

# Project Administration Instructions

PAI 5.03  
Revised in October 2018  
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## REALLOCATION OF LOAN PROCEEDS, CHANGE IN COUNTERPART FUNDING AND CHANGE IN DISBURSEMENT PERCENTAGE

### A. Introduction

1. This Project Administration Instruction (PAI) describes how to administer proposals for reallocation of loan proceeds, change in counterpart funding, and change in disbursement percentage for investment loans<sup>1</sup> administered by the Asian Development Bank (ADB). For all such proposals, the sector division<sup>2</sup> responsible for administering the project should consult with the Controller's Department (CTL), the Office of the General Counsel (OGC) to determine whether a formal amendment is required to the loan agreement, and with the Office of Cofinancing Operations (OCO) if the project is cofinanced.<sup>3</sup> Proposed changes are approved in accordance with PAI 5.02.

### B. Reallocation of Loan Proceeds

2. Reallocation of loan proceeds involves transferring of unutilized amount under a certain loan category(ies) to other category/ies within the total loan amount to accommodate project needs identified during implementation. Proposals to reallocate loan proceeds are based on the categories described in the allocation table of the loan agreement and can originate from the borrower<sup>4</sup> or the sector division. Reallocation may be required when loan categories need to be adjusted due to changes in project scope or implementation arrangements, contract variations relating to changes in contract prices including the need for additional quantities to achieve the original scope of work, or a consequence of appreciation / depreciation of the loan currency against the contract currency without any change to the underlying contracts.

3. When the borrower initiates a proposal to reallocate loan proceeds, it first consults with the sector division. If necessary, the project team leader will follow up the proposal in a project administration mission and record the results of consultations in a memorandum of understanding or aide memoire attached to the back-to-office report. The borrower then sends a formal request to the sector division outlining the proposal and justification for reallocation prior to ADB's approval.

4. When the sector division initiates a proposal to reallocate loan proceeds, the project team leader presents the proposal to the borrower through formal communication or during a project administration mission. The result of the consultation is recorded in a memorandum of understanding or aide memoire attached to the back-to-office report. The borrower's written concurrence on the proposed reallocation is required prior to ADB's approval.

5. Notwithstanding the provisions of paragraph 4, if ADB determines that a particular category amount in the allocation table appears to be insufficient to finance expenditures for that category, the sector division may reallocate loan proceeds from another category to meet the estimated shortfall. If such reallocation cannot fully meet the estimated shortfall, the sector division may

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<sup>1</sup> In this PAI, the reference to "loan" also includes grants, unless the context requires otherwise. This PAI also applies to loans and grants from external funding sources that are administered by ADB unless agreed otherwise between ADB and such cofinanciers, but does not apply to policy-based loans or technical assistance (TA) provided under a TA agreement, TA framework agreement, and small-scale TA.

<sup>2</sup> The term "sector division" also refers to the regional office or resident mission administering the project.

<sup>3</sup> Other concerned departments may be consulted as needed.

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

reduce the disbursement percentage applicable to such expenditures so that further withdrawals under such category may continue until all expenditures for the category have been made.

6. If the sector division determines that the amount of a loan allocated to any category in the allocation table appears to exceed the expenditures for that category, the sector division may reallocate such excess amount to any other category. Upon such reallocation or reduction in disbursement percentage, the sector division should notify the borrower. However, if the loan agreement requires consultation and/or agreement with the borrower on reallocation or change in disbursement percentage, the sector division ensures such consultation and/or agreement has occurred and is appropriately recorded prior to reallocation or change in disbursement percentage.

7. For investment loans approved prior to August 2005,<sup>5</sup> 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 minor change in project. If this reallocation results in an increase of overall ADB financing which cannot be accommodated under the approved project amount, then the procedures for Additional Financing (OM H5) apply.

8. If the reallocation is related to a change of project scope that affect the loan agreement, then the allocation table will be revised as part of the amendment of the loan agreement.

9. After approval of the reallocation, the sector division provides the borrower with the revised allocation table. A copy of the approval memo is provided to the Procurement, Portfolio and Financial Management Department (PPFD), CTL, OGC, OCO if the project is cofinanced, and other concerned department.

### **C. Change in Counterpart Funding**

10. The financing plan<sup>6</sup> presents the different sources of financing for the project. When a proposal is submitted (usually by the borrower) to transfer an item from the borrower's counterpart funding to the ADB loan or ADB-administered cofinancing, the proposal is considered a minor change in the project. Any proposal reducing the percentage share of the borrower's counterpart funding in the approved project financing plan needs to be thoroughly justified, and is likely to be approved only in exceptional circumstances.

### **D. Change in Disbursement Percentage**

11. ADB's disbursement percentage (normally presented in the allocation table in the loan agreement) may need to be amended based on changes in, for example, counterpart funding, cofinanciers' financing amount, financing percentage and/or cost categories. A proposal for such change is a minor change in the project.

12. The approved reallocation of loan categories and changes in ADB's disbursement percentage are recorded in the loan financial information system (LFIS) or grant financial information system (GFIS) through submission of the Loan/Grant Milestone Event Dates form to CTL (PAI 6.04 Loan Milestone Event Dates).

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<sup>5</sup> Distinction between foreign and local currency costs in a project's investment plan was discontinued as a result of ADB. 2005. R193-05, *Cost Sharing and Eligibility of Expenditures for Asian Development Bank Financing: A New Approach*, 4 August. Manila.

<sup>6</sup> Refer to the Project Administration Manual (PAM).