

Project Administration Instructions

PAI 5.03
Revised in December 2023
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REALLOCATION OF LOAN PROCEEDS, CHANGE IN COUNTERPART FUNDING AND CHANGE IN DISBURSEMENT PERCENTAGE¹

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 Asian Development Bank (ADB) loans.

A. Requirements for All Proposals

2. For all proposals defined in this PAI, the project team should consult with the Loan Administration Division (CTLA) of the Controller's Department (CTL), and with the Partner Funds Division (CCPF) of the Climate Change and Sustainable Development Department if the project is cofinanced.² Proposed changes are approved or recorded in accordance with PAI 5.02 (*Change in Loan Projects*). For reallocation of loan proceeds and change in disbursement percentage, the project team should submit a proposed reallocation table (following the format in Appendix 1) to CTLA for review.

B. Reallocation of Loan Proceeds

3. Reallocation of loan proceeds involves transferring of an 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 borrower³ or the project team. Reallocation may be required, for example, 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.

4. When the borrower initiates a proposal to reallocate loan proceeds, it first consults with the project team leader (PTL). The project team should review the proposal and discuss with the borrower. The borrower then sends a formal request to ADB outlining the proposal and justification for reallocation prior to initiating ADB's internal approval process or recording.

5. When the project team initiates a proposal to reallocate loan proceeds, the PTL 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-mémoire attached to the back-to-office report. The borrower's written concurrence on the proposed reallocation is required prior to initiating ADB's internal approval process or recording.

¹ In this PAI, the term "loan(s)" includes grant(s), unless the context requires otherwise. This PAI also applies to loans from external sources that are administered by ADB, unless agreed otherwise between ADB and cofinancier(s), but does not apply to policy-based loans.

² Other concerned departments/offices may be consulted as needed. The Office of the General Counsel should be consulted to determine whether a formal amendment to the loan agreement is required.

³ In this PAI, the term "borrower" also refers to recipients of grants, executing agencies, and/or implementing agencies, unless the context requires otherwise.

6. Notwithstanding the provisions of para. 5, if the PTL determines that a particular category amount in the allocation table appears to be insufficient to finance all agreed expenditures for that category, the PTL may reallocate loan proceeds from another category to meet the estimated shortfall. If such reallocation cannot fully meet the estimated shortfall, the PTL may 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. If the PTL determines that the amount of a loan allocated to any category in the allocation table appears to exceed the agreed expenditures for that category, the PTL may reallocate such excess amount to any other category.⁴ Upon such reallocation or reduction in disbursement percentage, the project team should notify the borrower.

7. Notwithstanding the provisions of para. 6, if the loan agreement requires consultation with the borrower on reallocation or change in disbursement percentage, the PTL ensures such consultation has occurred and is appropriately recorded, prior to the submission of the Loan and Grant Milestone and Change Event (LGMCE) form⁵ to CTLA, for reallocation or change in disbursement percentage.

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

9. After approval or recording (for non-design and monitoring framework-related minor change) of the reallocation, the project team provides the borrower with the revised allocation table. A copy of the revised allocation table is provided to the country operations head, Office of the General Counsel, CTLA, CCPF if the project is cofinanced, and other concerned departments/offices.

C. Change in Counterpart Funding

10. The financing plan⁶ 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 accepted 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 Integrated Disbursement System through submission of the LGMCE form to CTLA.

⁴ In the case of a planned reduction to the allocation for financing charges during implementation, when applicable, the Sovereign Loan Accounting Unit, Accounting Division of CTL must be consulted for clearance and ensure that the revised allocated amount will align with the agreed loan billing arrangements and will not be less than the actual capitalized charges, if any.

⁵ See PAI 6.04 (*Loan Milestone and Change Event*).

⁶ Refer to the Project Administration Manual.

TABLE FOR REALLOCATION OF LOAN PROCEEDS^a

Cat No.	Item	Current Allocation	Current ADB Disbursement %^b	Commitment	Disbursements	Proposed Increase/ (Decrease)	Proposed Allocation	Proposed ADB Disbursement %^b
1			XX% of total expenditures claimed					XX% of total expenditures claimed
2			XX% of total expenditures claimed					XX% of total expenditures claimed
3			XX% of total expenditures claimed					XX% of total expenditures claimed
4			XX% of total expenditures claimed					XX% of total expenditures claimed
	Total	-		-	-	-	-	

^a Indicate full amounts.

^b Column to be included if change in disbursement % is also proposed. Otherwise, omit.