

Project Administration Instructions

PAI 4.04
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CONTROLLING ADVERSE EFFECTS OF FOREIGN EXCHANGE FLUCTUATIONS ON COFINANCED GRANT AND COFINANCED TECHNICAL ASSISTANCE ADMINISTERED BY ADB

A. Introduction

1. This Project Administration Instruction (PAI) provides guidance to staff in controlling and monitoring the adverse effect of foreign exchange fluctuations principally on cofinanced technical assistance (TA) administered by Asian Development Bank (ADB). On occasion, ADB experiences a shortage of funds for ADB-administered cofinanced TAs resulting from the devaluation of the donor's¹ currency against the US dollar. ADB's TA 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 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. To the extent appropriate, this PAI also applies to cofinanced grants administered by ADB.

B. Currency and Payment of Donor's Contribution

2. The Partner Funds Division (CCPF) of Climate Change and Sustainable Development Department 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 acceptable to 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 (i), (ii), and (iii) are not acceptable to the donor, the donor's contribution is specified in the donor's currency and paid in installments over the expected period of implementation. ADB converts each installment into US dollars at market rate at the time of conversion.

¹ Donor refers to financing partners providing grants or TA grants.

C. Commitments and Awarding of Contracts

3. For purposes of this PAI, “commitments” or “contracts” refer to consulting services, nonconsulting services, equipment, training, seminars, and other eligible expenditure items.

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

- (i) Under paras. 2(i) and 2(ii), commitments may be made up to 100% of the TA amount cofinanced by the donor less 5% 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% reserve for ADB's administration cost as in para. 4(i). 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% of the TA amount cofinanced by the donor. The remaining 20% is reserved for foreign exchange fluctuations (15%) and ADB's administration cost (5%). 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% reserve becomes unnecessary.

5. Before awarding contracts, issuing contract variations, or making any other expenditure commitments, the TA team should check the uncommitted balance of the TA provided in the Integrated Disbursement System (IDS), and fund balance information provided by the Trust Fund and Administrative Expense Division (CTFA) of Controller's Department and/or CCPF to avoid overcommitments.

D. IT Requirements for TAs

6. After approval of a TA, a TA number is automatically assigned in eOperations and an approval notification is sent to the Loan Administration Division (CTLA) of Controller's Department for data entry in the IDS, and CCPF.

7. If the donor's contribution is of the type referred to in para. 2(iii), CTFA 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 cofinanced by the donor, CTFA also advises CTLA to create a dummy contract in the IDS to reduce the amount available for commitment by the amount of 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% of the TA amount cofinanced by the donor (representing a reserve for foreign exchange fluctuations) is created in the IDS upon input of the TA approval. In consultation with CCPF and CTLA, the TA team and the Procurement, Portfolio, and Financial Management Department may initiate a review and appropriate adjustment of the reserve as necessary for new commitments or contract variations.
9. For all types of contributions, CTFA advises CTLA of the necessary reserve for ADB's administration cost to enable CTLA to create a dummy contract in the IDS.
10. CTFA publishes the status of donors' contributions on the Partner Fund Management System (PFMS) website.