

# Project Administration Instructions

PAI 4.01  
Revised in December 2018  
Page 1 of 2

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## CONDITIONS FOR WITHDRAWAL AND DISBURSEMENT OF LOAN PROCEEDS

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<sup>1</sup> agreement. This PAI should be read in conjunction with Operations Manual (OM) Section J6 (Disbursement), Staff Instruction on Business Processes for Loan Disbursement, and PAI 4.03 (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* (2017, as amended from time to time).<sup>2</sup>
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.<sup>3</sup> 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 borrower<sup>4</sup> must provide evidence documenting the fulfillment of such conditions to the sector division.<sup>5</sup> The sector division reviews the submitted documents and the Office of the General Counsel (OGC) reviews them from a legal point of view within five working days upon receipt from the sector division. OGC advises the sector division 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 head of the sector division will advise the borrower in writing with copies to the relevant resident mission or sector division (as applicable), OGC, Loan Administration Division of the Controller's Department (CTL), Portfolio Management Division of the Procurement, Portfolio and Financial Management Department, and Office of Cofinancing Operations, 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.

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<sup>1</sup> The term "loan" includes grants, unless the context requires otherwise, but does not include technical assistance grants. This PAI also applies to loans and grants from external sources that are administered by ADB, unless agreed otherwise between ADB and cofinanciers.

<sup>2</sup> 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.

<sup>3</sup> 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.

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

<sup>5</sup> The term "sector division" also refers to the regional office or resident mission primarily administering the project.

6. **Amendment of Conditions.** 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 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).**<sup>6</sup> ADB's loan disbursement procedures for expenditures under FAW requires 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 officer 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 sector division should consider further actions in accordance with PAI 4.03 (Suspension and Cancellation of Loans).

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<sup>6</sup> PAI 3.07 (Procurement Methods in Special Circumstances and Other Procurement Arrangements) provides details on force account for works procedure.