FACTSHEET | OCTOBER 10, 2023

The World Bank's Approach to Co-financing

1. **What is co-financing? What is meant by public sector direct co-financing?**

   The definition of co-financing can vary across contexts. The World Bank defines public sector co-financing as any arrangement where resources are pooled with those from a third party (co-financier) to jointly finance World Bank projects or programs that are led by the International Bank for Reconstruction and Development (IBRD) or the International Development Association (IDA).

   In public sector co-financed arrangements, funds flow directly from entities like Multilateral Development Banks (MDBs), bilateral agencies, and United Nations (UN) Agencies, to recipient countries to finance a project or program. It does not include financing from private entities, or funds that flow through World Bank Trust Funds.

2. **Why is co-financing important?**

   Co-financing is important for many reasons:

   - **Mobilizing resources.** Co-financing serves to crowd in resources and mobilize concessional financing to help countries in need address development challenges.
   - **Reducing transaction costs.** Coordinated financing of development projects and programs effectively reduces transaction costs. From a recipient country's perspective, when several financiers fund the same project or program, it

minimizes the cost of facilitation, implementation follow-up, and general overhead. As such, co-financing improves efficiency in a resource-scarce environment.

- **Fostering strategic alignment and reducing aid fragmentation.** Co-financing generates aligned actions and helps to reduce aid fragmentation. It allows partners to convene and operate together to achieve mutually agreed development objectives, thereby fostering strategic alignment.
- **Maximizing impact.** The presence of multiple development partners in a project or program aligned with country priorities can increase the likelihood of successful implementation at scale. Partnering through co-financing can build cross-sectional platforms based on themes, geographies, and constituencies that allow partners to leverage each other's strengths, exchange knowledge on development solutions, and lessons learned. Co-financing can also address larger cross-sectoral issues that require multi-pronged interventions, which are otherwise difficult to implement if each financier were to focus only on their own project or program.
- **Improving partner coordination.** Co-financing of development programs and projects induces a path for greater coordination, alignment of standards, and streamlining of requirements for the partner county. This is evident in procurement practices between some MDB partners.

3. How does the World Bank work with partners to implement co-financing?

The World Bank is required to apply its policies and procedures for every operation it finances, whether or not the operation is co-financed. When a partner co-finances an IDA or IBRD operation, the World Bank undertakes certain services—such as technical, procurement, financial management, disbursement, and environmental and social services—to comply with these requirements. When co-financing with partners, the World Bank and the co-financier agree to the use of a single set of rules to keep the engagement with client countries efficient and avoid duplication of efforts.

4. **What are the legal arrangements required for co-financing?**

For each co-financed operation, the World Bank and the co-financier(s) sign separate financing agreements with the client country. In addition, a co-financing agreement is signed between the World Bank and the co-financier(s) to establish co-financing arrangements for the given project or program.

The Bank has signed overarching Co-financing Framework Agreements (CFAs) with some co-financiers at the corporate level. There are significant advantages to signing a CFA, they include:

- **Greater efficiencies.** A CFA allows negotiations and agreements around how the parties will work together in a co-financed arrangement. These are agreed and documented and apply to all subsequent operations co-financed by the parties. It allows for expedient and efficient processing of co-financing (as negotiations on key issues do not need to recur on an operation-by-operation basis), reducing duplication of efforts and reducing associated costs for the co-financier and the client country.

- **Stronger and more frequent partner collaboration.** CFAs promote consistency across co-financed projects and programs and increase familiarity with, and visibility of, the co-financing partnership. CFAs make it easier for partners to work together, thereby incentivizing World Bank teams to introduce co-financing into an IDA/IBRD operation. Further, the presence of a CFA is supported by a corporate-level dialogue, which allows for any issues to be raised and discussed at the corporate level quickly before they impact operations. It also allows for frequent and open dialogue around project pipelines and can help to identify co-financing opportunities early on.

5. **How is parallel financing different from co-financing?**

Parallel (or complementary) financing—as opposed to parallel co-financing—involves third-party financing of activities that are complementary to an IDA/IBRD project or program but fall outside the scope of that operation. Parallel financing is for a standalone project or program led by another financier to which the policies and procedures of that financier apply. No services are provided by the World Bank; however, there can still be coordination among partners. Depending on the nature of the project (i.e., the building of a hospital), parallel financing might not be an option for an operation.