

## OPERATIONS MANUAL BANK POLICIES (BP)

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*These policies were prepared for use by ADB staff and are not necessarily a complete treatment of the subject.*

### DISBURSEMENT

#### A. Introduction

1. Articles 13 and 14(ix), (x), and (xi) of the *Agreement Establishing the Asian Development Bank* (the Charter) and the *Regulations (Grant or Loan)* stipulate conditions for the use of grant or loan proceeds financed by the Asian Development Bank (ADB). ADB's policy on disbursement is a key element in meeting these conditions of the Charter.

2. Although the conditions provided in Articles 13 and 14(ix), (x), and (xi) of the Charter and the Regulations do not specifically apply to grants or loans from external funding sources that are administered by ADB, ADB in practice applies these conditions to grants or loans from external funding sources that are administered by ADB, except when ADB and the relevant cofinancier agree otherwise.

#### B. Definitions

3. As used in this section of the Operations Manual (OM) section,

- (i) The term "disbursement" refers to the withdrawal of proceeds from an ADB-financed grant or loan account.
- (ii) The term "eligible expenditures" means project expenditures that can be financed under an ADB-financed grant or loan.
- (iii) The term "expenditures incurred" means the recipient of the grant or borrower's obligation to pay either as a result of contractual terms or after goods and services have been provided.
- (iv) The term "financing agreement" refers to a grant agreement, loan agreement, or combined grant and loan agreement, as appropriate; the related counterparty is referred to as the "recipient" in a grant and the "borrower" in a loan.
- (v) The term "grant account" or "loan account" means the account opened or to be opened by ADB on its books in the name of the recipient of grant or borrower respectively, and to which the amount of the grant or loan has been or will be credited.

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- (vi) The term “closing date” refers to the grant closing date or loan closing date as appropriate, and means the date ADB may terminate the right of the recipient or borrower to make withdrawals from the grant or loan account respectively.<sup>1</sup>
- (vii) The term “retroactive financing” means ADB’s financing of project expenditures incurred and paid for by the recipient or borrower before the related grant or loan agreement becomes effective.

### **C. The Policy**

- 4. The Charter sets out the basic principles to be followed in disbursement:
  - (i) The proceeds of any loan, investment, or other financing provided by ADB shall be used only for procurement in member countries of goods and services produced in member countries unless the Board of Directors specifically permits otherwise (Article 14[ix]).<sup>2</sup>
  - (ii) The borrower shall be permitted to draw its funds only to meet expenditures in connection with the project as they are actually incurred (Article 14[x]).<sup>3</sup>
  - (iii) The proceeds of any ADB loan are to be used only for the purposes for which the loan was approved, with due attention to considerations of economy and efficiency (Article 14[xi]).

### **D. Eligibility of Expenditure**

- 5. The eligibility of expenditures for ADB financing is governed by Article 14(ix), (x), and (xi), and the policy on the expanded list of eligible expenditures.<sup>4</sup>
- 6. Disbursements can begin only after the financing agreement becomes effective.<sup>5</sup> Expenditures incurred before the effective date of the agreement are not eligible for ADB financing, except when ADB has agreed to retroactive financing.<sup>6</sup>

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<sup>1</sup> Section 2.01 (41) of the Ordinary Operations Loan Regulations, dated 1 July 2001; section 2.01 (19) of the Special Operations Loan Regulations, dated 1 January 2006; and section 2.01 (11) of the Special Operations Grant Regulations, dated 7 February 2005.

<sup>2</sup> OM Section J3 (Procurement).

<sup>3</sup> A disbursement may precede or follow the incurring of eligible expenditure as long as the disbursement is related to the incurring of such expenditure.

<sup>4</sup> OM section H3 (Cost Sharing and Eligibility of Expenditures for ADB Financing).

<sup>5</sup> OM section J5 (Effectiveness of the Loan Agreement).

<sup>6</sup> OM section H4 (Retroactive Financing).

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7. In the case of grants or loans to development finance institutions or financial intermediaries, ADB does not usually finance expenditures made before a specified date (cutoff date). The cutoff date is stipulated in the financing agreement usually at 90, 120, or 180 days before ADB receives an application for approval of a subproject (in the case of subloans above the “free-limit”), or of the request for withdrawal together with the required information concerning the subproject (in the case of subloans below the “free-limit”).<sup>7</sup>

8. No contract may be awarded nor any expenditure financed from the grant or loan proceeds after the closing date stipulated in the financing agreement. If a review of the disbursement and project implementation status of a project suggests that an extension of the closing date is necessary, justified, and will help to attain the project objectives within a reasonable time, ADB may extend the closing date.

**Basis:** This OM section is based on:

ADB. 2001. *Ordinary Operations Loan Regulations*. Manila (1 July).

ADB. 2005. *Special Operations Grant Regulations*. Manila (7 February).

ADB. 2006. *Special Operations Loan Regulations*. Manila (1 January).

ADB. 2005. Cost Sharing and Eligibility of Expenditures for Asian Development Bank Financing. In *Compendium of Staff Instructions*. Manila (15 March).

This OM section is to be read with OM Section J6/OP.

**For other background information and references, see:**

ADB. 2007. *Loan Disbursement Handbook*. Manila (1 January).

ADB. 2008. *Project Administration Instructions*. Manila.

**Compliance:** This OM section is subject to compliance review.

**For inquiries:** Questions may be directed to the assistant controller, Loan Administration Division, Controller’s Department.

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<sup>7</sup> OM section D1 (Lending and Relending Policies [OCR]); and OM section D2 (Lending and Grant Policies [ADF]).

## OPERATIONS MANUAL OPERATIONAL PROCEDURES (OP)

*These procedures were prepared for use by ADB staff and are not necessarily a complete treatment of the subject.*

### DISBURSEMENT

#### A. Introduction

1. The procedures by which grant or loan proceeds may be withdrawn for the purpose of carrying out the project as specified in the applicable financing agreement are set forth in this section.<sup>1</sup> Further details are contained in the *Project Administration Instructions* (Chapter 4 and 5), the *Loan Disbursement Handbook*, and the *Guidelines for the Financial Governance and Management of Investment Projects Financed by the Asian Development Bank*.

#### B. Application of the Policy<sup>2</sup>

##### 1. Grant or Loan Account, Authorization of Payment

2. Disbursement starts only after the Asian Development Bank (ADB) declares a grant or loan effective. When it becomes effective, a grant or loan account is opened in the name of the recipient or the borrower respectively, and the agreed amount is credited to that account. Withdrawal from the account is subject to the Controller's Department's (CTL) approval of an application to withdraw funds. In approving a withdrawal application, CTL may consult the concerned regional department, or the resident or regional mission supervising the project, and the Office of the General Counsel (OGC), where necessary. On approval of disbursement, the Treasurer's Department makes the payment. The CTL advises the recipient or the borrower of the disbursements through periodic reports.

##### 2. Disbursement Procedures

3. The recipient or borrower may use any of the following disbursement procedures for payment of expenditures related to ADB-financed projects and programs, subject to ADB's prior approval in the case of procedures (iv), (v) and (vi):

- (i) **Direct payment.** This procedure provides for ADB to make the payment directly to the supplier, contractor, or consultant on the basis of a withdrawal application submitted by the recipient or the borrower.
- (ii) **Reimbursement.** This procedure, wherein the recipient or the borrower effects payments and then requests reimbursement from ADB, is generally suitable when the recipient or the borrower has sufficient funds to pay for the project expenditures first.

<sup>1</sup> These procedures normally apply to grants or loans from external funding sources that are administered by ADB, except when ADB and the relevant cofinancier agree otherwise.

<sup>2</sup> For ADB's sovereign grants and loans only. For nonsovereign operations, the disbursement arrangements are specified in their respective financing agreements.

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- (iii) **Commitment.** This procedure involves issuing a commercial letter of credit to pay a supplier. ADB does not open the letter of credit nor does it become a party to it. The letter of credit is usually established by a commercial bank (issuing bank) and is advised and paid usually by another commercial bank (advising or negotiating bank) in the supplier's country in accordance with the terms of the letter of credit. ADB, on behalf of the recipient or the borrower, assures payment from the related grant or loan proceeds to the paying bank.
- (iv) **Imprest fund.** Under this procedure, ADB provides the executing agency with funds in advance (replenished from time to time as necessary) to meet project or program expenditures. The procedure is adopted if the executing agency finds it difficult, because of a shortage of funds, to prefinance payments to contractors and suppliers, or to meet items of operating expenses. The size and timing of the advance is to be related to project expenditure requirements in an agreed-upon time frame, and to the process of incurring such expenditures.
- (v) **Statement of expenditure.** This procedure, which involves submission by the executing agency of a statement of expenditures in lieu of the usually required supporting documentation, is used when applying for reimbursement or liquidation of the imprest account. This procedure is available when it is impractical or unduly burdensome for the executing agency to submit full documentation to ADB in support of applications for withdrawal of grant or loan proceeds.
- (vi) **Force account.** This procedure is used when ADB and the recipient or the borrower consider it appropriate for the executing agency to employ its own work force, equipment, and other resources to carry out civil works required for the project. As the supporting documentation usually required (such as invoices, bills, and receipts) is not available, the executing agency is required to submit periodic certification of progress or of completion of such civil works in support of applications for withdrawal of funds.

4. To use the imprest fund, statement of expenditure, or force account, CTL and the regional department, or the resident or regional mission responsible for project administration, have to be satisfied that the executing agency and the nature of project expenditures meet the required criteria. ADB staff and the recipient or the borrower should identify the need for the appropriate disbursement procedures at an early stage in project processing and specify arrangements in the applicable financing agreement.

### 3. Expenditure Categories

5. The project expenditures to be financed by ADB are grouped into expenditure categories or subcategories. These, along with their corresponding allocations, financing percentages, and other applicable conditions, are summarized in a table as an attachment to one of the schedules in the financing agreement and used as a basis for disbursement operations during project

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implementation. For grants, it is the attachment to schedule 2; for loans, it is the attachment to schedule 3 (hereinafter referred to as the “attachment to schedule”).

6. The project team leader is responsible for preparing the attachment to schedule, in consultation with the project counsel, financial management specialist or financial specialist, and financial control specialist.

7. Each expenditure category and subcategory must be given a project-specific reference number (referred to as project-specific sequence number) in the attachment to schedule, as shown in Appendix 1. OGC must furnish to CTL a copy of the financing agreement, including the attachment to schedule, as soon as it is signed by the recipient or the borrower.

8. In addition to the project-specific reference number, a standard two-digit code (referred to as the disbursement category code) is assigned to each expenditure category and subcategory by CTL. This is for the purpose of monitoring and analyzing allocations and utilizations across ADB. The list of the disbursement category codes is in Appendix 2. CTL puts the information provided in the attachment to schedule into the grant or loan financial information system.

### **4. Allocation of Amounts**

9. All ADB-financed projects, except financial intermediary and sector grants or loans, must have an attachment to schedule specifying the applicable expenditure categories and subcategories, the amount of ADB financing for each category and subcategory, and the corresponding financing percentage.

10. The amount of ADB financing for each expenditure category and subcategory is derived from the detailed cost estimates and the project financing plan prepared during appraisal.

11. A part of the grant or loan may be shown as unallocated. From this category, transfers may be made to other specified categories to cover cost increases of items. Amounts no longer required for disbursement in an expenditure category may also be transferred to another category.<sup>3</sup>

### **5. Financing Percentage**

12. The financing percentage is the ratio or proportion of ADB financing that may be withdrawn from the grant or loan account for a claim. A claim is a request for payment for an eligible expenditure incurred.

13. The financing percentage is specified for each expenditure category and subcategory in the attachment to schedule, and derived from the financing plan and the detailed cost estimate by expenditure provided in the report and recommendation of the President (RRP).

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<sup>3</sup> See Project Administration Instructions 5.05.

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14. The financing plan may be done in a variety of ways, including the following three options:<sup>4</sup>

- (i) **Option 1.** ADB finances eligible expenditures on a pro rata basis with the cofinanciers, i.e., the eligible expenditures will be financed only up to an amount equivalent to ADB's financing ratio for the entire project. For example, if ADB finances 60% of the project, only 60% of the eligible expenditures under each claim will be financed.
- (ii) **Option 2.** ADB finances eligible expenditures up to 100% of every claim it receives, as long as sufficient undisbursed grant or loan amounts remain. If the remaining amount is not sufficient to cover 100% of the claim, only the remaining amount will be disbursed.
- (iii) **Option 3.** ADB finances eligible expenditures in accordance with different ratios specified for each cost category and/or subcategory. For example, the financing ratio for civil works may be 20% and for equipment 90%.

15. The RRP will explain the manner in which the eligible expenditures will be financed. Moreover, for all financing plans other than Options 1 and 3, the RRP will indicate the risks associated with it and the control mechanisms, if any, that will be put in place to address them. Such plan and the control mechanisms will be raised at the management review meeting for Management's review and endorsement.

16. The method of calculation and format of presentation of the financing percentages are in Appendix 3.

### 6. Treatment of Local Taxes and Duties

17. ADB may finance taxes and duties, subject to the President's approval of their eligibility with respect to specific developing member countries. ADB's standard practice is to prepare the detailed cost estimate including local taxes and duties. The detailed cost estimate must be provided as a core appendix in the RRP.

18. When ADB does not finance local taxes and duties, the local taxes and duties must be broken down further into the expenditure categories and subcategories in the detailed cost estimate, or provided separately as a supplementary appendix.

19. In determining the financing percentages, particular attention should be paid when ADB does not finance local taxes and duties. In such cases, one of the following two methods should be used to finance local taxes and duties:

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<sup>4</sup> ADB. 2006. Cost Sharing and Eligibility of Expenditures for Asian Development Bank Financing. In *Compendium of Staff Instructions*. Manila.

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- (i) **Gross basis.** ADB's financing percentages must be set at levels that will exclude local taxes and duties. For example, if the estimated local tax is 10% for a category, ADB's financing percentage for the category must not exceed 90.9% (= 1/1.1). See the illustration in Appendix 3.
- (ii) **Net of tax basis.** In case ADB intends to finance 100% or part of the cost under a certain category, except the local taxes and duties, then ADB's financing percentage can be presented on a net of tax basis, i.e. "100% excluding local taxes and duties." Then an asterisk [\*] that indicates "excluding taxes and duties" must be placed on the expenditure category and/or subcategory in the attachment to schedule. See the illustration in Appendix 3.

**7. Grant and Loan Closing**

20. The disbursement status of a grant or loan account nearing the closing date is to be reviewed by the regional department, or the resident or regional mission, at least 2 months before the closing date stipulated in the financing agreement, or any extension thereto. When the grant or loan closing date is determined, the account may be kept open for up to 3 months after the closing date to complete disbursements under ongoing contracts financed by the grant or loan, for expenditures incurred before the closing date.<sup>5</sup>

**Basis:** This OM section is based on OM Section J6/BP and the documents cited therein.

**Other background information and references:**

This OM section is to be read with *Project Administration Instructions* (Chapter 4 and 5) and the documents cited therein; and ADB. 2001. *The Guidelines for the Financial Governance and Management of Investment Projects Financed by the Asian Development Bank*, November. Manila.  
Available: <http://www.adb.org/documents/guidelines/financial>.

**Compliance:** This OM section is subject to compliance review.

**For inquiries:** Questions may be directed to the assistant controller, Loan Administration Division, Controller's Department.

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<sup>5</sup> See Project Administration Instructions 4.05.

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Attachment to Schedule ( )

**ALLOCATION AND ADB-FINANCING PERCENTAGES TABLE  
 AS ATTACHMENT TO SCHEDULE ( )  
 OF FINANCING AGREEMENT**

Project Specific Reference Number	ALLOCATION AND WITHDRAWAL OF PROCEEDS						
	( ) Project						
	CATEGORY			PERCENTAGE OF ADB FINANCING			
	Description	Amount Allocated (\$ or SDR Equivalent)		(Choose an appropriate option. No need to indicate the option number)			Basis for Withdrawal
Category		Subcategory	Option 1 Percentage	Option 2 Percentage	Option 3 Percentage		
1	Civil Works	10,000,000					
1A			2,500,000	60	100	50	percent of total expenditure
1B			7,500,000	60	100	50	percent of total expenditure
2	Equipment	2,000,000					
2A			750,000	60	100	100	percent of total expenditure*
2B			1,250,000	60	100	100	percent of total expenditure*
3	Materials	350,000		60	100	75	percent of total expenditure
4	Training / Fellowships	500,000		60	100	100	percent of total expenditure*
5	Consulting Services	450,000		60	100	100	percent of total expenditure*
6	(Interest, Front-end Fee, Commitment Charge)	100,000		100	100	100	percent of amounts due
7	(Service Charge)			100	100	100	percent of amounts due
8	Unallocated						
	TOTAL	13,400,000					

\* Excluding local taxes and duties (to be inserted only in case the financing percentage is given on a "net of tax basis." See OM section J6/OP, para. 19).

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Standard Disbursement Category Code (Loan)		Project Specific Sequence Numbers
Code	DESCRIPTION	FROM - TO
03	Civil Works	01-99
06	Survey, Investigation, Design, Mapping	01-99
09	Research and Development (Extension and Demonstration)	01-99
12	Institutional Development and Strengthening	01-99
15	Equipment, Vehicles and Furniture (Purchase and Maintenance)	01-99
18	Materials	01-99
21	Consulting Services	01-99
24	Training / Fellowships	01-99
27	Operation and Maintenance	01-99
30	Financing of Nongovernmental Organization (NGO)	01-99
63	Benefit Monitoring and Evaluation	01-99
66	Interest During Construction (for OCR Loans)	01-99
67	Front-End Fee	01-99
69	Service Charges During Construction (for ADF Loans)	01-99
75	Program Loan	01-99
78	Sector Loan	01-99
79	DFI/Credit Component	01-99
81	Contingencies	01-99
84	Price Contingencies	01-99
87	Physical Contingencies	01-99
93	Unallocated	01-99
99	Others/Imprest Account	01-99

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Standard Disbursement Category Code (Grant)		Project Specific Sequence Numbers
Code <sup>1</sup>	DESCRIPTION	FROM - TO
31	Consultants	01-99
32	Civil Works	01-99
33	Survey, Investigation, Design, and Mapping	01-99
34	Research & Development	01-99
35	Institutional Development and Strengthening	01-99
36	Equipment, Vehicles, and Furniture	01-99
37	Materials	01-99
38	Training and Fellowships	01-99
39	Operations and Maintenance	01-99
41	Financing of Nongovernmental Organization (NGO)	01-99
42	Benefit Monitoring and Evaluation	01-99
48	Others	01-99
49	Contingencies	01-99

<sup>1</sup> Above category codes are for executing agency (EA) administered contracts only.  
 (Separate set of category codes apply for ADB administered contracts).

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**CALCULATION FOR ALLOCATION AND ADB-FINANCING PERCENTAGES TABLE  
 AS ATTACHMENT TO SCHEDULE ( ) OF FINANCING AGREEMENT  
 (SAMPLE)**

Detailed Cost Estimates					Project Financing Plan			
		Cost (net)	Local Tax	Total (Gross)	ADB	Government (inclusive of taxes)		Total (Gross)
						Net	Local Tax	
Civil Works		800	30	830	700	100	30	830
Consulting		400	30	430	200	200	30	430
Training		100	10	110	100	-	10	110
Interest During Construction		60	-	60	60	-	-	60
Incremental Administrative Costs		100	10	110	-	100	10	110
Total		1460	80	1540	1060	400	80	1540

**Allocation and ADB Financing Percentages (Gross basis)**

Categories	Allocation	ADB Financing		Notes
Civil Works	700	84%	of total expenditure	700 / 830 = 84%
Consulting	200	47%	of total expenditure	200 / 430 = 47%
Training	100	91%	of total expenditure	100 / 110 = 91%
Interest During Construction	60	100%	of amount due	60 / 60 = 100%
Total	1,060			

**Alternative presentation of Training Category with {\*} (Net of Tax basis)**

Consulting	200	50%	of total expenditure*	200 / 400 = 50%
Training	100	100%	of total expenditure*	100 / 100 = 100%

\* exclusive of taxes and duties.