

4 DISBURSEMENT GUIDELINES AND PRACTICES

General Guideline

- 4.1 The borrower is responsible for implementing the project according to the loan agreement and other agreements. On its part, ADB monitors the project and reviews its progress to ensure that the loan proceeds are spent as agreed upon.

Loan Account

- 4.2 When a loan becomes effective, the loan amount is not paid to the borrower. Instead, a loan account is opened in ADB's books in the name of the borrower and the loan amount is credited to that account. Withdrawal from the account is approved only after fulfillment of the requirements mentioned in paragraphs 4.6 and 4.7.

Discussion of Disbursement Procedures

- 4.3 During project appraisal and loan negotiations, ADB's different disbursement procedures are discussed in detail by the borrower and ADB. These discussions are important because they allow the borrower and ADB to identify the disbursement procedures most suitable for the project.

Disbursement Letter

- 4.4 After the loan agreement is signed, Loan Administration Division (CTLA) sends a disbursement letter (*see Appendix 4*) to the borrower outlining the disbursement procedures and other related arrangements for financial administration of the project. A copy of ADB's *Disbursement Handbook* is enclosed with the letter.

Actions to Be Taken by the Borrower

- 4.5 As soon as the loan has become effective, and to expedite the disbursement, the borrower
- recruits qualified accountants and establishes sound internal control and accounting systems in executing and implementing agencies;
 - reviews Schedule 3 of the loan agreement. The Schedule provides details of ADB financing such as amount, percentages, items of financing, and applicable conditions of financing;
 - maintains records for all signed contracts in a contract ledger for reference;

- forwards to ADB (sector division or resident mission concerned) two copies of each signed contract with a value of more than US\$100,000.¹ For contracts US\$100,000 or less, forwards copies of the signed contract to ADB only if requested (*see paragraph 9.17*); and
- obtains ADB's approval for contract variations that are subject to ADB's prior review and would in aggregate increase the original value of the contract by more than 15% of the original amount.²

Basic Requirements for Disbursement

4.6 The first withdrawal from the loan account requires that

- ADB declared the loan effective;
- the borrower submitted to ADB sufficient evidence of the authority of the person(s) who will sign withdrawal applications on behalf of the borrower, together with the authenticated specimen signature of each authorized person. (Any subsequent change in the list of authorized representatives must be reported immediately and authenticated specimen signatures of new representatives must also be provided); and
- disbursement conditions as specified in the loan agreements are met.

4.7 Preparation of withdrawal application for final disbursement(s) of project loan and tranche disbursement of a program loan should be closely coordinated between ADB and borrower/EA especially if the remaining unutilized balance is expected to be fully utilized.

Withdrawal Application

4.8 For all withdrawals, ADB must receive a withdrawal application in the prescribed form. A withdrawal application is a written request from the borrower to ADB to pay funds against the borrower's loan account. The application must reach ADB before the loan closing date.

A withdrawal application consists of

- the application itself in letter form (*see Appendixes 5, 6, and 7 for sample formats*);
- summary sheet(s) for each category claimed (*see Appendixes 8 and 9 for sample formats*); and
- supporting documents, if required (*see Appendix 10*).

¹ "US\$100,000" in this Handbook refers to US dollars 100,000 or its equivalent.

² Refer to ADB Procurement Guidelines, April 2006, Appendix 1 paragraph 3.

Eligible/Ineligible Expenditures

- 4.9 ADB will only finance eligible expenditures (*see Appendix 11*). Expenditures eligible for financing are generally detailed in the RRP.

Disallowances/Nonpayments

- 4.10 Where ADB disallows or adjusts the amount of withdrawal the borrower requested, ADB sends an advice by fax or e-mail to the borrower and/or EA citing the loan and withdrawal application number, amount applied for, amount paid, and reason for nonpayment or partial payment.
- 4.11 For nonpayment or adjusted settlement of condiment claims, ADB sends an advice to the negotiating or advising bank by authenticated SWIFT or tested telex citing the commitment letter number, letter of credit (LC) number, and reason for nonpayment or adjusted settlement. Copy of this advice is furnished to the EA for information.

Capitalization of Interest, Front-end Fees, and Other Charges

- 4.12 If the loan agreement provides for financing of front-end fees, interest, and commitment charge during construction, ADB withdraws from the loan account and pays itself the amounts due (see Section III(A) (3) of Appendix 2).

Refunds

- 4.13 All refunds must be paid to ADB's accounts at its depository banks with payment details indicating (i) references such as loan number; (ii) description or nature of the refund; and (iii) currency and amount of refund. Advice is sent to ADB's Treasury Services Division (TDTS) and CTLA.
- 4.14 If funds withdrawn from the loan account are determined to be in excess or ineligible for ADB financing, the borrower must arrange a refund as instructed by ADB. The refund is normally credited to the borrower's loan account on the date of receipt in ADB's depository account.
- 4.15 However, for closed loans, ADB may apply the amount refunded to debt service (e.g., interest or principal), if the amount due from a third party is small.
- 4.16 ADB applies the current value of the refund. In some cases, it may convert the currency refunded into one of the currencies then outstanding on the loan account. Any exchange rate difference between the amount charged to the loan account when the original payment was made and the equivalent amount at the time of refund is absorbed by the borrower's account.

Retention Money and Bank Guarantee

- 4.17 Payments of retention money under civil works and supply contracts are usually made at the end of warranty or commissioning, or against an acceptance certificate (of the commission facility) issued by the buyer.

Where payment of retention money is due more than 3 months past the loan closing date, and no extension of the closing date is intended, ADB may disburse the retention money to the contractor or supplier against an unconditional bank guarantee provided by the contractor or supplier to the EA. The unconditional bank guarantee is issued in compliance with the borrowing government's financial rules and regulations, by a reputable bank in the country of the borrower in a manner acceptable to ADB.

Audited Project Accounts and Financial Statements

- 4.18 ADB loan proceeds shall be used only for the purposes for which the loan was approved with due attention to economy and efficiency (*Article 14 [xi]*). To meet these requirements, EAs are to submit audited project accounts (APA) regularly during project implementation.
- 4.19 EAs are required to submit audited project accounts and financial statements (AFS) not more than 6 months³ after the close of the fiscal/financial year, as specified in the relevant loan agreement, to sector division or RM for their review and necessary action.

Follow-up Action for Audit Findings of Serious Nature

- 4.20 In case of audit findings of serious nature, e.g., misappropriation or diversion of funds, non-submission of supporting documents, use of funds for non-project related activities, etc., suitable action shall be immediately initiated/taken by the executing agency, under intimation to the auditor and ADB.

Delay in Submission of APA or AFS

- 4.21 When the APA or AFS is not received within 6 months after the due date, ADB will hold processing of requests for new contract awards, and disbursement of replenishment to imprest accounts, reimbursement, and issuance of commitment letters. When the APA or AFS is not received within 12 months after the due date, ADB may suspend borrower's rights to withdraw loan proceeds. However, the suspension of withdrawal does not affect disbursements committed through outstanding letters of credit under the ADB's commitment procedure. Such commitments are irrevocable and ADB is obliged to disburse even after the loan has been suspended.

³ The reporting period can be extended to nine 9 months in exceptional cases (see PAI 5.09).