

Project Administration Instructions

PAI 4.03
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DISBURSEMENT UNDER CIVIL WORKS CONTRACTS

A. Introduction

1. This PAI guides staff in making disbursements under civil works contracts, but does not apply to private sector financing. Note the relevant provisions of the loan agreement, especially schedule 3 and its attachment, for the project.

B. ADB Financing Percentages of Foreign and Local Cost

2. The table in the loan agreement on allocating and withdrawing loan proceeds (attachment to schedule 3) shows the amount of ADB financing allocated for the civil works category. This usually represents the total of the estimated direct and indirect foreign cost, and a portion of the local cost. The percentage of the total cost of civil works as represented by this amount is specified in the attachment to schedule 3 for withdrawals from the loan account (ADB financing percentage). Such percentage is broken down into foreign and local costs, for example, the ADB financing percentage for the civil works under a project is 70 percent, which is broken down into 50 percent for foreign cost (estimated direct and indirect foreign cost) and 20 percent for local cost. This breakdown of the ADB financing percentage into foreign and local costs is needed to monitor the status of utilization of the local cost financing ceiling stipulated in the loan agreement.

3. Where the contract price is payable entirely in local currency, ADB financing is calculated by applying the specified ADB financing percentage (e.g., 70 percent) to the amount of the contractor's monthly statements of work done. ADB's loan finance information system (LFIS) automatically computes the amount of the local cost (e.g., 20 percent) for monitoring utilization of local costs.

4. When the contract price is payable in both foreign and local currencies, the percentage of foreign exchange quoted in the contract may be lower (e.g., 40 percent) than that specified for ADB financing in the loan agreement (e.g., 50 percent for foreign cost and 20 percent for local cost). The borrower would be entitled to receive, in addition to the 40 percent of the contract price in foreign currency and 20 percent for local cost, another 10 percent in local currency as additional financing for the indirect foreign cost. Distinguish between indirect foreign cost and local cost because both are paid in local currency. For withdrawals from the loan account, the borrower submits two different sets of withdrawal applications: one for the direct foreign currency portion or 40 percent of the contract price, and another to cover the remaining portion of ADB financing in local currency or 30 percent of the contract price (10 percent as indirect foreign exchange cost plus 20 percent as the local cost).

5. Sometimes the ADB financing percentage for civil works stipulated in the loan agreement (e.g., 70 percent) is less than the percentage of foreign currency requirements specified in the contract (e.g., 80 percent). Then, the ADB financing percentage for the withdrawal of foreign currency will be 70 percent and the remaining 10 percent of foreign currency requirement is financed by the borrower.

C. Treatment of the Tax Element

6. In some borrowing member countries, the executing agency (EA) retains at source certain taxes the contractor incurs. Such taxes are withheld from the invoice amount by the EA and are paid to the tax authority of the borrowing country. In general, two main types of taxes affect a contractor: (i) income tax withheld, and (ii) value-added tax (VAT). Gross sales tax (GST) and other similar taxes and duties may also be imposed on goods, works, and services delivered or rendered, or their components.

7. Income tax is a tax levied by tax authorities on the total income of all business activities of the contractor during a fiscal year, including ADB-financed activities. Income tax withheld by the EA from a contractor's invoice is temporary, subject to adjustments at the time of declaring annual income tax returns. Actual income tax cannot be determined at the time of payment of individual invoices, and is not, therefore, deducted from the invoice amount when computing the amount to be financed from the loan.

8. VAT or GST-type taxes are levied by borrowing countries on specific goods, works, and services, by adding the relevant taxes to the costs. These types of taxes and duties are not eligible for ADB financing.

9. VAT and GST or similar taxes are included in the project cost estimates, and ADB financing percentages indicated in schedule 3 to the loan agreement are usually inclusive of VAT and GST.

10. Missions explain ADB's policies on the treatment of tax elements to enable borrowers and EAs to prepare accurate withdrawal applications.