

---

# 10 IMPREST FUND PROCEDURE

## Description

10.1 The **imprest fund procedure** is one where ADB makes an advance disbursement from the loan account for deposit to an imprest account (the Account) to be used exclusively for ADB's share of eligible expenditures.

## Objectives

10.2 The main objective for establishing the Account is to help the borrower reduce cash flow difficulties in pre-financing project expenditures thereby facilitating project implementation. The other objectives are

- providing the borrower with more control over payments; and
- reducing the number of withdrawal applications particularly for payments for small amount expenditures and related costs.

## Conditions for Use of the Procedure

10.3 The following conditions must exist before the borrower is allowed to use the procedure.

- **Need for the Procedure** - The borrower is to justify using the procedure, indicating the cash flow requirement for effective project implementation and need to make numerous payments for small expenditures.
- **Borrower's Capability** - The borrower must have sufficient administrative and accounting capabilities to establish adequate internal control, accounting, and auditing procedures to ensure efficient use of the Account and its operation.
- **Audit Arrangements** - The borrower must also have the capability to arrange for periodic and annual independent audits of the Account by auditors acceptable to ADB.

## Approval of Procedure

10.4 During appraisal or review missions, ADB staff identify the need for the imprest fund procedure. If the procedure is approved, it must be provided for in the RRP and loan agreement. This applies to both first-generation imprest account and second-generation imprest account. If, during project implementation, the borrower finds it necessary to use the procedure, it

may request ADB's approval. The request for using the imprest fund procedure should be sent to CTL for joint approval by the controller and the sector director general concerned.

### **Basic Requirements**

- 10.5 A signed withdrawal application for imprest account (*see Appendix 7*) must be submitted to ADB together with a statement of the estimated ADB share of project expenditures on form ADB-IFP-EES (*see Appendix 29*).

### **Establishing the Account**

- 10.6 The borrower is required to open, for the exclusive use of the project, a separate bank account for depositing advances. The imprest account shall be maintained in current account only and opened in the borrower's name.

### **Location of the Account**

- 10.7 The Account may be opened at the Central Bank of the borrower's country or in a commercial bank the borrower designates, provided that the institution chosen is capable of:

- executing foreign exchange and local currency transactions;
- opening letters of credit and handling a large volume of transactions; and
- issuing detailed monthly bank statements promptly.

### **Currency of the Account**

- 10.8 The currency of the Account is agreed upon during loan negotiations and must be indicated in the loan agreement. To maintain the Account value against depreciation, it is to be maintained in a convertible and stable currency. Effective 25 August 2005, in a DMC with freely convertible currency, the Accounts may be maintained in the currency of the DMC or in any freely convertible currency with ADB's prior approval.

### **Using the Account**

- 10.9 The borrower uses the Account to pay contractors, suppliers, and others for ADB's share of eligible project expenditures incurred in local and foreign currency. Imprest fund advances are strictly for purposes of paying eligible project expenditures for the forthcoming 6 months. EA and ADB (Sector division/RM and CTLA) shall maintain close monitoring of its operation and turnover ratio. For slow-moving imprest account and/or advanced amount not being utilized within reasonable time, the imprest fund ceiling shall be reduced to the appropriate level in line with project activities and surplus fund shall be returned to ADB immediately. Any use of the imprest funds for activities other than the eligible project activities will invoke corrective action deemed appropriate by ADB.

---

### **Ceiling of Advances**

- 10.10 For project loans, total advances are not to exceed estimated ADB's share of eligible project expenditures to be financed through the imprest account for the next 6 months or 10 percent of the loan amount whichever is lower.
- 10.11 The borrower must obtain prior ADB approval for any upward changes in the approved ceiling. Requests for changes are sent to ADB for approval by the Assistant Controller, CTLA and the sector division director concerned.

### **Initial Advance**

- 10.12 The borrower may request an initial advance from ADB based on approved contracts and planned expenditures for the first 6 months of the project, including LCs in small amounts, which are to be paid through the imprest account. The initial advance, in any event, is not to exceed the approved ceiling.
- 10.13 All advances are deposited in the imprest account

### **Liquidation/Replenishment**

- 10.14 As eligible expenditures are incurred and paid from the Account, the borrower requests liquidation/replenishment of the Account by submitting a withdrawal application and the applicable summary sheet using the form in *Appendix 8* if full documentation is required or *Appendix 22 to 25* if SOE procedure is approved. The corresponding bank statement and reconciliation statement (*see Appendix 30*) should also be submitted with the application. Withdrawal application must be prepared in the currency of the Account.

### **Recovery of Advances or Final Liquidation of the Account**

- 10.15 Advances are to be gradually reduced within 1 year before the loan closing date or when the undisbursed balance of the loan, excluding outstanding commitments, is equal to twice the amount of advance, whichever comes first.
- 10.16 This is to ensure that sufficient time is provided for the borrower to obtain supporting documentation for clearing the outstanding advances before the loan account is closed. The form to be used is shown in *Appendix 31*.
- 10.17 The borrower must promptly refund to ADB, in the currency of the Account, any balance of the advance not liquidated at the time of loan closing.

### **Comfort Letter**

- 10.18 If the Account is maintained in a bank other than the Central Bank of the borrowing country (the bank), a comfort letter (*see Appendix 32*) is required to protect the interest of both the borrower and ADB. The letter confirms

that the bank shall not assert any claim to set off, seize, or attach amounts on deposit to the Account to satisfy amounts due to the bank by the borrower.

### **Second-Generation Imprest Account (SGIA)**

10.19 ADB allows SGIA's, only in special cases with its prior approval.

10.20 An SGIA refers to an imprest account opened in the name of an implementation agency (IA) or unit, which receives funds from the first generation imprest account, to meet project expenditures incurred by the IA. The SGIA shall be a separate bank account opened for the exclusive use of the project.

10.21 Criteria for using SGIA includes

- a clearly defined need for SGIA; and
- the primary EA of the project and the IA having adequate accounting and internal controls over the SGIA.

The borrower should ensure that every liquidation and replenishment of each SGIA should be supported with (i) the statement of account (bank statement) prepared by the bank where the SGIA is maintained, and (ii) a SGIA reconciliation statement (*Appendix 33*) reconciling the abovementioned bank statement against the SGIA's records. These supporting documents should be retained by PMU and be made available to ADB upon request.

### **Audit Arrangements**

10.22 The Accounts and SGIA's must be audited regularly by independent and qualified auditors acceptable to ADB. The audits are carried out as part of the regular annual audits of the project accounts of the EA/IA. Separate audit opinions are included in the annual audit reports.

### **Review by ADB Staff**

10.23 ADB reserves the right to conduct spot or random checks of expenditures covered by the imprest fund through special disbursement missions or review missions, or upon ADB's request for submission of supporting documents on sampling basis.

### **Suspending Replenishment**

10.24 ADB may suspend replenishment of the Account if

- the loan is declared suspended by ADB, partially<sup>1</sup> or fully;

---

<sup>1</sup> Suspension is applicable only to affected Executing Agency or component.

- audit reports or ADB missions indicate significant irregularities in the operation of the imprest account; or
- the Account has been inactive for more than 6 months and no application for replenishment has been submitted.

10.25 During the suspension, no additional fund will be advanced to the Account. However, available funds in the Account can be used to meet eligible expenditures. Withdrawal applications submitted for these expenditures will be applied to liquidate the balance of advances.

### **Narrative Procedures**

10.26 The narrative procedures for the imprest fund procedure are shown in *Appendix 34*.

### **CHECKLIST**

1. Is the imprest fund procedure authorized by ADB for this loan?
2. Is the withdrawal application signed by an authorized signatory?
3. Are bank statements and a bank reconciliation statement included to support the request for liquidation/replenishment?
4. Are expenditures eligible for liquidation/replenishment?
5. Has a separate summary sheet been prepared for each category or subcategory?
6. Are supporting documents, if required, attached?
7. For loans to be closed within the next 12 months, has paragraph 10.15 been complied with?
8. Is the currency of withdrawal application the same as the currency of the imprest account?