



# **Cost Sharing and Eligibility of Expenditures for ADB Financing:**

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**A New Approach**



# Overview

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How much can ADB finance?

What items can ADB finance?



# Coverage of Presentation

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- New Country Cost Sharing Ceiling
- ADB's Share in Financing Plan
- Investment and Financing Plan
- Treatment of Foreign and Local Currency Costs
- Eligible Expenditures



# Scope of the Policy

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1. New Framework on cost-sharing
2. Applies to:
  - OCR and ADF public sector loans, including TA loans
  - Technical assistance and other grants
3. Does not apply to:
  - Policy-based program loans
  - Limited or non-recourse financing
4. The new policy also expands the list of items eligible for ADB financing



# Country Cost Sharing Ceiling

What is it?

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- Maximum share of costs that ADB will finance out of an aggregate portfolio of projects in a DMC
- Calculated over a CSP period
- Applicable for loans and TA



# Country Cost Sharing Ceiling

What is it based on?

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- Country-wide macroeconomic analytic work
- Two criteria:
  - DMC's contribution to development program
  - ADB funding within program

# ADB's Share in Project Financing Plan

Relevance to Country Cost Sharing Ceiling

Option:	ADB share of project costs can be higher or lower than the country cost-sharing ceiling
Basis:	Project specific reasons, and/or ADB and DMC wish to leverage ADB financing
Parameters:	Sustainability (in all cases) and cost recovery (revenue earning projects)

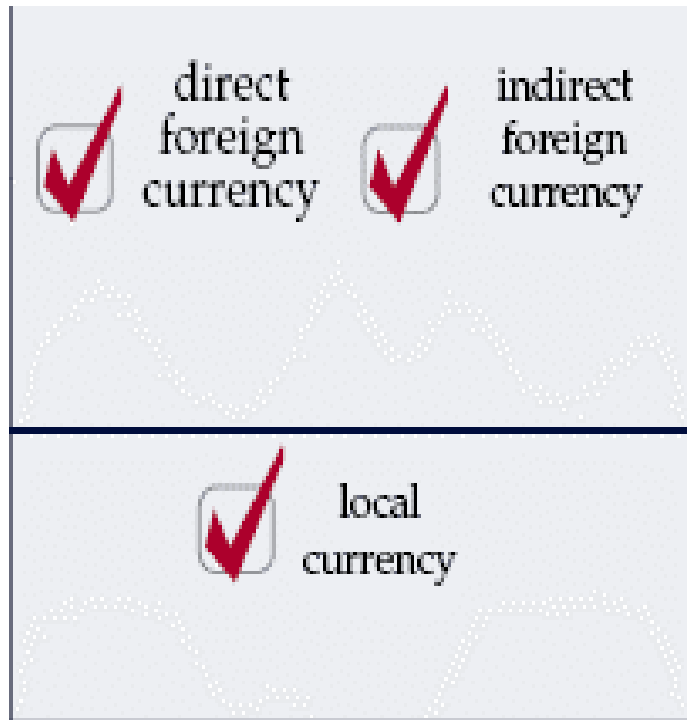


# Foreign Local Currency Costs

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No distinction between FX and LC for purposes of investment and disbursement.

# Disbursement Handbook





# Expenditures Eligible for Financing

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- Taxes, Customs, and Duties
- Land and Rights of Way
- Local transport/ freight and insurance
- Late payment charges
- Recurrent costs
- Secondhand goods
- Leases
- Severance pay
- Food expenditures
- IDC on co-financing
- Resettlement expenses
- Bank charges

# Taxes and Duties

At Country Level

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Assess:

- transparency, competitive neutrality, and fiscal sustainability of tax regime
- determine what tax or duty not to finance in a DMC because they are deemed excessive, non-transparent, distortionary, or unsustainable

# Taxes and Duties

At the Project Level

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- Does the tax or duty constitute an excessively high share of project costs?
- Is it specifically directed at ADB-financed projects, activities, or expenditures?
- If yes, to either or both, then it should not be financed.



# Land and ROW

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- Screening at the concept stage
- Due diligence of productivity of land purchase, land market, channeling of money, risks, monitoring and evaluation
- Comply with ADB's policies on involuntary resettlement and indigenous peoples
- Implement in compliance with the ADB approved resettlement planning documents and/ or indigenous peoples plan
- Report by an independent advisor regarding bonafide nature of expenditures



# Secondhand Goods

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- Surplus in suitable quantity and quality of the type of goods required, from enough sources, to ensure competitive bidding
- Because of lack of economies of scale, the procurement of new goods would result in excessive costs
- Place of origin



# Late Payment Penalties

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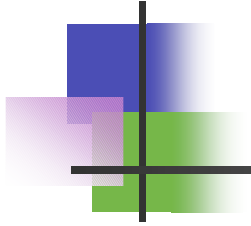
- finance monetary compensation to vendors for late payments
- only for contracts that have been reviewed and are found satisfactory
- expenditure should be in accordance with clear contractual provisions
- measures to ensure prompt payments in future need to be identified and agreed
- sufficient funds must be available



# Retroactive Finance

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- Up to 20% of total ADB loan amount
- For expenditures incurred prior to loan effectiveness but no earlier than 12 months before the signing of the ADB loan agreement
- Periods longer than 12 months may be allowed if justified



**THANK YOU!**