Evaluation Report
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The Evaluation of EDCF's Co-financing Projects

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1.Introduction

The goal of this evaluation is to analyze the performances of the Economic Development Cooperation Fund's (EDCF) financial partnership with other donors to co-finance development projects. Among many types of financial partnerships, this evaluation focused on assessing EDCF's co-financing projects with Multilateral Development Banks (MDBs) and the mixed credit projects combining EDCF loans with export credit of the Export-Import Bank of Korea (KEXIM). Moreover, it aimed to draw recommendations for future co-financing projects with other development institutions and export credit agencies and for ensuring the better management of co-financing projects.

Among the various financial partnerships by EDCF and MDBs, the evaluation covered the co-financing projects by EDCF and MDBs and mixed credit projects blending KEXIM's export credit and EDCF loans. During the period of 1987-2015, EDCF engaged in 36 co-financing projects and four mixed credit projects.

The evaluation is composed of three sections, 1) theoretical review of co-financing in a financial partnership, 2) analysis of the current situation and evaluation of EDCF's co-financing projects, and 3) lessons learned and recommendations. In the theoretical review section, theoretical background, expected advantages, and risks of co-financing in a financial partnership were verified. In the analysis of current situation and evaluation section, the current state and categories of EDCF's financial cooperation were identified, and detailed evaluation on individual co-financing projects and mixed credit projects were conducted. Lastly, in the lessons learned and recommendations section, proposals for improving EDCF's financial cooperation were offered based on the implications from the analysis of the current situation. In each stage, the evaluation team conducted in-depth interviews with EDCF employees in charge of financial cooperation, overseas field investigation, surveys, literature review, etc.

2. Co-financing Partnership

Co-financing is a form of financial partnership, where multiple organizations jointly raise financial resources for a project or program. Utilizing financial partnership, partners can create synergy and achieve the economy of scale. Most of EDCF's financial partnerships have been forged to support co-financing projects.

Theoretically, financial partnership can have several positive impacts. It enables partners to efficiently manage their project, reduce fixed costs, multiply the impacts of the project, prevent aid fragmentation, and facilitate access to beneficiaries and project identification. On the other hand, risks exist in the financial partnership: adjustment costs among the partners, down-scaled autonomy of an individual partner organization, reduced visibility of a small-sized donor, free-rider issue, and weakened ownership of beneficiaries.

3. The Current Situation of EDCF's Co-financing

EDCF has significantly increased the number of projects and the amount of financial resources for co-financing projects since 2007, maintaining the uptrend. The reasons for the uptrend were 1) the overall increase in loan approvals by EDCF, 2) increased number of co-financing projects proceeded by the Asian Development Bank (ADB), one of the major co-financing partners of EDCF, and 3) upgraded development cooperation strategy of Korea.

EDCF approved co-financing projects in 17 countries in total. Vietnam received the largest amount of co-financing totaling KRW 624 billion for 10 co-financing projects. There existed a big variance by country in the other 16 beneficiary countries. Asian countries were the biggest beneficiaries, followed by African and Central and South American countries. When it comes to sectoral distribution, 70% of total co-financing approvals had been distributed to the transportation sector, 12% to the energy sector, and only 6% to other sectors.

Co-financing could be categorized in multiple ways, but in this evaluation it was categorized in accordance with co-financiers, types and structures of financing, tying conditions, and types of administration.

The majority of the co-financing projects, 32 out of a total of 36 projects, were projects under collaboration with MDBs. EDCF's most frequent co-financing partner was the ADB with which it implemented 18 co-financing projects. The amount of funds utilized for co-financing with the ADB accounted for 61% of total co-financing resources. The reason why the ADB took up the biggest proportion was that 1) Asian countries were the major beneficiaries of EDCF's support, 2) the ADB was one of the most active MDBs utilizing co-financing tools, and 3) under the condition of tied aid, the ADB was a relatively convenient partner for the EDCF to collaborate with in the form of parallel financing.

Co-financing projects could be pursued as either parallel co-financing or joint co-financing. In EDCF's case, parallel co-financing accounted for 83.3% of total co-financing projects of EDCF, and 92.5% of total financing amount. It is thought that the emphasis on conducting tied aid in EDCF led to the overwhelming proportion of parallel co-financing. In most cases of joint co-financing, MDBs had technical difficulties in co-financing with tied aid.

Mixed credit projects were categorized into parallel mixed credit, joint mixed credit, and pre-mixed credit projects. By examining related documents on mixed credit, this report found that all mixed credit projects of EDCF fall under joint mixed credit.

4. The Evaluation of EDCF's Co-financing Projects

Evaluation Criteria

For the evaluation of EDCF's co-financing projects with MDBs and mixed credit projects, the evaluation team established its own four evaluation criteria such as strategy and policy, project implementation, effectiveness and impact, and sustainability. For each criteria, several evaluation questions were posed in accordance with expected effects of financial partnership as follows.

Criteria	Questions
Strategy and Policy	Was there any goal or strategy related to co-financing/mixed credit? If there was, was the goal or the strategy in accordance with the overall development cooperation policies of Korea?
	If there was a specific goal for co-financing/mixed credit, had it been achieved?
	Did EDCF have strategic cooperation mechanisms with co-financiers for promoting co-financing/mixed credit?
	Had EDCF appropriately selected and executed co-financing/mixed credit projects aligned with the development cooperation policies of Korea?
	Were the priorities of development policies of Korea (e.g. priority countries and priority sectors) inclusive in co-financing/mixed credit projects of EDCF?
Project Implementation	Were the characteristics of co-financing/mixed credit financing properly considered when the project was preliminarily evaluated and selected based on the feasibility study?
	Was the efficiency of the project improved by the facilitation of project identification with co-financing/mixed credit?
	Did co-financing/mixed credit bring about cost reduction (e.g. sharing reports) in practice?
	Was the burden of the beneficiary country alleviated through aid harmonization with co-financiers in co-financing/mixed credit projects?
	Were the internal organization and working procedure of EDCF for co-financing/mixed credit efficiently formed?
Effectiveness and Impact	Did the individual co-financing/mixed credit projects realize the expected effectiveness?
	Did co-financing/mixed credit make it possible to identify, prepare and implement large-scale projects?
	Did co-financing help strengthen EDCF's cooperation with international organizations and global status of Korea?

Criteria	Questions
	Did co-financing/mixed credit enhance the accessibility to and cooperation with recipient countries?
	Did co-financing/mixed credit contribute to the innovation of cooperation or partnership structure of EDCF?
	Did the co-financed/mixed credit projects reach satisfactory levels?
Sustainability	Did the co-financing/mixed credit projects create the basis or structure for sustainable operations?

Strategy and Policy

In the first Five-year Plan for International Development Cooperation 2011-2015, the Korean government adopted the strategy to expand co-financing to enhance cooperation with international organizations. The plan set a quantitative goal for expanding co-financing which contributed to the actual volume growth. While co-financing only accounted for 14% of authorized loans by EDCF from 2004 to 2009, the proportion increased to 16% from 2010 to 2015. In the second Five-year Plan 2016-2020, however, no specified goal or strategy for co-financing was included. For sustained co-financing, EDCF needs to consider building its own long-term strategy for co-financing.

In selecting co-financing projects in the Five-year Plan, the main sectors and/or focused areas were large infrastructure projects or global public goods projects. By participating in these sectors or areas, EDCF was relatively successful with following these project selection criteria. For instance, EDCF co-financed a number of transportation related infrastructure projects in Asia and Africa, as well as a climate change response program in Vietnam.

With regard to the policy priorities, the report evaluates that EDCF proceeded with co-financing in cost-efficient manners, focusing on priority countries and sectors. The Five-year Plan guided to allocate approximately 65% of the financial resources to priority countries. In practice, 71% of co-financing resources were provided to priority countries from 2011 to 2015. Furthermore, 72.7% of co-financing projects were implemented in priority sectors of the priority countries.

Project Implementation

The majority of project appraisal reports examined the general factors of the development project, scope of co-financiers, necessity of co-financing, division of work, and financing structure. Some of the appraisal reports, however, did not mention the co-financing aspects of the project or did not fully incorporate the necessary information for the financial partnership arrangement. As a result, there was a large variation among projects in the depth of analysis and appraisal.

This report evaluated the efficiency of project identification or management 1) by considering who initiated or identified the co-financed projects, and 2) by checking the degree of partnership - cost efficiency can be measured with the common use of project reports and joint activities between EDCF and co-financiers. Firstly, 58.3% of EDCF's co-financing projects were initiated or identified by MDB co-financiers. It means that EDCF could enhance the efficiency in project identification by acquiring project related information easily. Secondly, 61.1% out of all co-financing projects utilized the same project reports, which means that there was room for improvement in efficiency. However, the proportion of joint activities was somewhat low at 36.1%. It means that there is some room for further improvement in efficiency.

The improvement in aid harmonization is evaluated based on the level of cooperation between EDCF and co-financiers. According to the analysis of the appraisal reports, 52.8% of the co-financing projects recorded a higher than the average cooperation level between EDCF and co-financiers.

To assess the efficiency of the project implementation system for co-financing projects, the evaluation team considered the internal working procedure, organization, and utilization of human resources. EDCF uses both the top-down approach and bottom-up approach in identifying and developing co-financing projects, which reflects the prevalence of parallel financing. The top-down approach refers to project identification and development through the cooperation between the Multilateral Development Bank Cooperation Team (MDB

Team) of EDCF and the headquarters of the MDBs. The MDB team and officials of MDB headquarter had met regularly to discuss and identify the possibility of co-financing projects. In the Bottom-up approach, the dialogues between regional teams or regional offices of EDCF and MDBs were utilized for the identification and development of co-financing projects.

Effectiveness and Impact

The analysis of ex-post evaluation reports of three co-financing projects and one mixed credit project showed that all projects received relatively high scores in overall evaluation and effectiveness.

One of the main reasons for forming financial partnership is to scale up the financial resources. For 72.4% of the total co-financing projects, EDCF maintained its investment share of the total project cost over 10%. This rate appears appropriate in that EDCF could participate in large-sized projects beyond its financial capacity and retain the visibility of aid provision at the same time.

The evaluation team also assessed the impact of the co-financing projects on recipient countries. Co-financing allowed EDCF to participate in large-size, region-wide infrastructure projects where EDCF could not have done it without co-financing. For instance, EDCF helped developing countries near the Mekong river by co-financing the Great-Mekong sub-region project, a large-scale regional development project led by the ADB from 2007 to 2010. Moreover, the Vam Cong Bridge Construction Project, which is the second largest project among all EDCF projects, and the construction of the connecting road to the bridge were co-financing projects. The participation of EDCF in these mega infrastructure projects and its contribution to the region-wide development were possible thanks to co-financing with MDBs.

Moreover, experiences in co-financing projects laid the foundation for strengthening and diversifying future cooperation with MDBs. For instance, the USD 100 million financial facility which EDCF and the IDB have recently signed allowed EDCF to participate in a broadband project in Nicaragua. This project is to be delivered through joint co-financing. Participation in this project enabled EDCF to lay the groundwork to diversify its co-financing sectors in Latin America.

In addition, the co-financing projects had a positive impact on EDCF to expand cooperation with new countries and to enhance the presence of EDCF in the international community. In 2008, EDCF launched a project for the construction of Quelimane Central Hospital in Mozambique, where it had never executed any development project before. In the following years, EDCF participated in the Nacala Road Corridor Upgrading Project through joint co-financing with the African Development Bank (AfDB). After then, the number of EDCF's projects in Mozambique increased – nine projects were conducted (KRW 368.3 billion) from 2010 to 2015. EDCF's support to Mozambique has grown by participating in co-financing projects with AfDB.

Co-financing contributed to diversifying aid modalities used by EDCF. EDCF used to rely on project-type aid as the main modality for development cooperation. Through co-financing, however, it could adopt new modalities such as budgetary support under the program approach. It is premature to assess the specific achievement and impact of the budgetary support from EDCF. Nevertheless, it is certain that co-financing gave EDCF an opportunity to accumulate experiences for future projects of a similar type.

Last, the evaluation team surveyed the awareness of EDCF employees on co-financing projects. It can complement the evaluation of effectiveness and impact of co-financing projects. The survey questioned the employees about the satisfaction and effectiveness of co-financing projects. According to the survey results, major advantages of co-financing were the expansion of project scale by mobilizing more financial resources (24.2%), easy identification of projects (24.2%), and effective supervision and management of projects (21.2%). The result showed that in evaluating the satisfaction levels on co-financing projects, 64.3% of the respondents were "satisfied" or "very satisfied," while 35.7% were "dissatisfied." This implicitly indicates that co-financing had a positive impact.

Sustainability

EDCF established financing agreements and/or memorandum of understanding (MoU) for facilitating co-financing with major MDBs such as the ADB, AfDB, and World Bank (WB). They have been renewed regularly without major changes. They can be the basis for future continuous cooperation on co-financing with MDBs. However, the opportunities for wider use of mixed credit instruments are relatively limited because of international constraints and technical difficulties.

5. Lessons Learned and Recommendations

Achievements

By co-financing projects with MDBs, EDCF has built closer global financial partnerships, steadily increasing resources for co-financing since 2007. Every year, EDCF approves new co-financing projects to support. The proportion of co-financing from 2010 to 2015 in total EDCF projects did not reach 20%, which is the co-financing target in the first Five-year Plan for International Development Cooperation, but the proportion was an increase by 16% from the previous period.

Participation in co-financing can contribute to enhancing EDCF's global status as a development agency. By planning and executing co-financing projects, EDCF has been recognized as one of the major co-financiers by other major international development institutions. Moreover, EDCF has built stronger institutional capacity for co-financing by signing MoUs with major MDBs such as the WB, ADB, AfDB, and IDB. Particularly in Asia, EDCF is regarded as a major partner to ADB, and development partnerships in the region is expected to expand further with the launch of the full-scale activities of the Asian Infrastructure Investment Bank (AIIB).

The major benefits EDCF offers in co-financing are the facilitation of project identification and increased opportunities to participate in big projects. Due to the small number of regional offices in developing countries and limited funding capacity, EDCF faces challenges to identify projects with great impact potential. Co-financing with MDBs likely increases the chance for EDCF to participate in great-impact projects.

Last, co-financing provided EDCF with the opportunity to reduce the cost for project preparation such as appraisal and feasibility/environmental impact study through a common use of related documents.

Challenges

Despite the achievements, EDCF faced several challenges in co-financing projects. First, although the number and volume of EDCF's co-financing projects had expanded, strategic goals and long-term plans for co-financing were not stated clearly. Second, the synergy between EDCF and its co-financing partners did not reach the expected level, and further improvement in project management system was needed. Third, in the case of mixed credit, its development impact was often overlooked or not assessed properly.

Recommendations

EDCF needs to establish long-term strategic plans in financial partnerships with MDBs. The plans should state long-term strategic goals, quantitative targets, and priority sectors for co-financing. Furthermore, EDCF needs to play a more proactive role in project identification. In other words, EDCF should participate in the project identification process more actively and find projects relevant to its strategy. To this end, EDCF needs to make more use of the bottom-up approach, which is based on frequent contacts between EDCF and MDBs at the local level.

For effective financial partnership, it is necessary to set up guidelines for report documentation, which would be differentiated from those for single-financed projects. Since EDCF utilizes the same report formats regardless of single-financed or co-financed projects, it is hard to recognize the characteristics intrinsic to co-financed projects. This may lead to difficulties in information management and evaluation of co-financing projects.

For the realization of synergy, co-financing modalities need to be more diversified. In theory, joint co-financing may create greater development impact and achieve cost efficiency. However, this has not been fully realized yet due to tied aid. EDCF and governments may consider to adopt more flexible criteria in aid tying.

If EDCF's investment share in a co-financing project is excessively low, namely below 5%, it may bring the risk of weak visibility, low autonomy, and lack of voice and accountability. Therefore, EDCF needs to determine its investment share carefully so that it can keep the balance in the trade-off between aid efficiency and autonomy.