



ADB-DFID

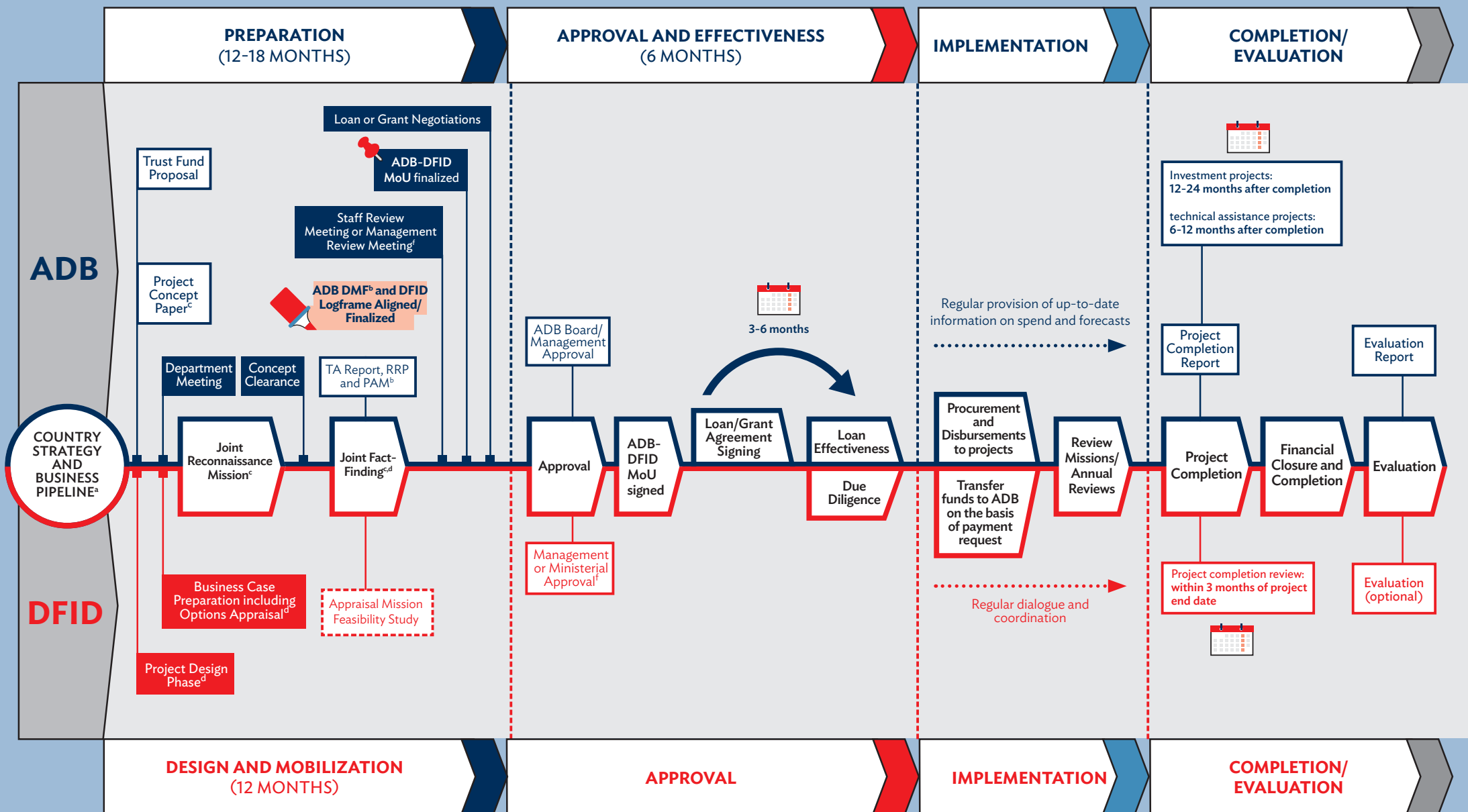
COFINANCING GUIDE



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ADB-DFID Country Level Business Process



a. ADB is encouraged to engage with DFID Country Offices as they develop their 5-year Country Plans and future pipelines.
 b. TA = Technical Assistance, DMF = Design Monitoring Framework, PAM = Project Administration Manual, RRP = Report and Recommendation to the President.
 c. ADB may initiate and discuss cofinancing during/before the project concept paper reconnaissance and fact-finding and/or as additional financing during project implementation.
 d. DFID may propose co-financing during the project design phase, prior to completion of the Business Case.
 e. Due diligence and appraisal work are normally done during the fact-finding mission.
 f. For cofinancing to form part of the project's financing plan, DFID's confirmation should be received by the Staff Review or Management Review dates.
 g. Depends on value of DFID contribution. High value projects must receive prior approval from Treasury.

ADB and DFID

More than 20 Years of Cofinancing Partnership

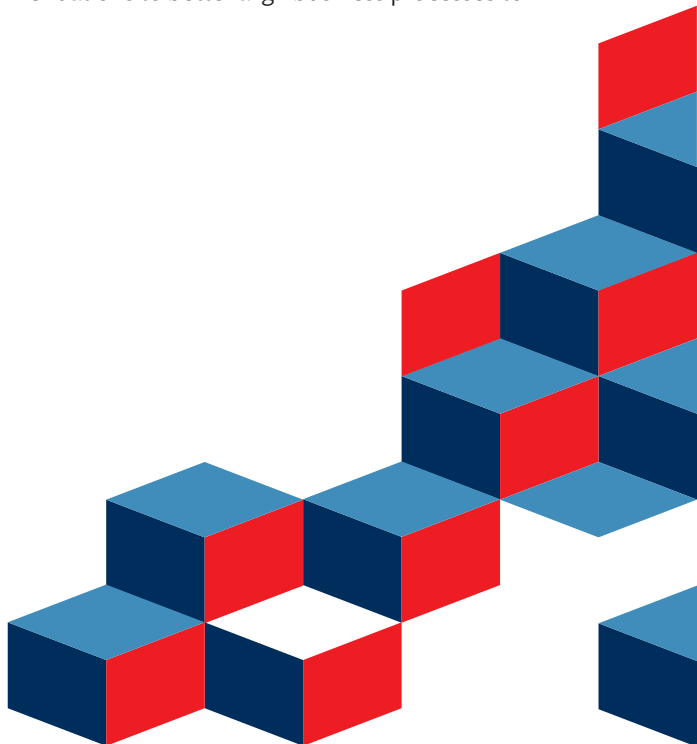
The United Kingdom's Department of International Development (DFID) has contributed \$1.6 billion* total in cofinancing to the Asian Development Bank (ADB).

Since their first cofinancing collaboration in 1996, ADB and DFID have partnered on poverty alleviation and programs to improve infrastructure, finance and health, address climate change, and stimulate public and private partnerships to benefit the people of the Asia and Pacific region.

In 2015, ADB was rated one of DFID's top multilateral partner institutions in terms of value for money channeling of funds, according to the Independent Commission for Aid Impact (ICAI) report entitled "How DFID works with multilateral agencies."

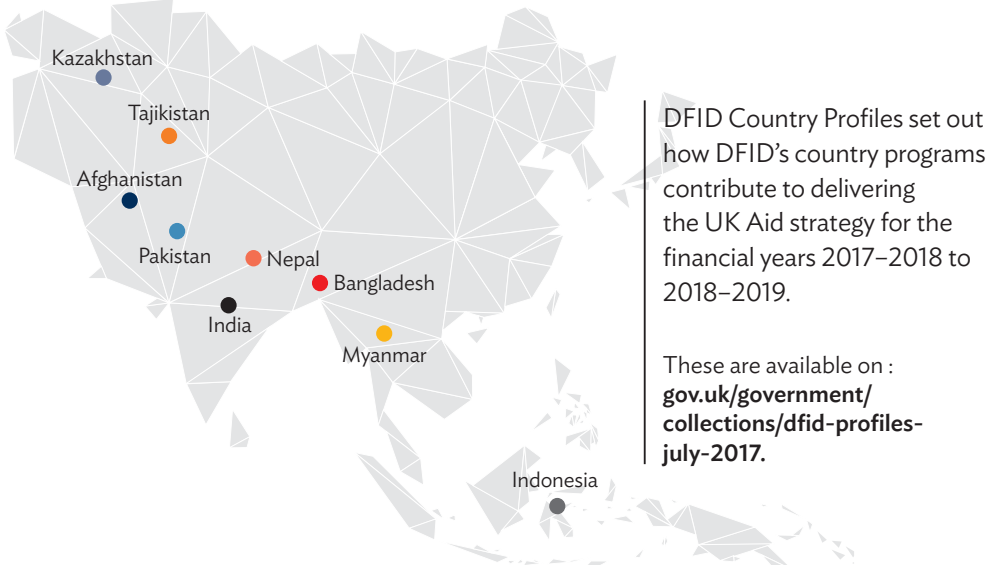
This guide is prepared for ADB and DFID staff to improve the design and implementation of future cofinancing operations. It builds on past lessons and new requirements, and makes recommendations to better align business processes to support successful outcomes.

*as of 30 September 2017



PARTNERSHIP OPPORTUNITIES

DFID Country Offices and Areas of Focus



DFID Country Profiles set out how DFID’s country programs contribute to delivering the UK Aid strategy for the financial years 2017–2018 to 2018–2019.

These are available on : gov.uk/government/collections/dfid-profiles-july-2017.

	Asia Regional	Afghanistan	Bangladesh	India*	Indonesia	Myanmar	Nepal	Pakistan
Climate Change					●			
De-mining		●						
Economic development	●		●	●		●	●	●
Education						●		●
Family planning			●					●
Governance	●		●				●	●
Global development partnerships				●				
Health						●	●	
Infrastructure and clean energy				●		●	●	
Natural disaster resilience	●		●					
Nutrition								●
Security sector reform		●						
Skills and entrepreneurship				●				
Urbanization and smart cities				●				
WASH			●			●	●	

*DFID and other UK government departments work with India to stimulate prosperity, generate jobs, develop skills and develop new markets for both countries.

A list of ADB’s Developing Member Countries can be found on adb.org/countries/main and their respective country partnership strategies on adb.org/documents/series/country-partnership-strategies.

COORDINATION

Institutional Coordination

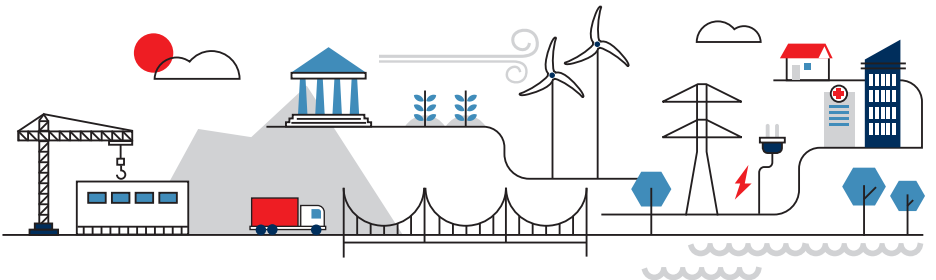
ADB aims for an Asia and Pacific free from poverty. In partnership with its members and shareholders such as the United Kingdom, ADB provides loans, grants, and technical assistance to deliver projects that create economic and development impact in developing member countries.

DFID is the United Kingdom's ministry responsible for international development. DFID provides untied grant cofinancing for sovereign investment and technical assistance (TA) projects, and trust funds administered by ADB.

DFID's Program Delivery rules and procedures set out in the SMART Rules¹ which are the principles, rules and procedures within which all DFID projects must comply.

ADB and DFID meet annually at the ADB Annual Meetings on strategic and institutional issues. ADB and DFID also hold high-level annual consultations, which serves as a platform to jointly discuss poverty reduction efforts, Sustainable Development Goals (SDGs), and addressing climate change and other development challenges. Ongoing projects and trust funds and new areas for collaboration are also discussed.

Discussions relating to trust funds are held during the Annual Donor Consultation Meetings every March each year.



¹ SMART Rules <https://www.gov.uk/government/publications/dfid-smart-rules-better-programme-delivery>.

In-Country Coordination

ADB's regional departments, through their resident missions, and DFID's country teams initiate discussions on partnership opportunities. With their extensive knowledge on country specific development priorities and contacts in the field, they identify cofinancing needs and potential in the country.

ADB

- ADB's Strategy 2020 and ADB's Midterm Review of Strategy 2020² determine its overall strategic approach driving Country Partnership Strategies (CPSs).³ ADB prepares an individual CPS for most developing member countries serving as a medium-term, country-specific operational framework, and a country specific operational framework.
- A Country Operations Business Plan (COBP)⁴ serves as a 3 year rolling project pipeline that describe the consistency of the business plan with the country partnership and/or regional strategy, including projects and technical assistance in the pipeline.
- ADB's CPS, COBPs, and project documents are available on adb.org in line with ADB's Public Communications Policy.

DFID

- DFID's key priorities are set out in the Single Departmental Plan⁵ 2015-2020. Each DFID country office and department prepares an Business Plan which sets out the strategic priorities. These are refreshed periodically.
- DFID's Country Profiles are available on gov.uk/government/collections/dfid-profiles-july-2017. In line with DFID's Transparency commitments, DFID Business Plans and individual project documents are available on Development Tracker.⁶

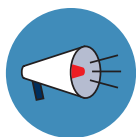
² Review of Strategy 2020. ADB's Strategy 2030 is expected to be approved in the 4th quarter of 2018. (adb.org/about/policies-and-strategies/new-strategy).

³ CPS. ADB. 2017. Publications. Country Partnership Strategies. (adb.org/documents/series/country-partnership-strategies).

⁴ COBP. ADB. 2017. Publications. Country Operations Business Plans. (adb.org/documents/series/country-operations-business-plans).

⁵ www.gov.uk/government/publications/dfid-single-departmental-plan-2015-to-2020.

⁶ DFID Development Tracker. www.devtracker.dfid.gov.uk/.

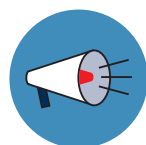


Make sure to align country and sector strategies with the borrower's/recipient's development plan.

Timing

When to explore cofinancing between ADB and DFID:

1. DFID's financing is often for a 5-year period. ADB project staff are encouraged to engage with DFID Country Offices as they develop their 5-year Country Plans, before they go for approval at DFID headquarters.
2. ADB can also seek cofinancing opportunities with DFID during or before the project concept paper, reconnaissance mission, fact-finding mission stage, and/or as additional financing during project implementation.
3. DFID can propose co-financing with ADB during the project design phase, prior to the completion of the project Business Case.
4. DFID may support projects under implementation as either additional or supplementary financing. During this time, ADB and DFID will work to harmonize the existing ADB Design Monitoring Framework with the DFID Logframe.



ADB staff should regularly discuss medium-term funding plans with DFID country offices in the context of UK budget processes.

COFINANCING INSTRUMENTS

The following instruments are available for cofinancing.^a The specific nature of each, their salient features, and governance arrangements should be considered before entering into any cofinancing arrangement.

Instrument	Example	Salient Features	Governance Arrangements	Best used when	Documentation
Project cofinancing	Pakistan Economic Corridor Project	<ul style="list-style-type: none"> • can be project-specific or programmatic • can be country specific, sector/thematic-specific or both • results and progress are monitored at project-level • DFID contribution is set aside separately • pooling resources with other partners is possible if arranged early • ADB provides financial statements for resources fully administered by ADB, specific to DFID funding 	<ul style="list-style-type: none"> • subject to ADB's policies and procedures if ADB will administer DFID's resources • ADB and DFID identify and agree on project or portfolio of projects to be financed • for technical assistance projects: ADB is the executing agency • for investment projects: the government is the executing agency and ADB supervises implementation 	<ul style="list-style-type: none"> • specific projects have been identified for support • monitoring and progress reporting on indicators and outputs are required at the project level 	<p>ADB: TA Report or RRP for each project</p> <p>DFID: Business Case</p> <p>MoUs are signed per project or for entire program portfolio.</p>
Trust Funds^b					
Single-donor Trust Fund	Grant Fund for Technical Assistance	<p>Can be for portfolio of projects (not necessarily pre-identified)</p> <ul style="list-style-type: none"> • enables the channeling of grants for a group of countries or specific sector or thematic areas • established under a Financing Partnership Facility (FPF)^c as a stand-alone trust fund (on case to case basis) • ADB fully administers the funds as Trustee or Sub-trustee • a single agreement can cover a number of projects, reducing the need to negotiate on a case-by-case basis • results are monitored at the trust fund or FPF level • DFID contribution is set aside separately • financial statements issued by ADB are specific to the DFID funding 	<p>Strategic directions of the trust fund are agreed on by ADB and DFID.</p> <ul style="list-style-type: none"> • ADB screens potential projects for financing and oversees implementation. • approval to finance a project under the trust fund can be by DFID or delegated to ADB • subject to ADB's policies and procedures 	<ul style="list-style-type: none"> • progress reporting is required at a trust fund or FPF level • monitoring of indicators and outputs are required at a trust fund or FPF level 	<p>ADB: Trust Fund Paper</p> <p>DFID: Business Case</p> <p>One MoU is signed for the entire trust fund. No MoU required for each project financed by the trust fund.</p>
Multidonor Trust Fund	Afghanistan Infrastructure Fund	<p><i>Same features as single partner trust fund except:</i> Financial statements issued by ADB are at the trust fund level and cover all the contributors to the trust fund.</p> <ul style="list-style-type: none"> • established under a Financing Partnership Facility (FPF)^c or as a stand-alone trust fund^d • funds received are generally pooled and commingled into a single account 			

^a This excludes commercial cofinancing.

^b The process for establishing and managing trust funds is detailed in the ADB Trust Fund Guidelines.

^c FPF Financing Partnership Facility an operational mechanism for strategic, long-term, and multi-partner cooperation, linking various forms of assistance in a coordinated manner for a well-defined purpose. These include trust funds, special funds, risk-sharing mechanisms, or knowledge sharing arrangements.

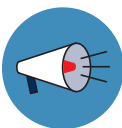
^d Examples of stand alone multidonor trust funds are the Afghanistan Infrastructure Trust Fund and Typhoon Yolanda Multidonor Trust Fund.

WHERE TO START

Prior to any formal cofinancing arrangement, it is essential to reach a common understanding of the partnership and how each institution is structured and operates. Without this, cofinancing becomes challenging, time-consuming, and consequently less effective.

Before you proceed make sure to understand the:





- partnership opportunities where ADB and DFID align** on country-specific and regional development priorities.
- differences in how ADB and DFID work.** Differences in timescales, approval processes, assessment schedules, and reporting requirements can make implementation very challenging. Projects that span more than five years, need to be carefully discussed. **ADB infrastructure projects take an average of 7 years to implement!**⁸
- documents, agreements, and approvals required from project design to completion and evaluation.**
- approval processes required throughout the project delivery chain.**
- timing of reviews and reporting milestones.** Set up systems at the design stage to facilitate providing the information each partner requires for its annual or management reviews. A sound Monitoring and Evaluation (MandE) plan can significantly reduce transaction costs throughout the process.
- risks to project delivery and through the full project delivery chain.**

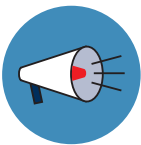
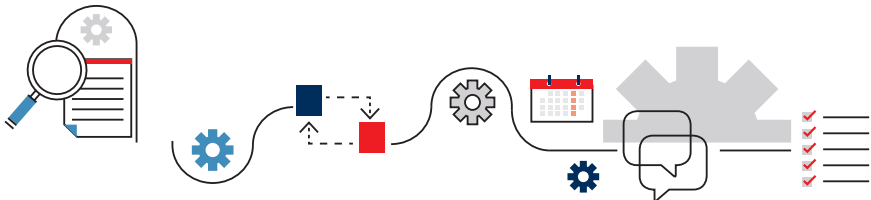


Provide a realistic picture of possible challenges and risks that could affect implementation.

⁸ ADB 2016 Development Effectiveness Review <https://www.adb.org/documents/development-effectiveness-review-2016-report>.

IT IS VERY IMPORTANT TO:

-  **INVEST** the most time in design and preparation.
-  **ALIGN** the ADB Design Monitoring Framework (DMF)⁹ and DFID Logical Framework(Logframe)¹⁰ as early as possible to ensure accountability in project delivery and avoid confusion during project and program assessments.
-  **UNDERSTAND** ADB and DFID's fiscal years for budget purposes. ADB's fiscal year is from January to December, and DFID's is from April to March.
-  **ENGAGE** in regular dialogue and information sharing during project or trust fund processing and implementation. Include updates on spending and payment forecasting.



COMMUNICATE AND COORDINATE

Open, clear and regular communication from the early stages of the project preparation is the key to successful partnerships.

Upon evaluation, ADB projects that performed well were closely coordinated with a local DFID counterpart e.g. a country or regional office. Project components that went smoothly were usually a result of aligned design and frameworks.

⁹ ADB's Design Monitoring Framework. adb.org/documents/guidelines-preparing-design-and-monitoring-framework.

¹⁰ DFID's Logical Framework. DFID. 2011. gov.uk/government/uploads/system/uploads/attachment_data/file/253889/using-revised-logical-framework-external.pdf.



PREPARATION

DESIGN AND MOBILIZATION




Invest time in design and preparation to avoid conceptual mismatch, misaligned log frames and time frames, and issues related to results and narrative and financial program reporting.

During the design stage you will:

- DISCUSS** key processing milestones and details such as:
 - » project or trust fund scope
 - » timescales
 - » financing amounts including contingencies for foreign exchange loss
 - » due diligence
 - » procurement
 - » disbursement
 - » safeguards
 - » indicative approval dates
 - » potential issues and risks

- ESTABLISH** a robust communication, coordination, and feedback system from the outset. Create a joint M and E plan that covers the entire processing cycle. Revisit and update this plan regularly.

- ALIGN** the ADB DMF with the DFID Logframe. 

- CONDUCT** joint reconnaissance and fact-finding missions to agree on the project and trust fund details. Set out and manage clear expectations for both teams.

- ☑ For **project-specific cofinancing**, jointly coordinate with the borrower/recipient i.e. contract packaging and project components, and seek the borrower's/recipient's early buy-in of the financing terms and specific requirements.
- ☑ For **trust fund cofinancing**, ADB should consult and update DFID regularly on the indicative project pipeline supported by the trust fund.
- ☑ **SCHEDULE** the timing of financial requirements to ensure funds are only requested from DFID at a time of ADB's contractual obligation to projects.

DFID cannot make payments in advance of need. Funds received from DFID must be disbursed in a reasonable time period. ADB and DFID should work together to identify what is acceptable for each trust fund.



For more detail, refer to page 23: Implementation: Financing and Disbursement.

- ☑ **CREATE** a Project Delivery Unit (PDU) or assign a dedicated staff through secondment or a sponsor-funded staffing program for larger, more complex projects.
- ☑ **FORMALIZE** the cofinancing arrangement with the Memorandum of Understanding (MoU), Instruments of Contribution (IC) or other relevant documentation as stated in the trust fund's paper.



ADB's Office of Cofinancing (OCO) leads the MoU process. Involve and consult OCO on all cofinancing MoU's and IC's arrangements including amendments.

PREPARATION

DESIGN AND MOBILIZATION

Projects

ADB

- ADB prepares a **project concept paper**^{11,12} (with or without request for project preparatory technical assistance (PPTA)¹³ and project design advance [PDA]).¹⁴

• Discussions on aligning the ADB DMF with DFID Logframe should begin during preparation of ADB concept paper and DFID business case. DFID logframes can be approved indicatively, and later modified after detailed discussions.

- ADB concept paper is subject to internal review through a departmental meeting to determine project merits, risks, complexity, and readiness.

- A **reconnaissance mission** normally to firm up and agree on the project concept and due diligence requirements with the borrower/recipient.

- The concept paper is peer reviewed and is submitted for **concept clearance**.

DFID

- During the project design stage, DFID prepares a Business Case which sets out the:
 - » strategic rationale for the project or technical assistance
 - » appraisal of options, including economic and social appraisal.
 - » commercial aspects, including route to market
 - » financial case, which specifies a detailed budget and funding parameters, including disbursement schedule
 - » management case, which sets out the monitoring and reporting requires, as well as a detailed risk assessment
- As part of the design stage, DFID may commission a scoping study or feasibility assessment to be carried out by an independent expert.

Continued on next page

ADB carries out due diligence assessments of all projects. ADB's risk and assurance procedures were rated highly in DFID's 2016 Multilateral Development Review.¹⁵

¹¹ ADB. 2014. *Financing Partnerships. Operations Manual*. OM/E1. Manila.

¹² ADB. 2010. *Preparatory Actions. Project Administration Instructions*. PAI 1. Manila.

¹³ PPTA may be used for project preparation (e.g. for feasibility study, which may include preliminary designs; engineering; cost estimates; technical, financial, economic, and socioeconomic analysis; environmental and social impact assessment) and also implementation stage (e.g. designs, specifications, cost estimates, prequalification of bidders, and bidding documents).

¹⁴ PDA can finance project preparatory work (e.g. for feasibility study, due diligence, preliminary designs; safeguard and pre-implementation work, advance procurement actions, legal services, and related capacity building); and (ii) transaction advisory services for public-private partnerships. A PDA finances the cost of consulting services.

¹⁵ ADB's score in DFID's 2016 Multilateral Development Review was 3.5/4.

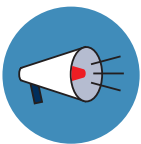
- ADB fields a fact-finding mission to confirm the project's viability after sufficient feasibility study has been carried out.
- ADB prepares the technical assistance report (TA Report) or a report and recommendation of the President to the Board (RRP), and the project administration manual (PAM) and other required documents.

- Ideally DFID joins ADB during reconnaissance and fact-finding missions.

• Ensure that the ADB DMF and the DFID Logframe are aligned at this stage.

- ADB circulates the TA Report and RRP and holds a second peer review followed by a management review meeting (for complex projects) or staff review meeting (for low-risk projects).
- ADB conducts loan/grant negotiations with the borrower/recipient before ADB Management/Board approval.
- ADB submits its final documentation (including the negotiated loan/grant agreements) for Management/Board consideration.
- The final Business Case is submitted to Management/Ministers for approval. High value and novel or contentious projects must receive prior approval from Treasury.
- Following formal approval of the Business Case, DFID must work in partnership with ADB to carry out due diligence including an assessment of the risk throughout the delivery chain.

ADB service fees are included as part of the DFID grant, unless otherwise agreed to be paid separately.



For cofinancing to form part of the project's financing plan, DFID's confirmation should be received by the Staff Review Meeting (SRM) or Management Review Meeting (MRM) date. In case DFID's confirmation is not obtained by then, the SRM/MRM will determine whether the project without cofinancing is still viable.

If it is decided that the project is not viable without the cofinancing, loan/grant negotiations will not be held until DFID has confirmed its commitment. If it is decided still viable, cofinancing will be delinked from the project scope. The cofinancing may be processed later as a change in scope or additional financing once cofinancing is confirmed.

Trust Funds

ADB

- ADB prepares a trust fund proposal, based on discussions with DFID, which describes the objective, scope, and administration arrangements (e.g. governance structure, application for fund allocation, reporting, audit, partner consultation, closing date) of the trust fund. The trust fund's **Design and Monitoring Framework (DMF)** may also be attached to the trust fund proposal.
- ADB undertakes an **interdepartmental review** of the trust fund proposal.
- ADB prepares the trust fund's implementation guidelines which sets out details on the fund's governance structure, eligibility criteria, scope, application process, and implementation arrangements.
- ADB submits its final documentation (including DMF) of the trust fund proposal for consideration of the Head of Office of Cofinancing or the President of ADB.
- ADB will ensure that a portion of the DFID grant is set aside to pay ADB's service fee as per its existing policy or as per the Trust Fund document.

DFID

- DFID prepares a Business Case which sets out the:
 - » strategic rationale for the project or technical assistance.
 - » appraisal of options, including economic and social appraisal.
 - » commercial aspects, including route to market.
 - » financial case, which specifies a detailed budget and funding parameters, including disbursement schedule.
 - » management case, which sets out the monitoring and reporting requires, as well as a detailed risk assessment.

- Throughout the process, ADB and DFID will closely coordinate on the trust fund proposal, specifically the eligibility criteria, governance structure, and other administration arrangements of the trust fund. ADB and DFID should finalize and agree on the trust fund's implementation guidelines. The partners will also ensure that the

ADB DMF and DFID's Logical Framework are aligned.

APPROVAL AND EFFECTIVENESS

For Projects

ADB

- ADB arranges and signs a loan/grant agreement with the borrower/recipient after Management/Board approval.
- ADB's requirements and deadline for loan/grant effectiveness are stipulated in the loan/grant agreement.
- The borrower/recipient should satisfy the effectiveness conditions within a period of time agreed upon with ADB and as specified in the loan/grant agreement.
- The loan/grant agreement may include conditions for withdrawal (disbursement conditions), which are conditions to be met before the loan/grant proceeds can be disbursed.

DFID

- DFID contributions are agreed upon through a Contract, Accountable Grant or Memorandum of Understanding (MoU) signed by the recipient.
- DFID will carry out a Due Diligence assessment drawing on relevant central assessments and follow up on any key findings.
- The Contract, Accountable Grant, or MoU will include details of the disbursement schedule.

For trust funds, the trust fund becomes effective after meeting the following conditions:

Management/
Board approves its
establishment

DFID's funds are
received to allow
allocation to projects

The trust fund's
Implementation
Guidelines are finalized
and agreed with DFID.



ADB Administration of DFID Funds

Most of the funds provided by DFID are fully administered by ADB.¹⁶ Under full administration, ADB provides DFID with a full range of services, including (i) procurement of goods, works and services, (ii) selection and engagement of consultants, (iii) supervision of implementation, and (iv) disbursement of funds. DFID transfers its funds to ADB and ADB assumes financial, fiduciary and/or administrative responsibilities in exchange for a fee.

ADB and DFID sign a Memorandum of Understanding (MoU), a non-legally binding document that covers the reporting arrangements, funding timelines and other details relevant to the cofinanced project or trust fund. The MoU is made consistent with the ADB RRP/TA Report/Trust Fund document, DFID's Business Case and the ADB-DMC Grant Agreement. ADB and DFID may jointly agree on any other arrangements not described in this guide as set out in ADB's policies and procedures.¹⁷

Arrangements on Procurement

Joint Financing

- Partners finance a common list of goods, works and consulting services required for the project in agreed-upon proportions.
- ADB policies and guidelines apply.
- Financing is administered by ADB.

Parallel Financing

- Project is divided into specific, identifiable components or contract packages.
- Financing may either be fully administered or not administered.
- Under Full Administration, ADB policies and guidelines apply.

¹⁶ Only 3 cofinanced projects, so far, were not fully administered by ADB. The \$20 million DFID grant for Loan 8234-NEP: Rural Reconstruction and Rehabilitation Sector Development was partially administered by ADB in 2008. In 2011, the DFID financing for Loan 2761-BAN: Third Primary Education Development Project (\$190 million), and Grant 0272/0289-NEP: School Sector Program (\$4 million) were not administered by ADB (collaborative cofinancing).

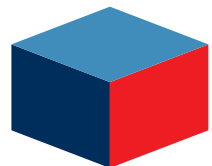
¹⁷ ADB. 2014. Financing Partnerships. Operations Manual. OM E1/OP. Manila.

*** BLANKET WAIVER OF ADB MEMBER COUNTRY PROCUREMENT ELIGIBILITY RESTRICTIONS:**

Universal procurement will apply to operations financed by the Asian Development Fund (ADF) and Ordinary Capital Resources (OCR) from ADB-administered cofinancing resources in all cases where:

- ADB administers cofinancing resources for ADF/OCR-financed operations, or
- ADB and/or OCR resources and DFID's resources are used to jointly finance individual procurement packages.

The waiver would not apply (or apply only to a limited extent) if a cofinancier providing resources to an existing or future single-donor ADB-administered trust fund notifies ADB in writing that it has different requirements, including that ADB's member country procurement eligibility restrictions will continue to apply or that only certain countries must be added as eligible sources of procurement.





IMPLEMENTATION

Success in implementation relies largely on sound design, proper preparation of the cofinancing arrangement, and regular communication and information sharing. This is the stage where ADB and DFID coordinate closely on:

- » procurement
- » fund allocation (for trust funds)
- » disbursement and monitoring cash flows
- » review missions
- » monitoring borrower/recipient's compliance with loan/grant covenants
- » progress reports (narrative and financial) on reporting on results; and
- » assessing project/trust fund results against agreed indicators

During implementation, make sure to:

- DISCUSS** and monitor progress – milestones, physical progress achieved, financial updates, challenges and risks (if any).
- REVIEW** the workplan. Revisit projections and carefully assess project pipelines for the next 6 months or 1 year.
- ALIGN** and harmonize reviews of the cofinanced project or trust fund including logistics and documentation required.
- CONDUCT** joint review missions as much as possible. Set out clear expectations for both teams.
- ANTICIPATE** risks and try to resolve issues that may arise such as funding constraints, foreign exchange losses, and delays. ADB will proactively inform DFID of any risks or irregularities identified, as well as the measures being taken to mitigate such risks.



Reviews of successful cofinancing projects have shown that regular meetings and frequent updates kept both ADB and DFID up to speed with the progress and helped identify and address gaps early on.

Implementation



WHO IMPLEMENTS WHAT

Investment projects are implemented by the executing agency according to the agreed schedule and procedures. ADB's Project Administration Manual (PAM) sets out the implementation agreements and details.

Technical assistance (TA) projects are implemented by ADB as per approved TA Report.

Trust funds are administered by ADB according to the agreed eligibility criteria, governance structure, and other administration arrangements detailed in the trust fund proposal and implementing guidelines.

Financing and Disbursement

Payment and Pipeline Overview

Where ADB administration is required, ADB acts as a trustee and manages funds received from DFID as it would manage its own resources.

ADB and DFID will update each other regularly on the progress of the cofinanced project or trust fund including, but not limited to, information related to disbursements, projected expenditures or pipeline of projects under a trust fund.

Between formal review, ADB and DFID will hold regular dialogues about progress on implementation which are likely to focus on financial forecasting, risk management, achievements or results, and other issues emerging from due diligence of recipients or delivery chain mapping.

Delivery Chain Mapping

DFID carries out mandatory "Delivery Chain Mapping" as part of all programs. This is a process that identifies and captures, usually in visual form, the names of all partners involved in delivering a specific good, service or change, ideally down to the end beneficiary. This allows DFID to better understand where funding goes, manage risk, strengthen program management and respond to requests for information on funding. DFID will work with the ADB to carry out detailed Delivery Chain Mapping of all cofinanced projects, including risk mapping and management strategies.

Requesting DFID Funds

When requesting DFID to transfer its funds, except for lump-sum or the first installment, ADB shall provide DFID with documentation that at least 80% of the funds previously received was disbursed (unless there is adequate justification for not doing so) and include projected disbursement data for the next 6 months. ADB will use DFID's Payment Request Form template, attached to the MOU.

DFID cannot make payments in advance of need. For trust fund arrangements, ADB and DFID will jointly agree whether an assurance of payment mechanism is necessary. ADB needs firm assurances that funds will be in place from financing partners in order to make contractual commitments to recipients, particularly where DFID is the sole or majority trust fund financier. DFID can transfer funds when contracts for approved projects are signed, unless otherwise agreed by ADB and DFID. Details of specific arrangements will form part of the trust fund MOU.



DFID cannot transfer its funds to ADB in advance of need. Funds received from DFID must be disbursed in a reasonable time period. ADB and DFID should work together to identify what is acceptable for each project or trust fund.

Foreign Exchange Gain/Loss

ADB's standard currency of reporting is the United States Dollar (USD). Funds committed by DFID to a project/trust fund are in British Pound Sterling (GBP), unless otherwise agreed by ADB and DFID.

ADB and DFID will closely coordinate and attempt to resolve any issues related to foreign exchange variations that may affect the project/trust fund with an aim of minimally disrupting on project implementation or trust fund administration.

Return of Funds

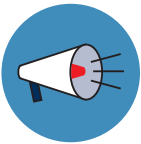
Unless otherwise justified and agreed by ADB and DFID, funds received from DFID will remain in the ADB account used for the project/trust fund. Any unspent funds at project completion will be returned to DFID as stipulated in the MoU.

Early Exit from Multidonor Trust Funds

ADB and DFID will agree on the early exit during trust fund processing and will include this process in the MoU or Trust Fund's Implementing Guidelines.

Once ADB receives DFID's written notice to exit early from a multidonor trust fund, ADB will seek concurrence from all contributors to agree on the basis for computing the amount to be refunded from the uncommitted balance.

ADB will then secure the amount to be refunded to DFID and will no longer allocate such amount to projects.



Due to the differences in currency, ADB and DFID should always consider foreign exchange gains or losses which might be incurred during project implementation or trust fund administration.

Audit

ADB and DFID may agree to conduct an external audit, conducted by ADB's external auditors, of the financial statements of cofinanced projects or trust funds. This will be formalized in the ADB-DFID MoU. For project specific arrangements, external audits are conducted on the financial statements of the DFID grant and not on the entire project, unless otherwise agreed with ADB and the other financing partners of the TA or the investment project, if any. Specifically for investment projects, ADB will also share with DFID the audited project financing statements prepared by the executing agency. For trust fund arrangements, external audits are conducted on the financial statements of the trust fund.

Reviews

DFID conducts **Annual Reviews** of the projects and trust funds it cofinances, while ADB performs **Mid-term Reviews** of its projects.

DFID's annual reviews measure outcome against targets, track funding, assessing value for money and risk spelled out in the business case. These are an annual stock take which provide a public assessment of the projects status and how well it is meeting its goals. The results of the review can be used to re-assess implementation and restructure or close the project or trust fund if targeted objectives are not being achieved.

It is imperative to coordinate closely and agree on the timing, logistics and documentation required prior to the review. A draft report on the results of the review will be shared by DFID to ADB to allow checks on factual errors, if any, when DFID publishes the report on its external website.

Between formal reviews, ADB and DFID will hold regular dialogues about implementation progress. These are likely to focus on financial forecasting, risk management, achievements or results, and other issues emerging from due diligence or delivery chain mapping.



In case of disagreement, ADB and DFID will coordinate to resolve issues in accordance with the MoU. ADB's Office of Cofinancing Operations will facilitate discussions between DFID and ADB's regional department or trust fund manager.

Corruption and Fraud

ADB is guided by its *Anticorruption Policy and Integrity Principles and Guidelines* as well as its Policy on Combating Money Laundering and the Financing of Terrorism. DFID applies a zero tolerance approach to aid diversion, including fraud, corruption, bribery, terrorist financing, and misuse of funds.

ADB and DFID will inform each other of any event that interferes or threatens to materially interfere with successful implementation of the project and administration of the trust fund, including credible allegations of, or actual, fraud and corruption.

Such information shall be reported to the DFID Senior Responsible Owner or direct to DFID's Counter Fraud and Whistleblowing Section, and to ADB, through the Office of Anticorruption and Integrity.

If an investigation is deemed necessary by ADB and/or DFID in relation to project or trust fund, both parties coordinate and share the relevant information. In such cases, each partner retains its investigative powers and its capacity to take appropriate remedy. In consultation with ADB, DFID may suspend or terminate funding on a specific contract or activity where there is actual, or credible allegations of, fraud, corruption or other misuse of funds. In accordance with its policies and procedures, ADB will use reasonable efforts to recover such funds and return the funds to the extent that they are recovered by ADB.

Any exchange of information between the parties shall be made on a confidential basis and with respect to each partner's applicable rules and regulations.

PROJECT COMPLETION

At project completion, ADB and DFID counterparts should make sure to:

- ✓ **SHARE** project, program or trust fund completion reports with each other.
- ✓ **AGREE** on the external audit of the terminal financial statements of the DFID resources or trust fund, if not clearly provided in the MoU.
- ✓ **AGREE** on the treatment of unutilized funds remaining from the completed project or trust fund.
- ✓ **INFORM** each other if the cofinanced project or trust fund will be subject to an evaluation by ADB's Independent Evaluation Department or an audit by DFID's Internal Audit Department.

ADB

- ADB's project completion date refers to the date the project is physically completed. This date precedes the **loan/grant closing date** (normally 6 months before) (in the case of investment projects) and **financial closing date** (in the case of technical assistance). The loan/grant closing date is the date ADB terminates the right of the borrower/recipient to withdraw from the loan/grant account. Expenditures incurred after the loan/grant closing date will not be financed under the loan/grant.

For trust funds, a trust fund closing date is the date when ADB declares the trust fund as terminated and all unused funds are returned to financing partners, including transferring unused funds to another project or partner's trust fund account with ADB.

ADB prepares a project/technical assistance completion report within 12-24 months after project completion for investment projects or within 6-12 months after TA completion **for TAs**.

For cofinanced project(s), a draft completion report is shared with the partner(s) for confirmation of cofinancing information and experience.

DFID

- DFID's planned project end date refers to the date the project activities, including technical assistance, is physically completed.
- DFID projects have up to a further 18 months to complete all outstanding financial transactions, including final payments, refunds and/or the receipt of final audited statements.

- DFID project delivery teams must complete a Project Completion Review (PCR) within 3 months of the project end date.

EVALUATION

DFID's Evaluation Department has responsibility for promoting a strategic approach, providing technical support for DFID evaluations, developing evaluation competencies and performing quality assurance. Evaluations of individual cofinanced projects or trust fund contributions are managed by the DFID team or country office responsible for the DFID contribution.

ADB's Independent Evaluation Department autonomously and systematically evaluates ADB policies, strategies, operations, and special concerns that relate to the organizational and operational effectiveness.^{18,19}

ADB

- If the project or trust fund cofinanced by the partner is subject or included as a sample in any evaluation study by ADB's Independent Evaluation Department, evaluation reports are shared with the partner(s). The evaluation findings considers feedback from the partner(s).

DFID

- If an ADB–DFID cofinanced project or trust fund is included in a DFID evaluation, all project or relevant documentation will be submitted and considered as part of the process. DFID publishes all data, process and findings of evaluations subject to any legal constraints.

¹⁸ ADB. 2011. Project Completion Report and Extended Annual Review Report. Project Administration Instructions. PAI 6.07. Manila.

¹⁹ ADB. 2014. Financing Partnerships. Operations Manual. OM/E1. Manila.

HEADQUARTERS AND COUNTRY OFFICES

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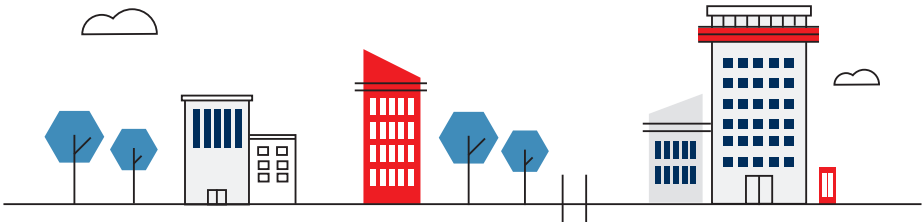
DFID

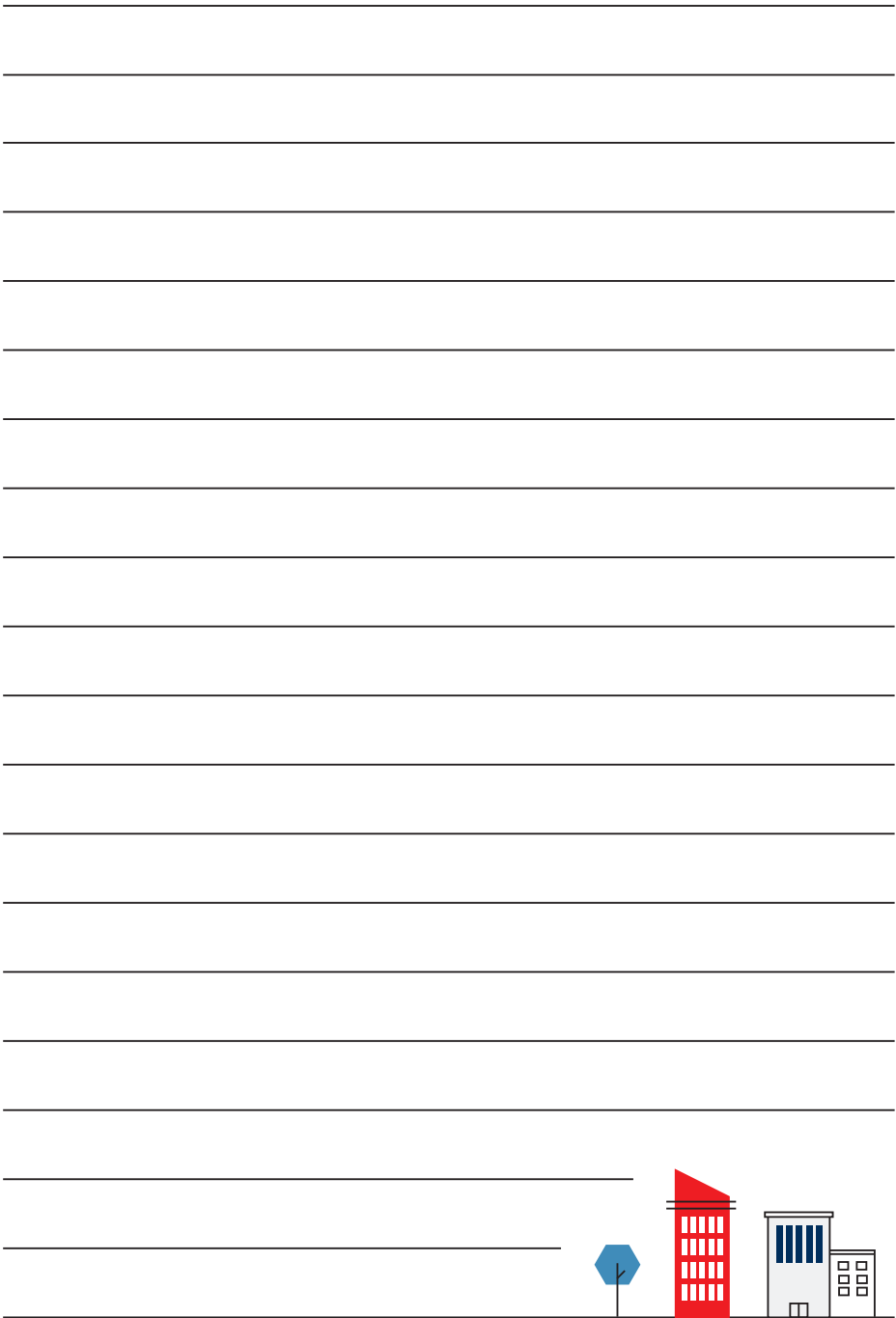
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DFID has country offices in:

Afghanistan, Bangladesh, Myanmar, People's Republic of China, India, Indonesia, Kyrgyz Republic, Nepal, Pakistan, and Tajikistan







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Notes:

In this publication, “\$” refers to US dollars.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to a large share of the world's poor. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

ADB Office of Cofinancing Operations

The Office of Cofinancing Operations (OCO) mobilizes and/or facilitates cofinancing for ADB Projects through concessional loans and grants for investment projects and for technical assistance supported by ADB. Flowing mainly from partnerships with multilateral and bilateral development agencies, official cofinancing is usually sourced from official development assistance. OCO also facilitates contributions to trust funds and acts as the official channel of communication for negotiations, financial issues, and procedure arrangements for contributions between ADB and trust fund partners.

Department for International Development (DFID)

The Department for International Development (DFID) leads the UK's work to end extreme poverty. We are tackling the global challenges of our time including poverty and disease, mass migration, insecurity and conflict. Our work is building a safer, healthier, more prosperous world for people in developing countries and in the UK too.



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