

■

Module IV

ADF Loan Accounting and Loan Service Payments

What is the Asian Development Fund (ADF)?

- It is a special fund established by ADB to meet the specific needs of borrowers with low per capita gross national product and limited debt repayment capacity.
- The ADF offers concessional lending. Loans are available where the rates and terms are less than the commercial ones.

Resources of ADF



The resources of ADF primarily consists of the following:

- ❑ Contributed resources
- ❑ Principal repayments
- ❑ Accumulated surplus and other comprehensive income
- ❑ Transfer from OCR

Eligibility for ADF



DMCs are classified by ADB into three groups (A,B and C) primarily on considerations of gross national product (GNP) and debt repayment capacity. In principle;

- Group A : ADF only
- Group B1 : ADF with limited amounts of OCR
- Group B2 : OCR with limited amounts of ADF
- Group C : OCR only

Eligibility for ADF

- - The changing economic environment in certain DMCs, together with the availability of ADF resources, determines the actual allocation of ADF resources from time to time.

ADF Lending Terms



I	Loans approved prior to 21 March 1974	Various.
II	Loans approved after 21 March 1974 and completed negotiations before 1 January 1999	40-year maturity, including 10-year grace period, with repayment of principal at a rate of 2 percent a year for the first 10 years after the grace period and 4 percent a year thereafter.
III	Loans completed negotiations on or after 1 January 1999	<u>Project loans</u> : 32-year maturity, including 8-year grace period, with equal amortization. <u>Program loans</u> : 24-year maturity, including 8-year grace period, with equal amortization.

ADF Amortization Schedule

An Example

Loan Product : ADF Program Loan
Loan Amount : 16,000,000.00
Term : 24 years
Grace Priod : 8
First Due Date : 01 January 2012
Computation Method : Straight

	DATE	AMOUNT	DATE	AMOUNT*
1	01-Jan-2012	500,000.00	17 01-Jan-2020	500,000.00
2	01-Jul-2012	500,000.00	18 01-Jul-2020	500,000.00
3	01-Jan-2013	500,000.00	19 01-Jan-2021	500,000.00
4	01-Jul-2013	500,000.00	20 01-Jul-2021	500,000.00
5	01-Jan-2014	500,000.00	21 01-Jan-2022	500,000.00
6	01-Jul-2014	500,000.00	22 01-Jul-2022	500,000.00
7	01-Jan-2015	500,000.00	23 01-Jan-2023	500,000.00
8	01-Jul-2015	500,000.00	24 01-Jul-2023	500,000.00
9	01-Jan-2016	500,000.00	25 01-Jan-2024	500,000.00
10	01-Jul-2016	500,000.00	26 01-Jul-2024	500,000.00
11	01-Jan-2017	500,000.00	27 01-Jan-2025	500,000.00
12	01-Jul-2017	500,000.00	28 01-Jul-2025	500,000.00
13	01-Jan-2018	500,000.00	29 01-Jan-2026	500,000.00
14	01-Jul-2018	500,000.00	30 01-Jul-2026	500,000.00
15	01-Jan-2019	500,000.00	31 01-Jan-2027	500,000.00
16	01-Jul-2019	500,000.00	32 01-Jul-2027	500,000.00
			TOTAL	16,000,000.00



Interest/Service Charges



I	Loans approved prior to 21 March 1974	1% - 3% per annum.
II	Loans approved after 21 March 1974 and completed negotiations before 1 January 1999	1% per annum.
III	Loans completed negotiations on or after 1 January 1999	1% per annum during the grace period and 1.5% per annum during the amortization period.

Calculation of Interest Charges

- Interest charge is levied on currencies disbursed and outstanding, and computed on the basis of a 360-day year of twelve 30-day months. Computation of interest/service charges as follows:

Example:

Value Date: 21 March

Amount Disbursed: Yen125,000,000.00

Interest Rate: 1% p.a.

LSP date: 1 June/1 December

Computation: $\text{Yen}125,000,000 \times 1\% \times \frac{70}{360}$
days = Yen243,056.00

Other Charges

- - For ADF loans, there are no other fees/charges, such as front-end fee and commitment charge.
 - Borrower's obligation is to make 1) interest payment, and 2) principal repayment.

Currency of ADF Loan Commitment (Denomination)



US\$ Denominated

SDR Denominated

1 January 1983

US Dollar Denominated Loans

- ADF loans negotiated before 1 January 1983 are denominated in US dollar and the amortization schedule is in US dollar.

SDR Denominated Loans

- Effective 1 January 1983, ADF loans are denominated in Special Drawing Rights (SDR) for the purpose of loan commitment, i.e., disbursements are made in various currencies up to the agreed amount of SDR equivalent. The amortization schedule is in SDR.

Special Drawing Rights (SDR)

- - The Special Drawing Right (SDR) was originally created by the IMF in 1969 to support the Bretton Woods fixed exchange rate system.
 - SDR is an artificial "basket" of currency.
 - Today, the SDR's main function is to serve as the unit of account of the IMF and some other international organizations.

Special Drawing Rights (SDR)

- - SDR denomination is applicable only to loan commitment.
 - Disbursements are made in various currencies up to the agreed amount of SDR equivalent.
 - Repayable in the various currencies disbursed in accordance with an amortization schedule expressed in SDR equivalent at time of disbursement.

Special Drawing Rights (SDR)

Tuesday, February 01, 2005

Currency	Currency amount	Exchange rate	U.S. dollar equivalent
Euro	0.4260	1.30330	0.555206
Japanese yen	21.0000	103.79000	0.202332
Pound sterling	0.0984	1.88270	0.185258
U.S. dollar	0.5770	1.00000	<u>0.577000</u>
			1.519796

SDR1 = US\$

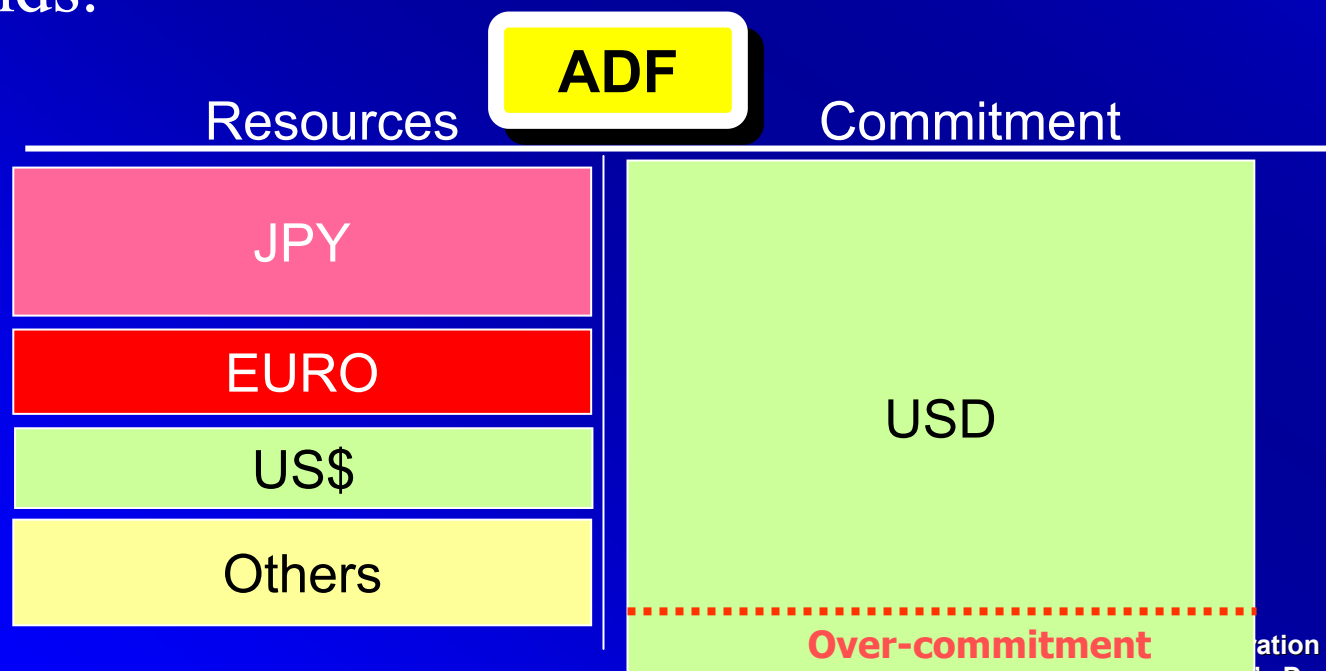
1.51980

Loan Administration Division
Controller's Department



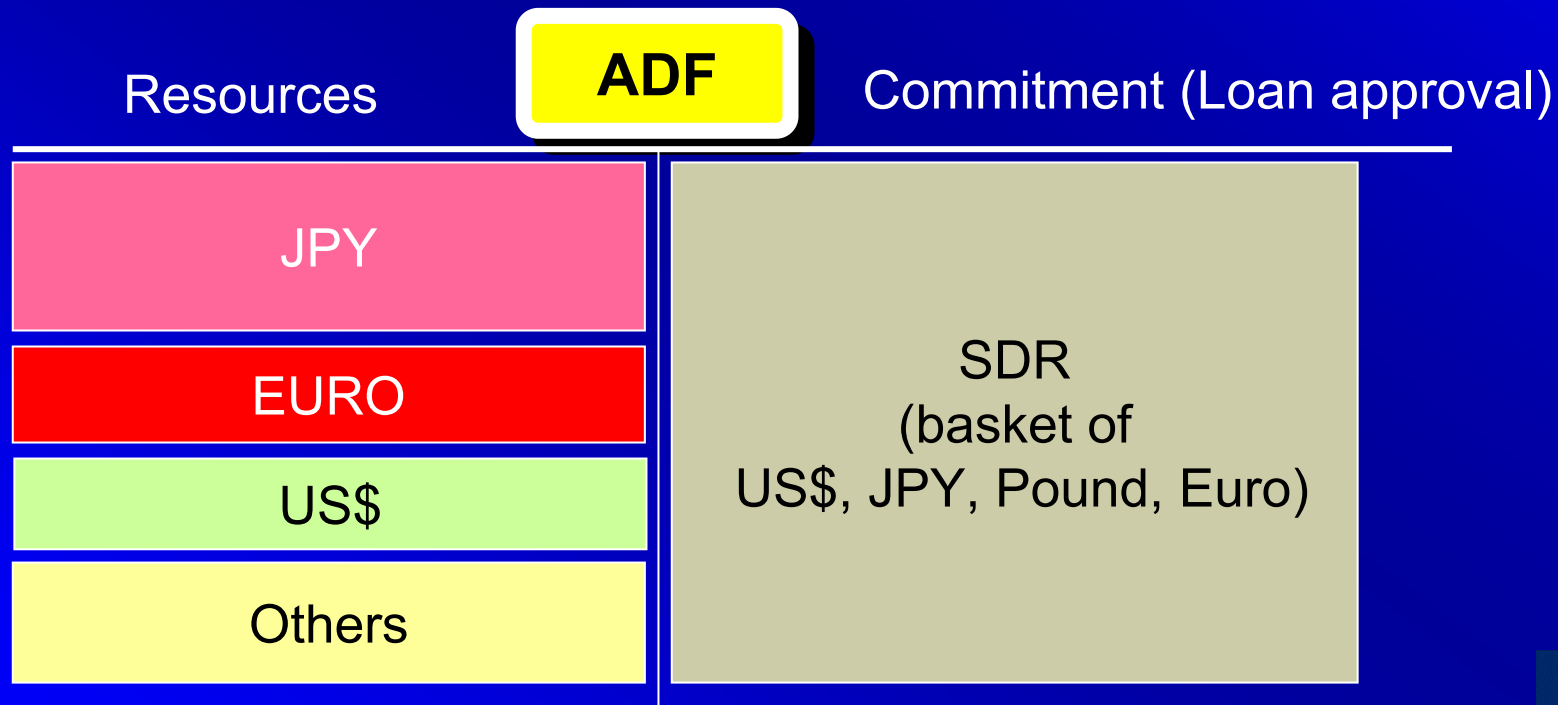
Why SDR?

- Problem existed when the contributions of the donors given in various foreign currencies and the loan commitments are made into a single currency, the US\$.
- If US dollar appreciates, ADB may over-commit its funds.



Why SDR?

■ To reduce the risk of over-commitment of loan funds, the Bank decided to denominate all its ADF loan commitments in SDR.



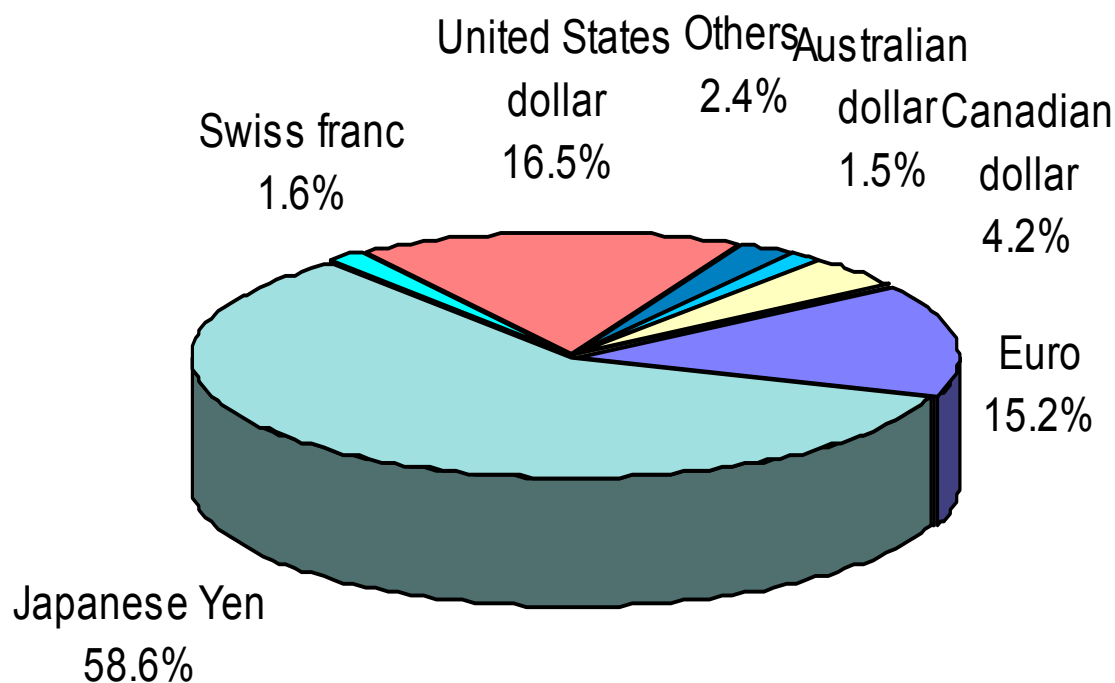
Currency Composition of ADF Resources

Currently consists of fifteen (15) currencies;

- Japanese yen
- United States dollar
- Euro
- Canadian dollar
- Australian dollar
- Swiss franc
- Pound sterling
- Swedish krona
- Danish krone
- Korean Won
- Norwegian krone
- New Zealand dollar
- Malaysia Ringgit
- Thai Baht
- Singapore dollar

Currency Composition

Loans Outstanding by Currency - ADF 30 September 2004



Loan Disbursement (1)

-
- Once loan becomes effective, ADB credits the loan amount to the Loan Account (in SDR).
- The Borrower may request payment in any currency of the member country based on the approved contract / expenditure.
- ADB arranges payment in the currency requested. ADB may sell any currency available in ADF resources to purchase currency requested.

Loan Disbursement (2)



Rupee

The Borrower requested direct payment in Rupee to the contractor.



Japanese yen

ADB sold Japanese yen to buy and transfer the Rupee to the contractor's account.



(US\$)

For various reporting purposes, ADB recorded US\$ equivalent of the Japanese yen sold.



SDR

SDR equivalent of the disbursement is recorded and debited to the loan account (to reduce the undisbursed loan balance).

Multi-Currency Features of ADF

- Currency Requested/Paid is the currency requested by and actually paid (remitted) to the borrower, e.g. Borrower's national currency.
- Currency of Disbursement (withdrawal) is the currency actually used by ADB to execute the payment, e.g., JPY, US\$, Euro, SwF, etc.
- Reporting Currency is US\$. The Currency of Disbursement is translated into US dollar since it is ADB's reporting currency.
- Currency of Loan Commitment is SDR. Disbursements are converted into SDR to monitor the available loan commitment (undisbursed loan balance) as the loan is committed in SDR.

Currency of Disbursement (Withdrawal)

- - The Currency of Disbursement constitutes the actual liability of the Borrowers.
 - Interest payments, capitalization of interest (IDC), and principal repayments are made in the Currency of Disbursement.

Principal Repayment (Amortization) (1)



- ✓ Repayments should be made in the Currency of Disbursement for the amount actually Disbursed,



- ✓ The amortization schedule is denominated in SDR.

Principal Repayment (Amortization) (2)

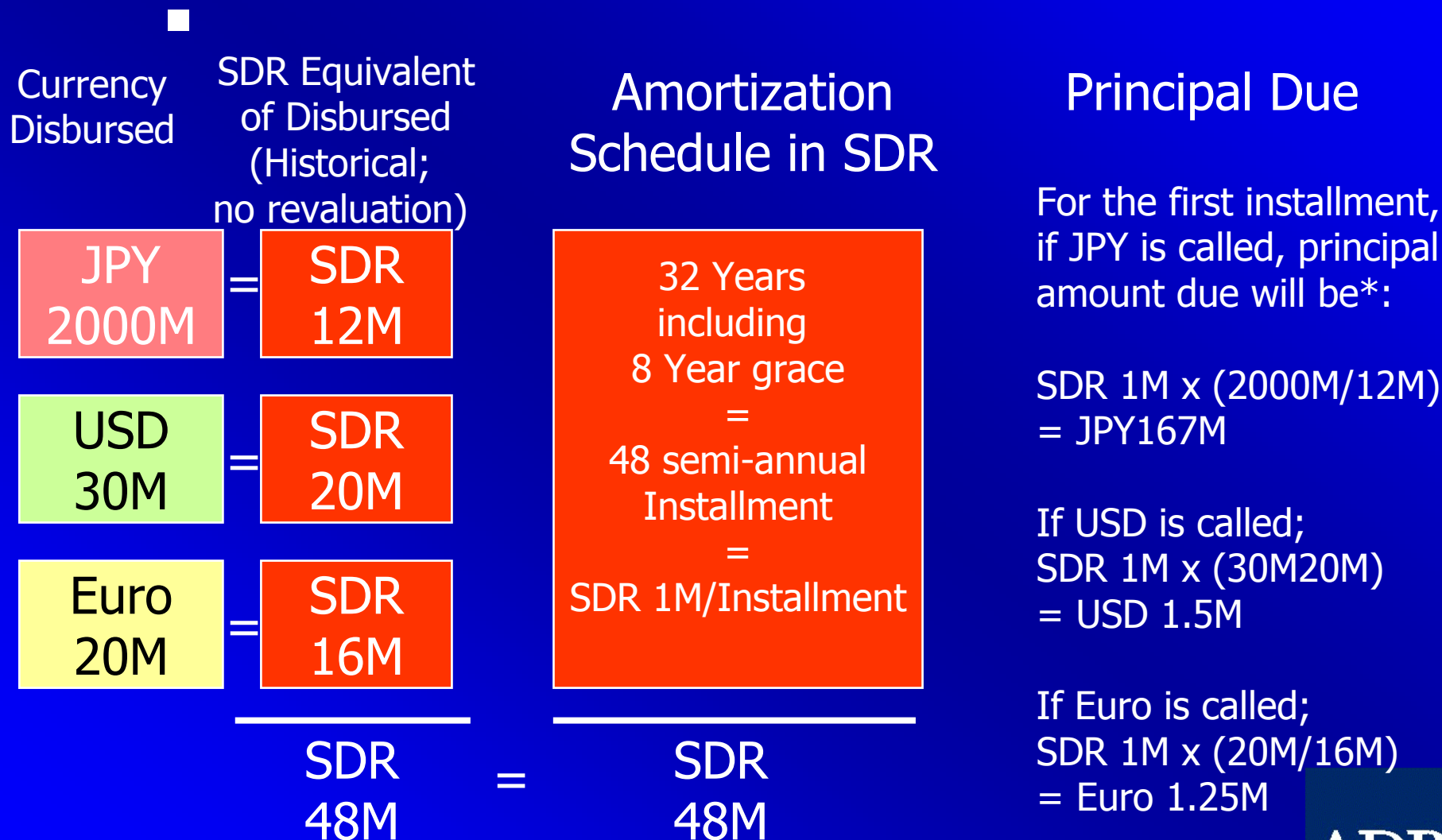


- A) For each disbursement, SDR equivalent is recorded using the FX rate prevailing at that time.
- B) When the undisbursed loan balance (in SDR) is finally cancelled, amortization schedule is revised so that the total of the amortization schedule in SDR is equal to the total disbursement in SDR.
- C) For principal repayment, the SDR amounts in the Amortization Schedule are converted back to the Currency of Disbursement based on the weighted average of FX rate applied to the disbursements in that currency.

Principal Repayment (Amortization) (3)

-
- The purpose is to recover the exact amounts of Currencies Disbursed through the principal repayments.

Principal Repayment (Amortization) (4)



* Note: Actual formula for this calculation is slightly more complicated as it involves US\$ equivalent, but the end result would be the same.



Principal Repayment (Amortization) (5)



Amount due per Amortization Schedule (in SDR)

x Av. historical rate of US\$ per SDR*

x Av. historical rate of Local currency per US\$**

= Principal Amount Due in local currency

*Principal Disbursed in US dollar equivalent / Principal Disbursed in SDR equivalent

** Principal Disbursed in local currency / Principal Disbursed in US dollar equivalent

Billing Procedures

- - ADB issues billing statements twice a year based on transactions two months before the LSP date.
 - The interest charges are billed in the Currencies Disbursed and outstanding.
 - The principal amount billed could be called in several Currencies Disbursed and outstanding under the loan. The currency to be billed is determined by ADB based on the monthly currency priority.

US\$1000 Rule

- - If the interest amount due for a particular currency is less than \$1,000 equivalent, it will be shown in the billing statement with the remark "Payment Not Requested, To Be Included in the Next Billing".
 - If the amount due includes principal repayment, it will be billed even if the amount is less than \$1,000.

Currency Purchase Option (1)



- The borrower may enter into a Currency Purchase Agreement with ADB to pay all the debt obligations in US dollar.
- Amounts due in non-US dollar currencies are converted to US dollar at the prevailing exchange rates. ADB adds 5 percent allowance for FX fluctuations.

Currency Purchase Option (2)

-
- The borrower is to remit US dollar at least 6 days before the due date to enable ADB to purchase the various currencies on time on behalf of the Borrower.
- ADB sends the borrower a report of currency purchase transactions. Excess or shortage of US\$ will be settled in due course.

Interest Charges During Construction (IDC)

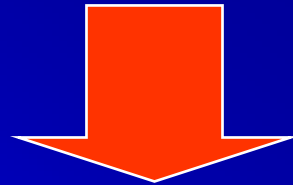
-
- Interest charges during construction may be financed by the loan, if the loan agreement provides allocation for IDC.
- Instead of sending billings for interest charges, ADB will directly charge the interest to the loan account.
- **Treated as if the amount has been disbursed to the borrower, and borrower in turn made the interest payment with that fund.**

Ceiling for IDC

- - Amount as allocated in the Schedule 3 of the loan agreement.
 - On due dates of LSP, interest amount accrued up to the eve of the due date is “capitalized” in each currency disbursed/outstanding.
 - The SDR equivalent of the capitalized interest is deducted from the “Undisbursed Balance”.

Ceiling for IDC

- Capitalization of interest will be stopped when:
 - The allocation for IDC is fully utilized.
 - The closing date (as extended) has been passed.
 - The loan account is suspended / cancelled.



- Billing Statements will be sent for cash payments.