

Project Administration Instructions

PAI 5.05
Revised August 2005
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REALLOCATING LOAN PROCEEDS

A. Introduction

1. To meet the project's expenditures during project implementation, loan proceeds are often reallocated among the categories described in the loan documents. Proposals to reallocate loan proceeds can originate from the borrower, executing agency (EA), or ADB.

B. Change in Financing Plan

2. Sometimes a proposal may be submitted (usually by the borrower) to transfer a particular item from the borrower's counterpart funding to either the ADB loan or other cofinancing (i.e., a proposal to change the financing plan and percentage of cost sharing by all parties financing a project). Such a proposal is a major change and the approval procedures indicated in PAI 5.04 are followed. Any proposal that reduces the percentage share of the borrower's counterpart funding needs to be thoroughly justified and is likely to be approved only in exceptional circumstances.

C. Procedure and Approving Authority

3. The remainder of this instruction deals with reallocation of ADB's loan proceeds (i.e., ADB's agreed percentage share of the financing plan). Approval to reallocate the loan proceeds is based on the categories described in the loan agreement document (not those in a subsequent project administration document, if different).

4. Where reallocation results from, or is related to, a change in scope or implementation arrangements, the approving authority is determined in accordance with PAI 5.04 (paras. 13–16).

5. Where reallocation does not result from or relate to

- a change in scope (but results from a variation in contract prices or the need for additional quantities to achieve the original scope of work), or
- a change in implementation arrangements,

the director, sector division or country director, regional or resident mission (RM) responsible for implementing the project approves the reallocation of loan proceeds, except as described in para. 6.

6. Where the reallocation from a foreign exchange category to a local currency category results in an increase in the overall ceiling for local currency cost financing by ADB (as stipulated in the loan agreement), such reallocation is treated as a major change in implementation arrangements, and the approving authority is determined by the vice-president concerned in accordance with PAI 5.04.

7. After approval of the reallocation, the director, sector division or country director, RM advises the borrower and the EA of the action taken, and provides them with the revised allocation table, and copies of such advice to the Central Operations Services Office, Loan Administration Division (CTLA), Office of the General Counsel (OGC), Office of Cofinancing Operations if the project is cofinanced, and other

concerned department and office heads. If the reallocation is not related to a change of scope or project implementation arrangements, or does not otherwise affect the loan agreement, the director, sector division or country director, RM, after consultation with CTLA, provides the borrower and the EA with a copy of the revised allocation table. Reallocation of loan categories is recorded in the loan financial information system (LFIS) through the preparation and approval of the loan milestone event dates (LMED) by the sector division or RM, and entered in the system by CTLA (PAI 6.04). Where the reallocation is related to a change of scope or project implementation arrangements, OGC is consulted to determine whether a formal amendment is required to the loan agreement.