

**OPERATIONS MANUAL
BANK POLICIES (BP)**

OM Section H4/BP
Issued on 21 July 2006
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These policies were prepared for use by ADB staff and are not necessarily a complete treatment of the subject.

RETROACTIVE FINANCING

A. Introduction

1. As a general rule, ADB will finance only those eligible expenditures¹ that are incurred after the related loan agreement, grant agreement, or technical assistance (TA) letter agreement becomes effective. By way of exception, retroactive financing may be considered by ADB for eligible expenditures relating to sovereign loans, sovereign guaranteed loans, public sector grants, and TA operations.²

B. Definition

2. The term “retroactive financing” refers to ADB’s financing of project expenditures incurred and paid for by the borrower or recipient of grant financing before the related loan, grant, or TA letter agreement becomes effective.³

C. The Policy

3. Retroactive financing is permitted only if (i) it is specifically agreed, by ADB and the borrower or recipient of grant financing, in the loan agreement, grant agreement, or TA letter agreement, and only pursuant to the terms of the relevant agreement; (ii) the goods, works, services, and consultants for which it is requested are procured in accordance with ADB’s *Procurement Guidelines* or *Guidelines on the Use of Consultants by Asian Development Bank and Its Borrowers* or, in the case of eligible expenditures not covered⁴ by ADB’s *Procurement Guidelines* or *Guidelines on the Use of Consultants by Asian Development Bank and Its Borrowers*, under arrangements acceptable to ADB; and (iii) the amount to be retroactively financed does not exceed 20% of the loan, grant, or TA amount.

D. Scope of the Policy

4. The expenditures must have been incurred before effectiveness of the relevant loan, grant, or TA letter agreement but, generally, no earlier than 12 months before the signing date of such agreement. A period starting at an earlier date will only be allowed on a case-by-case basis, if properly justified and documented in the report and recommendation of the President.

¹ See OM Section J3 (Procurement), OM Section J2 (Consultants), and OM Section H3 (Cost Sharing and Eligibility of Expenditures for ADB Financing).

² For private sector operations, see OM Section D10 (Private Sector Operations).

³ See OM Sections J5 (Effectiveness of the Loan Agreement) and J6 (Loan Disbursement).

⁴ Such as acquisition of land and rights-of-way, resettlement expenses, lease financing costs.

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In either instance, detailed assessments (due diligence) on each retroactive financing proposal must demonstrate that (a) the expenditures incurred are genuine, reasonable, and material to getting the project off the ground; and (b) they were incurred for proper reasons, in a transparent manner over a reasonable period of time.⁵

5. For the application of retroactive financing under program lending, disaster and emergency assistance and supplementary loans, refer to OM Sections D4 (Program Lending), D7 (Disaster and Emergency Assistance) and H5 (Supplementary Financing).

Basis: This OM section is based on the following:

ADB. 1977. *Technical Assistance Operations*. 20 May. Manila (Doc. R51-77).

ADB. 1983. *Streamlining of Loan Administration*. 3 March. Manila (Doc. R30-83).

ADB. 1990. *Streamlining of Loan Administration Procedures*. 10 July. Manila (Doc. R89-90).

ADB. 1991. *Streamlining of Loan Administration Procedures and Reporting Requirements*. 26 February. Manila (Doc. R34-91).

ADB. 2005. *Cost Sharing and Eligibility of Expenditures for Asian Development Bank Financing: A New Approach*. 4 August. Manila (Doc. R193-05).

Compliance: This OM section is subject to compliance review.

For inquiries: Questions may be directed to the director, Central Operations Services 1, Central Operations Services Office.

⁵ Land acquisition is one case where a longer retroactive financing period may be appropriate. In some instances, land has to be purchased up to 3 years in advance. Other cases include project support facilities (e.g., access roads, water, gas, electricity, and telecommunication connections) that may have to be put in place for the purposes of the project (or an investment program involving the project) before the approval of the investment project.

**OPERATIONS MANUAL
OPERATIONAL PROCEDURES (OP)**

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The operational procedures for this OM section are contained in Project Administration Instructions 3.01, as well as documents cited therein.

- Basis:** This OM section is based on OM Section H4/BP and the documents cited therein.
- Compliance:** This OM section is subject to compliance review.
- For inquiries:** Questions may be directed to the director, Central Operations Services 1, Central Operations Services Office.