

# Project Administration Instructions

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Page 1 of 3

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## CONTROLLING ADVERSE EFFECTS OF FOREIGN EXCHANGE FLUCTUATIONS ON EXTERNALLY FINANCED OR COFINANCED GRANTS

### A. Introduction

1. On occasion, ADB experiences a shortage of funds for externally financed or cofinanced technical assistance (TA) grants resulting from the devaluation of the donor's currency against the US dollar. ADB's TA grants and the ceiling amounts of ADB's contracts for consulting services are specified in US dollars or equivalent. The estimated US dollar equivalent of a contribution specified in the donor's currency is usually equal to the amount of the TA grant financed or cofinanced by the donor at the time of TA approval. However, the actual US dollar equivalent may be less at the time of receipt and disbursement of the contribution by ADB. This PAI provides guidance to staff in controlling and monitoring the adverse effect of foreign exchange fluctuations principally on externally financed or cofinanced TA grants. To the extent appropriate, this PAI also applies to the externally financed grant components of loan projects.

### B. Currency and Payment of Donor's Contribution

2. The Office of Cofinancing Operations (OCO) endeavors to secure the donor's agreement to the following arrangements, in the following order of priority:

- (i) Whenever possible, the donor's contribution is to be made in US dollars.
- (ii) If the donor cannot make its contribution in US dollars, ADB prefers that the donor agrees upon a fixed US dollar equivalent amount (so that the donor is responsible for making up any shortfall arising from foreign exchange fluctuations between the currency of the contribution and US dollars).
- (iii) If (i) and (ii) are not agreed to by the donor, the donor's contribution is specified in the donor's currency and the total contribution is paid up front, in one lump sum. Upon receipt of the contribution, the full amount will be converted into US dollars at market rate at the time of conversion.
- (iv) If none of these arrangements is acceptable to the donor, the donor's contribution is specified in the donor's currency and paid in annual or semiannual installments over the expected period of implementation. ADB converts each installment into US dollars at market rate at the time of conversion.

### C. Commitments and Awarding of Contracts

3. For purposes of this PAI, "commitments" or "contracts" refer to consulting services, equipment, training, seminars, and other items.

4. Normally, ADB does not award contracts to be funded from ADB-administered external grant funds until OCO confirms that the relevant cofinancing agreement is effective. The following guidelines on commitments and awarding of contracts apply only to the externally financed or cofinanced portions of grants and not to the portions financed by ADB.

- (i) Under paras. 2(i) and 2(ii), commitments may be made up to 100 percent of the grant amount financed or cofinanced by the donor less 5 percent reserve for ADB's administration cost (if such cost is not separately financed by the donor or from income from investment of the contribution).
- (ii) Under para. 2(iii), contracts are normally awarded only after the contribution has been received and converted into US dollars by ADB. Commitments may be made up to the actual converted US dollar equivalent of the contribution less 5 percent reserve for ADB's administration cost as in para. 4(i) above. If contracts must be awarded before receipt of the contribution, para. 4(iii) applies.
- (iii) Under para. 2(iv), contracts may be awarded initially up to 80 percent of the amount financed or cofinanced by the donor. The remaining 20 percent is reserved for foreign exchange fluctuations (15 percent) and ADB's administration cost (5 percent). Further commitments or contract variations may be issued as and when installment payments are received and converted into US dollars, to the extent that the 20 percent reserve becomes unnecessary.

5. Before awarding contracts, issuing contract variations, or making any other expenditure commitments, the Loan Administration Division (CTLA) is consulted to avoid overcommitments.

#### **D. Technical Assistance Information System**

6. After approval of a technical assistance (TA) grant, the Facilities and Asset Management Division-Information Resources and Services Section (OAFa-IR) assigns a TA number and initiates the TA coding form submitted to the Central Operations Services Office (COSO) and to CTLA for data entry in the TA information system (TAIS). If the grant is externally financed or cofinanced, OAFa-IR sends the form to OCO to update the status of the cofinancing agreement and the type of donor contribution [i.e., paras. 2(i), 2(ii), 2(iii), or 2(iv)]. OCO submits the update sheet, together with the TA coding form, to CTLA through COSO. When the type of donor contribution is not yet confirmed at the time OCO receives the TA coding form or grant coding form for grant components of loan projects, OCO is responsible for directly advising CTLA of the status of the cofinancing agreement and type of donor contribution.

7. If the donor's contribution is of the type referred to in para. 2(iii), the Accounting Division (CTAC) advises CTLA of the exact actual US dollar equivalent of the contribution as soon as payment is received and converted into US dollars. If the US dollar amount received after conversion is less than the amount agreed to be financed or cofinanced by the donor, CTLA will reduce the amount available for commitment by creating a dummy contract in the TAIS amounting to the shortfall of the contribution.

8. If the donor's contribution is of the type referred to in para. 2(iv), a dummy contract amounting to 15 percent of the grant amount financed or cofinanced by the donor (representing a reserve for foreign exchange fluctuations) is automatically created in the TAIS upon input of the TA approval. In consultation with OCO and CTLA, the TA supporting unit and COSO may initiate a review and appropriate adjustment of the reserve as necessary for new commitments or contract variations.

9. For all types of contributions, CTAC advises CTLA of the necessary reserve for ADB's administration cost to enable CTLA to create a dummy contract in the TAIS.

10. CTAC publishes the status of donors' contributions on the loan finance information system (LFIS) web site.