifying such projects and export credit possibilities early, procurement packaging and the financing plan can incorporate export credit cofinancing.

Two-Bid Procedure. Under this procedure, bid invitations for contracts eligible for export credit require the submission of two separate bids:

- a *commercial/technical bid* with a cash price, excluding any finance charges (to avoid any cross subsidy), and
- a *financial bid*, including either a supplier or a buyer credit finance package that may, at the bidder's option, include ECA cover or acceptable evidence of ECA support should the bidder be successful.

The bid invitations normally specify that the financial bid should comply with the applicable OECD terms as a minimum requirement.

Advance Notice to ECAs. When bid invitations are sent out, ADB notifies interested ECAs and provides 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. ADB and the borrower normally attach to the bid invitations an information memorandum based on ADB's due diligence up to that time, plus an invitation to suppliers, their banks, and ECAs to contact ADB's Office of Cofinancing Operations if they have any questions regarding the finance package requested.

From time to time, ADB contacts ECAs to determine their interest in, and pricing for, a transaction at or before the time invitations are sent out. However, firm quotes are not requested at this time.

ADB Support of 15 percent Deposit Finance. If warranted, ADB may provide support in arranging commercial financing to fund the 15 percent deposit required for most supply contracts, which is normally not covered by an export credit according to the OECD Arrangement. This support, if provided, is typically in the form of a Partial Credit Guarantee (PCG) to the commercial lender. ADB's PCG support is provided under separate documentation in parallel with the ECA-supported tranche. ADB's support of the 15 percent deposit finance may not be offered in certain circumstances, particularly when the transaction requires additional self-financing by the borrower.

Economy and Efficiency in Procurement. ADB-financed contracts and cofinanced contracts with ECA cover are bid separately to allow different procurement procedures. While procurement under ADB's direct loan must follow ADB's procurement guidelines (which generally require international competitive bidding), procurement under contracts supported by export credit for ADB-assisted public sector projects will generally follow the two-bid procedure described above to ensure transparent competition among suppliers from as many countries as possible. Accordingly, under ECA financing, borrowers may retain the option of requesting revised commercial/ technical bids and financial bids.

ADB's Role during Negotiations. ADB may act as a facilitator between the public sector borrower, the supplier, its banks, and the ECAs. ADB recognizes that ECAs and their lenders continue to have different export credit programs and work under different legal systems. Accordingly, ADB works with existing export credit documentation and does not try to impose a standardized form of documentation on the ECA-covered cofinancing.

Collaboration with ECAs in Private Sector Projects

Traditionally, ADB and ECAs have cooperated closely to mobilize commercial cofinancing support for ADB-assisted private sector projects. (An example of ADB and ECA cooperation to finance a private sector infrastructure project is provided at the end of this chapter). The objective of such cooperation, in which ADB and ECAs use their respective credit enhancement and/or insurance products, is to achieve cost-effective financing structures that mitigate risks, suit the cash flow requirements of individual projects, and promote economic development in DMCs.

Export Credit Cofinancing—Example

Fujian Pacific Electric Company Limited (PRC)

Type	:	Export Credit (political risk cover) provided by ECAs from Spain and France
Borrower	:	Fujian Pacific Electric Company Limited
ECA Cofinancing	:	$128.4 million
Tenor	:	16 years
Project Financing	:	Debt: ADB Direct Loan — $40.0 million ADB CFS Loan — 150.0 Export Credit (CESCE, Spain)[1] — 75.7 Export Credit (COFACE, France)[1] — 52.7 Uncovered Loan Facility — 248.0 Subtotal Debt — $566.4 million Equity: ADB — $10.0 million Sponsors — 178.8 Subtotal Equity — $188.8 million
Use of Proceeds	:	Construction of a 720-megawatt coal-fired BOT power plant in Fujian Province, with a concession period of 23 years
Project Sponsors	:	InterGen (Hong Kong) and Lippo Group (Indonesia)
Remarks	:	The combination of ADB and ECA support enabled the sponsors to obtain competitive, long-tem financing at a time of considerable uncertainty in financial markets. This project won two awards: The "Asian Project Finance Loan of the Year" from the *International Finance Review* and the "Power Deal of the Year—Asia Pacific" from *Project Finance International*.

1 Consisting of political risk cover in the pre and postcompletion phases

6 QUESTIONS AND ANSWERS

Can project sponsors and their bankers get ADB cofinancing for their projects? If so, how and when should they discuss the matter with ADB?

Yes, but cofinancing is possible only if ADB directly assists the project with a loan, an equity investment, or both. Private sector sponsors and their bankers should discuss the scope for ADB participation with ADB's Private Sector Group (PSG) at the earliest possible stage of project development (*see Contact Information for PSG at the end of this booklet*). Once PSG decides to process an ADB loan and/or equity investment for a project, the Office of Cofinancing Operations will assist in making the necessary cofinancing arrangements. The sooner a project sponsor ascertains ADB interest, the better.

How does ADB inform potential cofinanciers of suitable projects for cofinancing?

ADB's quarterly publication entitled *Project Profiles for Commercial and Export Credit Cofinancing* lists projects requiring cofinancing from market sources. This information is also available in *ADB Business Opportunities*, a monthly publication sold through ADB's Office of External Relations, and is posted on ADB's web site at **http://www.adb.org**. ADB's Office of Cofinancing Operations may also be consulted concerning projects with potential for cofinancing (*see Contact Information at the end of this booklet*).

How should potential commercial cofinanciers express their interest in cofinancing a particular project?

They should review ADB's *Project Profiles for Commercial and Export Credit Cofinancing* regularly, and communicate their interest in cofinancing particular projects to ADB's Office of Cofinancing Operations through fax, telephone or e-mail (*see Contact Information at the end of this booklet*).

How are commercial cofinanciers selected?

The selection or "mandating" process varies, depending on the nature of the project, the preferences of the borrower, and market conditions. For small- or medium-sized cofinancing transactions, ADB may act as the lead arranger and invite potential cofinanciers to participate in the syndication.

For complex or large transactions with ADB credit enhancement support, ADB normally assists the borrower in selecting one or more financial institutions through a competitive bidding process to underwrite and/or arrange the proposed cofinancing. In such cases, ADB may also work closely with the arrangers and assist in the general syndication as required.

Will ADB consider a stand-alone guarantee or CFS loan?

No. A guarantee or CFS loan will be considered only for a project in which ADB has some direct participation. In the case of a guarantee, ADB's direct participation can take the form of a loan, an equity investment, or both. In the case of CFS, an ADB direct loan is always required.

Is there any limit on the amount of ADB guarantee support?

There is no limit on ADB guarantees for public or private sector projects that are backstopped by a host government counter-guarantee. For public sector projects, a host government counter-guarantee is a prerequisite for any ADB guarantee support.

For private sector projects for which there is no host government counter-guarantee, the limits on ADB assistance (comprising direct participation and guarantee support) are as follows.

Partial Credit Guarantee: $50 million or 25 percent of project costs, whichever is less, corresponding to ADB's Private Sector Operations prudential limit. (ADB's total exposure consists of the *face value* of any direct debt or equity participation plus the *present value* of any PCG exposure).

Political Risk Guarantee: $100 million or 50 percent of project costs, whichever is less. The proportion between ADB's direct participation (e.g., in the form of a loan and/or an equity investment) and PRG support is determined on a project-by-project basis, with a view to appropriately leveraging the PRG support.

Do ADB's procurement guidelines apply to CFS loans or loans with ADB guarantees?

No. However, ADB requires that (i) procurement financed from the proceeds of a commercial cofinancing benefiting from ADB credit enhancement (whether in the form of CFS or guarantee support) be restricted to ADB member countries, (ii) the proceeds of such cofinancing be used exclusively for the project, and (iii) the procurement be carried out with due attention to economy and efficiency.

GLOSSARY

Breach of Contract Refers to one of the coverages offered under ADB's Political Risk Guarantee. This coverage is against losses arising from a host government's breach or repudiation of a contract with the owner of an insured project. For example, for a power project, such a breach may result from failure by a government-owned entity to make payments in accordance with the power purchase agreement between the independent power producer and the user or distributor. For a toll road project, such a breach may result from a government entity failing to comply with the agreed increase in toll levels. In the event of an alleged breach or repudiation, the investor or project company must normally be able to invoke a dispute resolution mechanism (e.g., arbitration) in the underlying contract and first obtain an award for damages. If, after a specified period of time, the investor is unable to implement the outcome of the dispute resolution mechanism, or if the dispute resolution mechanism fails to function because of actions taken by the host government, a Political Risk Guarantee may be called upon to pay compensation.

CEND Refers to *confiscation, expropriation, nationalization,* and *deprivation* coverage. This coverage is an important element of the cover offered under ADB's PRG. ADB's CEND coverage is designed to protect an offshore lender when a host government interferes with the investor's fundamental ownership rights. This may take the form of a direct seizure of an asset, such as fixed investments or plant and equipment. It may also take the form of an action or a series of actions, the net effect of which is expropriatory (referred to as "creeping expropriation"). Examples include the imposition of punitive or selective taxes that make a venture commercially unviable, wrongful termination of operating licenses, or refusal to grant visas to foreign managers critical to running the operation.

CI Refers to *Currency Inconvertibility* and/or *nontransfer* coverage offered under ADB's Political Risk Guarantee. CI coverage is intended to ensure that debt service payments (principal and interest) from an insured project are remitted or repatriated from a host country in a timely fashion and at prevailing rates. The conversion of convertible local currency into foreign currency, and the transfer of that currency out of the host country are covered for both “active blockage” (whereby a local law prevents conversion or transfer) and “passive blockage” (in which excessive delays in processing a request to convert or transfer currency by the governing monetary authority prevent repatriation). The amount of currency that could not be converted or transferred is the subject of the coverage. CI coverage does not protect against currency fluctuation, devaluation, or any preexisting restrictions on conversion or transfer. If an investor applies to convert local currency into foreign currency and the host government’s central bank not only fails to convert the currency in a predefined time period, but also refuses to return the local currency to the investor, the investor would not be able to file a CI claim. In such a case, the currency will have been effectively expropriated. For this reason, CI coverage is almost always purchased in conjunction with expropriation (CEND) coverage.

Complementary Financing Scheme A credit enhancement arrangement under which ADB, in addition to a direct loan from its own resources, makes a complementary (“CFS”) loan on market-based terms, funded entirely by market institutions without recourse to ADB. Under this arrangement, the participating lenders enjoy ADB’s preferred creditor status and other privileges. In return for such privileges, the participating institutions are able to provide financing on more favorable terms.

Cross-Default Clause In ADB loan agreements, this clause provides that a default under other loans to the same borrower may trigger a default on ADB’s loan. ADB retains the option of either declaring its loan immediately due and payable or seeking other remedies.

Export Credit Term finance provided by export credit agencies, either through a guarantee to commercial lenders or direct credit to borrowers. Direct credit takes the form of either buyer’s credit or supplier’s credit. Export credit is usually provided as medium-term finance to supplement private sector resources, and is generally used to promote the export of capital equipment for relatively large-scale projects.

Guarantee A written undertaking by a guarantor to pay a stated amount to a beneficiary if the borrower fails to meet certain commitments, such as the payment of principal or interest. If a guarantee covers part of the debt service, and covers all events of nonpayment, ADB refers to it as a "partial credit guarantee". If it covers specific political risks, it is called a "political risk guarantee". In the case of a political risk guarantee, the guarantee is callable only if the default in payment of debt service is due to one of the specific risks covered.

Joint Financing A method of cofinancing in which the goods and services required for a particular project are financed on a pro rata basis by ADB and the cofinancier. Procurement of goods and services is governed by ADB's *Guidelines for Procurement*. Accordingly, this arrangement may only be used if the funds provided by the cofinancier are untied.

Parallel Financing A method of cofinancing in which a project is divided into specifically defined packages of components. Each package is financed separately, either by ADB or a cofinancier. This arrangement is generally used when a cofinancier requires that procurement be tied to the goods and services of a particular country or that procedures different from those of ADB be applied. Under this arrangement, the cofinancier administers its own financing.

Political/ Sovereign Risks Risks under the control of a government, which vary depending on the circumstances and perceptions of project participants. These risks typically include: (i) *confiscation, expropriation, nationalization*, and *deprivation* (CEND), (ii) *currency inconvertibility* and/or *nontransfer* (CI), (iii) *political violence*, and (iv) *breach of contract*. ADB's Political Risk Guarantee and many political risk insurance policies provide cover against these risks (each of which is further described under separate headings in this Glossary).

Political Violence Refers to one of the coverages offered under ADB's Political Risk Guarantee. It includes cover for physical damage to an asset (held as security for a loan) as a result of politically motivated strikes, riots, civil commotion, terrorism, sabotage, war, and/or civil war. While standard property insurance can cover losses due to strikes, riots, civil commotion and perhaps terrorism, damage due to war is usually excluded. Political violence coverage usually applies to the lesser of repair, replacement, or fair market value. In addition, coverage for business interruption may be available for net profit lost, and compensates for defaults caused by political violence.

Preferred Creditor Status The preferred creditor status of a multilateral financial institution is not, strictly speaking, a legal concept, but the result of a common understanding among a borrowing DMC, its commercial creditors, and official creditors on the preferential allocation of foreign exchange among creditors in the event of a shortage of foreign exchange. Accordingly, in the event of a shortfall in foreign exchange needed to service a DMC's external debt service obligations, the DMC would be allowed to make a preferential allocation of foreign exchange to service its debts owed to multilateral finance institutions without triggering remedial action on the part of other creditors. Preferred creditor status may also accord tax exemptions and other immunities to creditors.

APPENDIXES

Appendix 1: TABLES

Table 1. Summary of Loan Cofinancing, 1970–2000 ($ million)

	Official		Export Credit		Commercial		Total		ADB
Year	No. of Projects	Amt.	No. of Projects	Amt.	No. of Projects	Amt.	No. of Projects	Amt.	Loan Amt.
1970–1979	64	1,416	4	77	5	22	69	1,515	1,608
1980–1989	180	5,404	19	972	34	1,055	214	7,431	9,066
1990	20	967	3	155	5	145	24	1,267	1,783
1991	15	583	2	102	3	130	18	815	1,150
1992	18	2,009	3	729	3	272	21	3,010	2,258
1993	19	1,496	6	1,617	6	118	22	3,231	1,920
1994	14	1,190	2	674	4	287	16	2,151	1,719
1995	16	2,080	1	43	4	210	18	2,333	1,883
1996	25	2,277	4	374	6	522	30	3,173	2,214
1997	28	760	1	7	6	524	33	1,291	2,303
1998	16	989	1	128	8	1,822	24	2,939	2,022
1999	23	2,000	1	120	8	740	27	2,860	2,698
2000	29	557	2	148	14	2,261	41	2,966	2,843
Total	**467**	**21,728**	**49**	**5,145**	**106**	**8,108**	**557**	**34,980**	**33,466**

Note: Projects with more than one source of financing are counted as one.

Table 2. Commercial and Export Credit Cofinancing, by Recipient Country, 1970–2000 ($ million)

Recipient Country	Commercial Sources No. of Projects	Commercial Sources Amount	Export Credits No. of Projects	Export Credits Amount
Bangladesh	1	170	2	8
Cambodia	1	4	-	-
China, People's Republic of	31	4,007	2	171
Fiji Islands	1	3	-	-
India	5	605	5	1,225
Indonesia	6	199	10	1,016
Kazakhstan	1	3	-	-
Korea, Republic of	8	462	1	22
Lao People's Democratic Republic	1	82	1	70
Malaysia	4	106	1	5
Nepal	2	19	2	41
Pakistan	16	457	11	1,247
Papua New Guinea	1	10	-	-
Philippines	15	571	5	785
Singapore	1	5	-	-
Sri Lanka	4	206	-	-
Thailand	6	1,141	7	337
Viet Nam	2	58	2	219
Total	**106**	**8,108**	**49**	**5,145**

Table 3. Commercial and Export Credit Cofinancing, by Sector, 1970–2000 ($ million)

Recipient Country	Commercial Sources No. of Projects	Commercial Sources Amount	Export Credits No. of Projects	Export Credits Amount
Agriculture and Natural Resources	6	37	2	179
Energy	42	2,886	32	4,009
Finance	10	1,562	-	-
Industry and Nonfuel Minerals	19	365	6	213
Social Infrastructure	7	478	2	183
Transport and Communications	19	2,589	7	561
Others (Environment)	3	191	-	-
Total	**106**	**8,108**	**49**	**5,145**

Table 4. Summary of Cofinanced Projects Receiving ADB Guarantee Support (as of 31 December 2000) ($ million)

	DMC/Project[1]	ADB Loan Amount	Commercial Cofinancing Amount	Year Approved	ADB Guarantee Amount
1	Indonesia: Financial Sector Program	150	50	1988	19
2	Papua New Guinea: Ramu Grid Reinforcement	20	10	1990	6
3	India: Power Finance Corporation	380	110	1990	50
4	People's Republic of China: Shanghai Nanpu Bridge	70	48	1991	17
5	People's Republic of China: Laiwu Iron & Steel Mill Modernization & Expansion	133	25	1992	7
6	People's Republic of China: Shanghai Yangpu Bridge	85	54	1993	12
7	Philippines: Northern Luzon Transmission and Generation[2]	244	142	1995	142
8	Sri Lanka: Small and Medium Enterprise Assistance	5	50	1997	50
9	Thailand: Export Financing Facility	50	950	1998	730
10	Sri Lanka: Credit Enhancement Facility for Private Enterprises[3]	5	65	1998	65
11	India: Power Transmission Improvement (Sector)	250	120	2000	106
12	Bangladesh: AES Meghnaghat Limited[4]	50	70	2000	70
13	Sri Lanka: AES Kelanitissa (Private) Limited[4]	26	52	2000	52
14	Pakistan: SME Trade Enhancement Finance[4]	50	150	2000	150
	Total	**1,518**	**1,896**		**1,476**

1 Guarantees for the first six projects were provided in association with CFS loans.
2 Bond issue with ADB guarantee of the bullet repayment of the principal.
3 Floating rate note with ADB guarantee of bullet repayment of principal.
4 With Political Risk Guarantee coverage.

Appendix 2:
PRINCIPAL RESPONSIBILITIES OF ADB'S OFFICE OF COFINANCING OPERATIONS

The principal responsibilities of ADB's Office of Cofinancing Operations are to

- plan, promote, and arrange cofinancing and formulate policies on cofinancing operations;
- coordinate with public and private sector institutions in matters relating to cofinancing in a manner consistent with ADB's policies, procedures, and practices;
- regularly consult syndicated loan and capital market institutions and export credit agencies;
- assist country programming and project appraisal missions as necessary, particularly when these facilitate identification of loan and technical assistance projects and programs requiring cofinancing;
- identify appropriate cofinanciers and assist in formulating financial packages for projects and programs requiring cofinancing, and in administering certain cofinanced loans;
- establish and manage technical assistance grant funds entrusted by donors for cofinancing or for financing technical assistance projects on a grant basis; and assist in arranging grant financing of stand-alone technical assistance and specific components of ADB-assisted loan projects;
- coordinate applications for fund commitments from the Japan Special Fund and the Asian Currency Crisis Support Facility, and assist in administering such funds;
- coordinate applications for fund commitments for suitable projects from the Japan Fund for Poverty Reduction; and
- maintain relevant information and a database on cofinancing, and prepare periodic reports required by Management, other ADB departments and offices, and cofinanciers.

Appendix 3:

TOP-RANKED COMMERCIAL COFINANCIERS[1] (1970–2000)

	Country	Amount ($ million)
I. International Lenders		
Industrial Bank of Japan, Limited	Japan	125.92
Dai-Ichi Kangyo Bank, Limited	Japan	102.33
ABN-AMRO Bank N.A.	Netherlands	90.06
Asian Finance and Investment Corp. Ltd	Singapore	79.61
Bank of Nova Scotia	Canada	75.60
Fuji Bank, Limited	Japan	69.67
Yasuda Trust and Banking Company, Ltd.	Japan	69.05
Sumitomo Life Insurance Company	Japan	67.26
Development Bank of Singapore	Singapore	66.60
Banque Paribas	France	57.70
Industrial & Commercial Bank of China	People's Republic of China	54.50
Tokai Bank, Limited	Japan	52.31
Overseas Private Investment Corp.	United States of America	50.00
Bank of Tokyo, Ltd.	Japan	48.20
Bank of Communication	People's Republic of China	48.20
Bank of Tokyo-Mitsubishi Ltd.	Japan	47.60
Sakura Bank, Limited	Japan	46.42
Sumitomo Bank, Limited	Japan	46.23
Generale Bank	Belgium	42.97
Bayerische Vereinsbank AG	Germany	42.97
Nippon Life Insurance Company	Japan	42.80
Norinchukin Bank	Japan	41.75
Citibank, N.A	United States of America	40.42
Credit Agricole Indosuez	France	39.60
Asahi Mutual Life Insurance Company	Japan	38.19
Credit Suisse First Boston	Switzerland	37.70
BA Asia Limited	United States of America	37.70
Citibank Finance Limited	United States of America	37.60
Dresdner Bank AG	Germany	35.88
Banco Espanol de Credito, S.A.	Spain	35.50

	Country	Amount ($ million)
II. Domestic Lenders		
China Development Bank	People's Republic of China	1,637.10
State Development Bank	People's Republic of China	935.40
China Construction Bank	People's Republic of China	255.10
Infrastructure Development Company Ltd.	Bangladesh	80.00
Private Sector Infrastructure Development Corp.	Sri Lanka	49.00
First Gas Holdings Corporation	Philippines	36.10
Industrial Development Bank of India	India	37.70
China Energy Conservation Investment Corp.	People's Republic of China	12.80
Vietnam Bank for Agriculture & Rural Development	Viet Nam	4.90
State Bank of India	India	3.00
III. Export Credit Agencies		
The Export-Import Bank of Japan[2]	Japan	711.20
Compagnie Francaise d'Assurance pour le Commerce Exterieur (COFACE)	France	293.22
Export Import Bank of the United States	United States of America	196.10
The Export-Import Bank of Korea	Republic of Korea	153.00
Kreditanstalt für Wiederaufbau	Germany	87.20
Compañia Española de Seguros de Credito a la Exportacion, SA (CESCE)	Spain	75.65
Den Norske Bank	Norway	70.00
Export Finance and Insurance Corporation	Australia	55.00
Export Development Corporation	Canada	42.00
Eksportfinans	Norway	29.80
Malaysian Eximbank	Malaysia	15.00

1 Names as of participation date.
2 Name changed in 1999 to Japan Bank for International Cooperation.

Appendix 4:

ADB MEMBERS

(as of 31 December 2000)

Regional (43)

Afghanistan
Australia
Azerbaijan
Bangladesh
Bhutan
Cambodia
China, People's Republic of
Cook Islands
Fiji Islands
Hong Kong, China
India
Indonesia
Japan
Kazakhstan
Kiribati
Korea, Republic of
Kyrgyz Republic
Lao People's Democratic Republic
Malaysia
Maldives
Marshall Islands
Micronesia, Federated States of
Mongolia
Myanmar
Nauru
Nepal
New Zealand
Pakistan
Papua New Guinea
Philippines
Samoa
Singapore
Solomon Islands
Sri Lanka
Taipei,China
Tajikistan
Thailand
Tonga
Turkmenistan
Tuvalu
Uzbekistan
Vanuatu
Viet Nam

Nonregional (16)

Austria
Belgium
Canada
Denmark
Finland
France
Germany
Italy
Netherlands
Norway
Spain
Sweden
Switzerland
Turkey
United Kingdom
United States

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