

Project Administration Instructions

PAI 4.01
Revised in June 2023
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CONDITIONS FOR WITHDRAWAL AND DISBURSEMENT OF LOAN PROCEEDS¹

1. This Project Administration Instruction (PAI) describes the procedures for disbursement of loan proceeds and declaring fulfillment of conditions for withdrawal stipulated in the loan agreement. This PAI should be read in conjunction with Operations Manual Section J6 (Disbursement), *Staff Instruction on Business Processes for Loan Disbursement*, and PAI 4.02 (Suspension and Cancellation of Loans).

2. **Disbursement of Loan Proceeds.** Procedures for withdrawals of loan proceeds and the required supporting documents are detailed in the *Loan Disbursement Handbook (2022, as amended from time to time)*.²

3. **Conditions for Withdrawal.** Conditions for withdrawal specified in the loan agreement need to be fulfilled before disbursement of loan proceeds subject to such conditions. The expenditures subject to such conditions, to the extent possible, are clearly separated, from the rest of the expenditures under the project and designated in a separate expenditure category. This will ensure that such conditions for withdrawal do not prevent implementation of other portions of the project.³ Conditions for withdrawal may also apply for the entire loan proceeds.

4. **Review of Conditions for Withdrawal.** When the loan agreement stipulates a condition for withdrawal, the borrower⁴ must provide evidence documenting the fulfillment of such conditions to the project team. The project team reviews the submitted documents and the project team member from the Office of the General Counsel (OGC) reviews them from a legal point of view within five working days. The project team member from OGC advises whether the legal requirements of the condition(s) for withdrawal are met.

5. **Declaration of Fulfillment of Conditions for Withdrawal.** Once satisfied that conditions for withdrawal have been met, the project team, following protocol set by regional departments for each country, advises the borrower in writing with copies to the relevant resident mission; OGC; Loan Administration Division of the Controller's Department (CTL); Portfolio Management Division of the Procurement, Portfolio, and Financial Management Department; and Partner Funds Division of the Climate Change and Sustainable Development Department if the project is cofinanced. Disbursement of loan proceeds subject to a condition for withdrawal may proceed once the borrower has been informed that the conditions were met.

¹ In this PAI, the term "loan(s)" includes grant(s) and the term "project(s)" includes program(s), unless the context requires otherwise. This PAI also applies to loans from external sources that are administered by Asian Development Bank (ADB), unless agreed otherwise between ADB and cofinancier(s).

² When a loan agreement provides that ADB is entitled to withdraw from the loan account and pay to itself, on behalf of the borrower, the amounts required to meet payments, when due, of interest charge on the loan during the implementation period of the project, ADB will withdraw the amounts due from the loan account without the borrower's withdrawal application.

³ For example, conditions for withdrawal on a portion of a loan may be used in the following cases: (i) establishment of an implementing unit for a portion of the loan, or (ii) execution of a subsidiary legal agreement for a portion of the loan.

⁴ The term "borrower" also refers to recipients of grants, executing agencies, and/or implementing agencies, unless the context requires otherwise.

6. **Amendment of Conditions for Withdrawal.** Conditions for withdrawal should only be amended in exceptional circumstances, such as when: (i) fulfillment of the condition may be impractical or impossible due to political instability, calamity or disaster, bankruptcy; (ii) requirements of the cofinancier and Asian Development Bank (ADB) under the respective loan agreement are inconsistent; (iii) borrower changes its policy; and (iv) significant integrity risks are identified. In such cases, the procedures in PAI 5.02 (Change in Loan Projects) shall apply.

7. **Disbursement under Force Account for Works (FAW).**⁵ ADB's loan disbursement procedures for expenditures under FAW require the borrower to submit two certifications: the first on the project's physical progress and the second on its financial progress. This allows the release of loan disbursements based on the rate of progress of the works as certified by the project engineer, project consultant, or representative of the executing or implementing agency. ADB reserves the right to verify the percentage of physical completion stated in the certification submitted by the borrower. The project team leader, in consultation with regional sector project administration unit head, should immediately notify CTL and the Office of Anticorruption and Integrity for any irregularities discovered during verification and advise CTL if any payment should be disallowed. The project team should consider further actions in accordance with PAI 4.02 (Suspension and Cancellation of Loans).

⁵ PAI 3.07 (Procurement Methods in Special Circumstances and Other Procurement Arrangements) provides details on force account for works procedure.