

Project Administration Instructions

PAI 5.06
Revised in December 2018
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COUNTERPART FINANCING FOR LOAN PROJECTS

1. This Project Administration Instruction (PAI) describes counterpart financing requirements for loans.¹ During project processing, project loan expenditure is estimated in a single currency and allocated to different financing sources. A summary of project investment cost is provided in the report and recommendation of the President (RRP), with details provided in the project administration manual (PAM).

2. Expenditure financed by the borrower² is referred to as counterpart financing. Borrowers can contribute their counterpart financing in monetary and non-monetary form ("in-kind" such as office space, government officer salary, shared-utility costs, or exemption of taxes). The borrower's obligation to provide counterpart financing is set out in the financing agreement whereby the borrower undertakes to promptly make funds and other resources available. The disbursement percentages in the financing agreement should be calculated only for monetary project costs with actual cash flow. Non-monetary counterpart contributions should not be included in the calculation of ADB disbursement percentages. For changes to the agreed financing plan, PAI 5.03 (Reallocation of Loan Proceeds, Change in Counterpart Funding and Change in Disbursement Percentage) applies.

4. Delays by the borrower in the release of counterpart financing will impact adversely on implementation and invariably cause hardship to contractors or suppliers, delay the project, and increase project cost. The cycle, procedures, regulations, and mechanism for budgetary allocation and release of public funds by the borrower, and their relationship to the project cycle are examined during preparation of a country partnership strategy through the governance risk assessment.³ The risks and risk mitigation plan are to be addressed with the borrower during country partnership strategy formulation.

5. The quarterly progress reports of the executing agency⁴ will include updates on the status of counterpart fund releases and eOperations records should be updated accordingly.⁵ Project specific problems in relation to counterpart financing should be discussed by the borrower and ADB during project administration missions and recorded in the back-to-office report.

¹ 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 sources that are administered by ADB unless agreed otherwise between ADB and cofinanciers.

² In this PAI, the term "borrower" also refers to recipients of grants, executing agencies, and/or implementing agencies, unless the context requires otherwise.

³ Refer to [Revised Staff Guidance for Implementing the Second Governance and Anticorruption Action Plan \(GACAP II\)](#).

⁴ In this PAI, the term "executing agency" also refers to implementing agencies, unless the context requires otherwise.

⁵ Refer to PAI 5.01 (Executing Agency's Progress Report).