

OPERATIONS MANUAL BANK POLICIES (BP)

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

USE OF SURPLUS LOAN PROCEEDS

A. Introduction

1. During implementation of a project, surplus loan proceeds may accrue in a borrower's loan account. Normally, these funds are cancelled from the loan. However, where there is adequate justification, such surplus loan proceeds may be used to procure additional goods and services.

B. Definition

2. "Surplus loan proceeds" comprise those funds that are available or are expected to be available in the borrower's loan account after arrangements for procurement of all goods, works, services, and other expenditures, including contingencies, to be financed from the loan have been finalized.

C. The Policy

3. Surplus loan funds, if any, should, in principle, be cancelled as soon as they are identified during implementation and upon completion of the project. At the request of the borrower concerned, however, ADB may agree to the use of surplus loan proceeds for purposes that are in accordance with the broad objectives of the project. In particular circumstances surplus loan proceeds may be used for purposes outside the broad objectives of the project, and in exceptional circumstances surplus loan funds may be used to finance expenditures on a different project.

D. Scope of the Policy

4. Surplus loan funds may be utilized for financing the additional project costs resulting from a change in project scope, and occasionally surplus loan funds may be utilized for purposes other than those originally intended, such as for items or components in other ongoing ADB-financed projects or new projects. Surplus loan funds may be utilized to finance the imports of urgently needed commodities such as fuel in other ongoing ADB-financed projects or the local currency costs of such projects.

5. In exceptional circumstances, surplus loan funds may be utilized for emergency rehabilitation of damaged project facilities after disasters¹ or for financing goods and services of another ongoing ADB-financed project or a new project. When local cost financing is involved, the use of surplus loan funds is subject to the policy for local cost financing.²

¹ See OM Section D7 (Emergency Assistance).

² See OM Section H3 (Local Cost Financing and Cost Sharing).

Basis: This OM section is based on:

ADB. 1992. Doc. R212-92, *Streamlining Board Documents on Project Loan and Technical Assistance*, 22 December. Manila.

ADB. 1983. Doc. R115-83, Revision 1, Final, *Review of ADB's Policy on Supplementary Financing of Projects*, 29 November. Manila.

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

This OM section is to be read with OM Section H6/OP.

Compliance: This OM section is subject to compliance review.

For inquiries: Questions may be directed to the Director, Project Coordination and Procurement Division, Central Operations Services Office.

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OPERATIONS MANUAL OPERATIONAL PROCEDURES (OP)

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USE OF SURPLUS LOAN PROCEEDS

The operational procedures for this OM section are contained in *Project Administration Instructions* (PAI) No. 5.06 and other procedures and policies cited therein. PAIs 5.04 and 5.05 describe the required approval authority where surplus loan proceeds are to be used on the project to which account they accrue (reallocation of loan proceeds and change in scope).

- Basis:** This OM section is based on OM Section H6/BP and the documents cited therein.
- Compliance:** This OM section is subject to compliance review.
- For inquiries:** Questions may be directed to the Director, Project Coordination and Procurement Division, Central Operations Services Office.

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