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# ADB Loan Disbursement Procedures and Guidelines

## ADB Loan Disbursement Handbook 2022



ADB

02-03 August 2023 | Lahore, Pakistan



# Commonly Used Acronyms

**CTL** Controller's Department

**CTLA** Loan Administration  
Division of Controller's  
Department

**DMC** developing member  
country

**EA** executing agency

**FAW** force account for works

**GFIS** Grant Financial  
Information System

**IA** implementing agency

**LFIS** Loan Financial  
Information System

**PAM** Project Administration  
Manual

**RRP** Report and  
Recommendation of the  
President

**SOE** statement of expenditures

**WA** withdrawal application



# Module 1: Disbursement Principles, Policies and Guidelines

- **(Eligibility of Expenditures)**



# What is Disbursement?

1. Transfer of financial resource to Developing Member Countries (DMCs) for achieving ADB's mission
2. The withdrawal of proceeds from a grant account or loan account
3. Measure progress and achievement



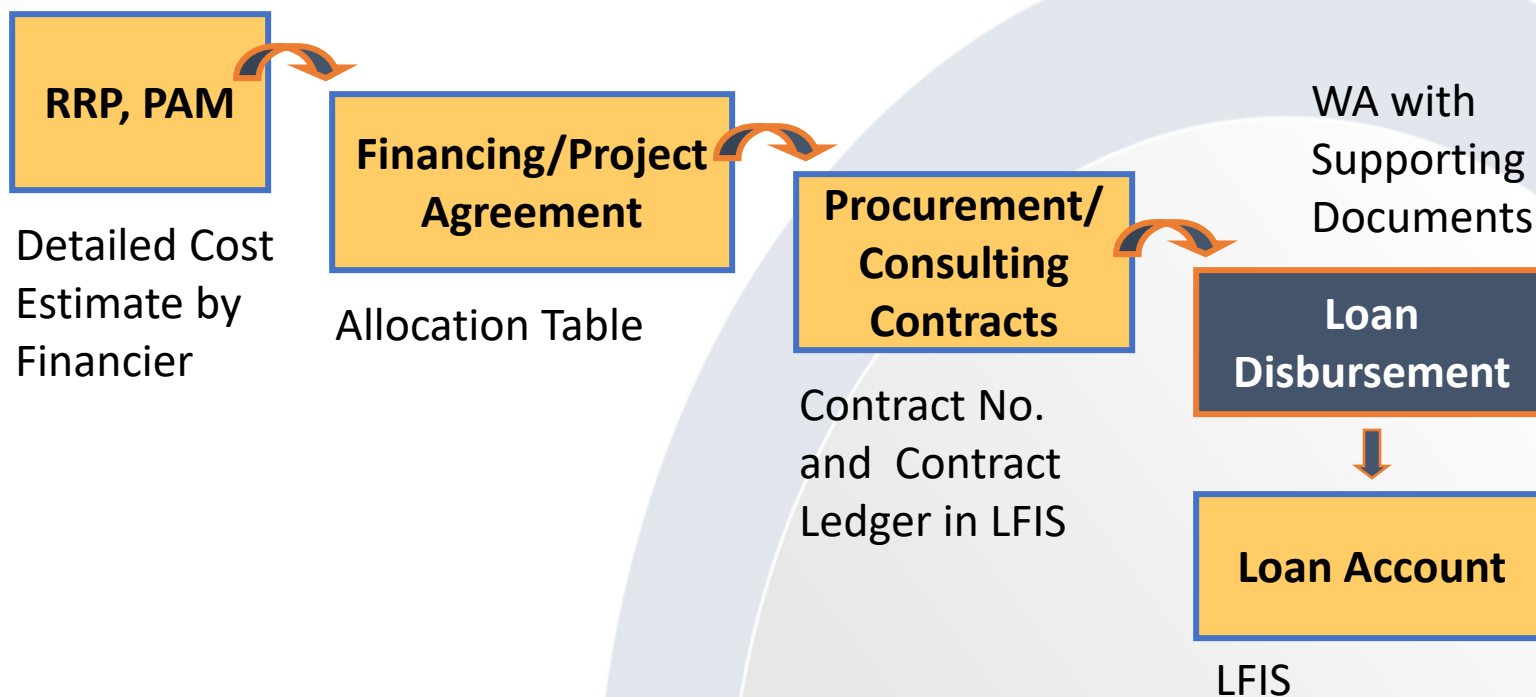
# Basic ADB Disbursement Principles

ADB's Charter lays down the basic principles to be followed:

- **Loan Purpose** (Article 14-XI)
  - Proceeds of ADB loan used only for the purposes for which it was approved, with due attention to considerations of economy and efficiency.
- **Expenditures Incurred** (Article 14-X)
  - Borrower permitted to draw loan funds only to meet project expenditures as they are actually incurred.
- **Procurement in Member Countries** (Article 14-IX)
  - Proceeds of ADB loan used only for procurement in member countries. In addition, goods and services should be produced in member countries.

# Loan Documents

- Expenditures and cost categories are described in loan documents (see LDH, Section 3.5)





## ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS

( \_\_\_\_\_ Project)

Number	Expenditure Categories	Total Amount Allocated for ADB Financing (\$ or SDR equivalent)	Basis for Withdrawal from the Loan Account
	Item	Category	
1	Civil Works, Equipment, Consultants, and Training	173,000,000	91% of total expenditure claimed
2	Recurrent Costs	9,000,000	80% of total expenditure claimed
3	Financing Charges During Implementation	3,000,000	100% of total amount due
4	Unallocated	15,000,000	
	TOTAL	200,000,000	

Disbursement Percentage

Allocated Amount



- Minimize number of categories as possible



# Legal Agreement

## Allocation Table

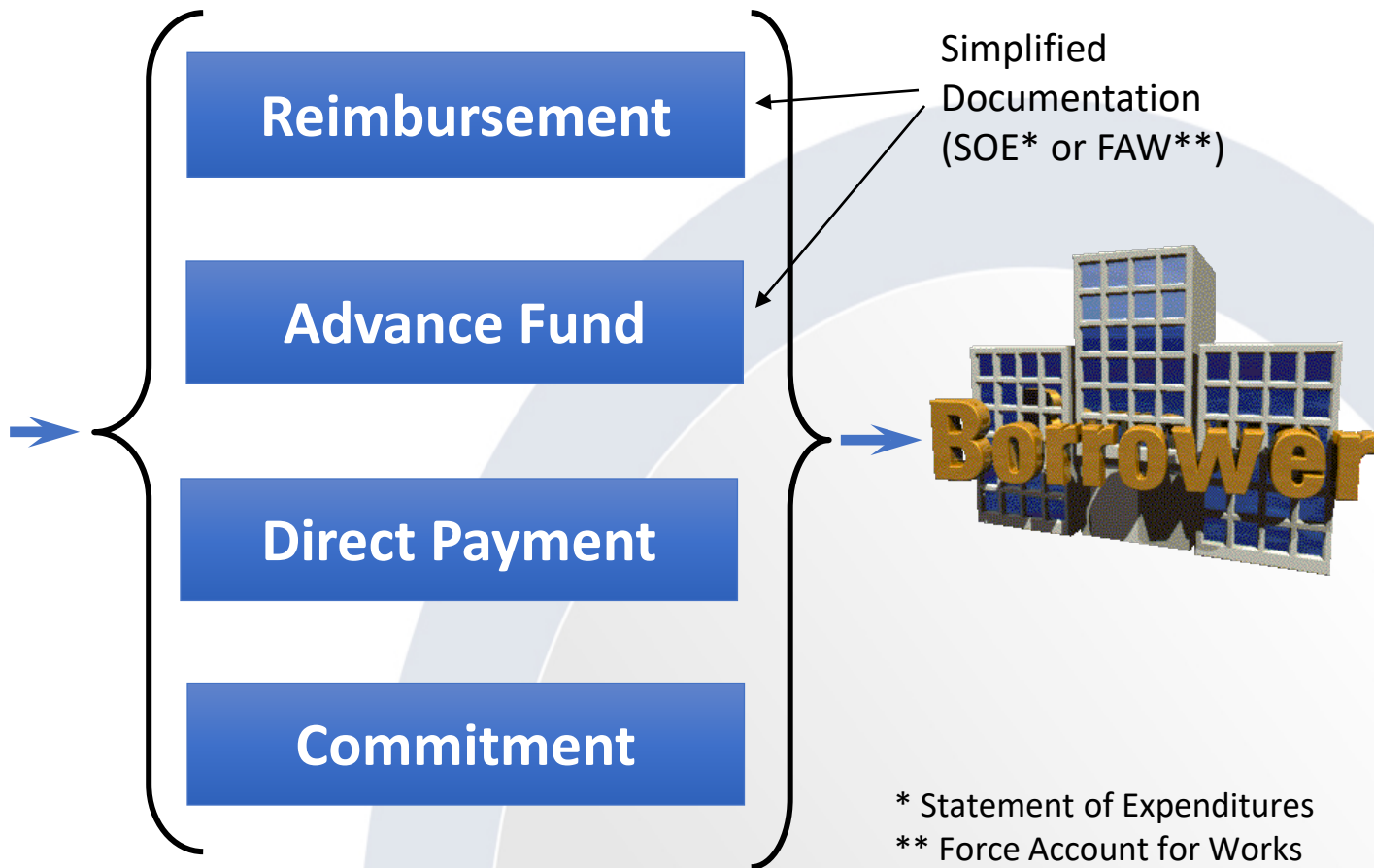
- Project expenditures to be financed through ADB loans are usually grouped into expenditure categories.
- The allocation table is normally inserted for all types of project loan agreements.
- The allocation table is input to the Loan Financial Information System (LFIS) or Grant Financial System (GFIS)





# Module 2: The Four Major Disbursement Procedures

# Four Major Disbursement Procedures





Disbursement Procedures	Suggested Types of Payments
Reimbursement	Encouraged for all eligible project expenditures when the borrower has sufficient resources
Advance Fund	Expected for all eligible project expenditures when the procedure is approved for a project
Direct Payment	Mainly large value payments when there are insufficient borrower resources to pre-finance expenditures and there is no provision of advance fund procedure for the project. May also be used when payments are required to be made in currencies that the borrower may have difficulty obtaining
Commitment	Large importation costs



# Module 3: Withdrawal Application



# Basic Requirements for Disbursement

- Requirements for First Withdrawal :
  - Loan declared effective;
  - Receipt of authenticated specimen signatures;
  - Disbursement conditions per loan agreement have been met, as appropriate



# Disbursement Guidelines and Practices

- **Application for withdrawal**

- ✓ Use the appropriate withdrawal application form (*Appendix 5A & 10A*).

*Integrated into CPD by disbursement type*

- ✓ Use the appropriate summary/SOE sheet (*Appendix 6A, 10B*).

*Integrated into CPD*

- ✓ Assign a 5-digit application number to the applications to facilitate reference and control.



# Withdrawal Application Form

## Withdrawal Application consists of:


- ☑ The application itself, submitted via CPD or in original hard copy (*Appendix 5A of LDH*)
- ☑ Summary/SOE sheet(s) for each category claimed  
→ *Except when line items are entered in CPD*
- ☑ Supporting documents, if required  
→ *Should be electronic or photocopies*
- ☑ Force account for works (FAW) certificates, as applicable

# Sample Withdrawal Application Form

Basic Information

WA Contents

Authorized Signatory

WITHDRAWAL APPLICATION		Asian Development Bank 
To: Asian Development Bank (ADB) 6 ADB Avenue, Mandaluyong City 1550 Metro Manila, Philippines	ADB Loan/Grant No. [ ] - [ ] Application No. [ ] [ ] [ ] [ ] [ ] [ ]	
Attention: Loan Administration Division, Controller's Department (CTLA)		
1. Type of Disbursement (indicate an 'x' in the appropriate box)		
<input type="checkbox"/> Reimbursement	<input type="checkbox"/> Direct Payment	<input type="checkbox"/> Policy-based Lending
<input type="checkbox"/> Initial/Additional Advance	<input type="checkbox"/> Liquidation and Replenishment	<input type="checkbox"/> Liquidation Only*
2. In connection with the Loan or Grant Agreement (Agreement) of the said ADB Loan or Grant number, please pay from the Loan or Grant Account (Account):		
Application Currency [ ]	Application Amount (in figures) [ ]	Application Amount (in words) [ ]
3. Payment Instructions (*Not required in the case of liquidation only):		
A. Payee's Name and Address		
Payee's Name	[ ]	
Payee's Address	[ ]	
B. Name and Address of Payee's Bank and Account No.		
Bank Name	[ ]	
Bank Address	[ ]	
Payee's Account No.	SWIFT Code	[ ]
C. Correspondent Bank (If payee's bank is not located in the country whose currency is claimed, enter the name and address of their bank's correspondent in the country whose currency is to be paid.)		
Bank Name	[ ]	
Bank Address	[ ]	
Account No. of Payee's Bank	SWIFT Code	[ ]
D. Special Payment Instructions and Other References		
[ ]		
4. This application consists of [indicate an 'x' in the appropriate box(es)]:		
<input type="checkbox"/> Summary/Statement of Expenditures (SOE) sheets	<input type="checkbox"/> Certificates for Force Account for Works (FAW)	
<input type="checkbox"/> Estimate of Expenditures sheets	<input type="checkbox"/> Advance Account Reconciliation Statement	
<input type="checkbox"/> Copies of supporting documents (e.g. invoices, receipts, etc.)		
5. The undersigned certifies and agrees as follows:		
a. The expenditures were or will be made for the purposes specified in the Agreement and in accordance with its terms and conditions and the undersigned has not previously withdrawn from the Account or obtained or will obtain any other loan, credit or grant for the purpose of fully or partially meeting these expenditures.		
b. The works, goods or services claimed for direct payment, reimbursement, or liquidation of advance have been procured in accordance with the agreement(s) and the cost and terms of the purchase thereof are reasonable and in accordance with the relevant contract(s).		
c. The works, goods or services were or will be produced in and supplied by a member country of ADB, unless specifically permitted otherwise by ADB's Board of Directors.		
d. This application is claimed in accordance with ADB's Loan Disbursement Handbook and all documents related to the expenditures covered by this application are available for examination by auditors and by ADB upon request.		
e. Unless otherwise restricted in the Agreement, if the disbursement pursuant to this application results in the agreed allocation of the corresponding expenditure categories of the Account being exceeded, ADB will process the disbursement and subsequently reallocate to such categories from other categories to the extent required to meet the shortfall.		
By (name of Borrower or Recipient) [ ]	Date signed [ ]	
Signature of Authorized Representative(s)	[ ]	
Printed Name/Title of Authorized Representative(s)	[ ]	

Payment Instructions

The undersigned certifies and agrees as indicated.

ADB





## Application Number

- ADB's numbering system should be adopted. The withdrawal application should be numbered sequentially not exceeding 5 digits or characters. Ex. 00001, 00002, 00003, etc.
- If the project has more than one EA/IA, an alpha identification may be assigned by the project coordinator for each EA/IA. Ex. A0001 to A9999; B0001 to B9999, C0001 to C9999, etc.



# Currency of Disbursement

- Disbursement is made
  - a) in the currencies in which cost of goods and services has been paid or is payable, or
  - b) in the currency of the advance account, when providing advances.
- A separate application should be made for each different currency being withdrawn, and for each payee.



# Payment Instructions

- Borrower should designate a bank in the country of the requested currency of payment.
- ADB will make payments to the specified account in the designated bank.
- For example:
  - If the currency of disbursement (USD) is the same as the currency of supplier's country (USA) => a bank in the country of the currency (USA) should be designated.
  - If the currency of disbursement (USD) is to be paid to a non-US supplier (PAK) => in addition to the designated bank in the country of the currency (USA, Correspondent Bank), a bank in the supplier's country (PAK) should also be designated.

# Sample Withdrawal Application Form

## WITHDRAWAL APPLICATION

Asian Development Bank

ADB

To: Asian Development Bank (ADB)  
6 ADB Avenue, Mandaluyong City  
1550 Metro Manila, Philippines

ADB Loan/Grant No. [ ] - [ ]

Application No. [ ] [ ] [ ] [ ] [ ] [ ] [ ] [ ]

Attention: Loan Administration Division, Controller's Department (CTLA)

### 1. Type of Disbursement (indicate an 'x' in the appropriate box)

- |   |  |   |
|---|--|---|
| <input type="checkbox"/> Reimbursement              | <input type="checkbox"/> Direct Payment                | <input type="checkbox"/> Policy-based Lending |
| <input type="checkbox"/> Initial/Additional Advance | <input type="checkbox"/> Liquidation and Replenishment | <input type="checkbox"/> Liquidation Only*    |

### 2. In connection with the Loan or Grant Agreement (Agreement) of the said ADB Loan or Grant number, please pay from the Loan or Grant Account (Account):

Application Currency	Application Amount (in figures)	Application Amount (in words)
[ ]	[ ]	[ ]

### 3. Payment Instructions (\*Not required in the case of liquidation only):

#### A. Payee's Name and Address

Payee's Name [ ]  
Payee's Address [ ]

#### B. Name and Address of Payee's Bank and Account No.

Bank Name [ ]  
Bank Address [ ]  
Payee's Account No. [ ] SWIFT Code [ ]

#### C. Correspondent Bank (If payee's bank is not located in the country whose currency is claimed, enter the name and address of their bank's correspondent in the country whose currency is to be paid.)

Bank Name [ ]  
Bank Address [ ]  
Account No. of Payee's Bank [ ] SWIFT Code [ ]

#### D. Special Payment Instructions and Other References

[ ]

Basic Information

Payment Instructions

ADB

# Sample of Withdrawal Application Form



Contents  
of WA

The  
undersigned  
certifies  
and agrees  
as indicated.

Authorized  
Signatory

4. This application consists of [indicate an 'x' in the appropriate box(es)];

Summary/Statement of Expenditures (SOE) sheets

Estimate of Expenditures sheets

Copies of supporting documents (e.g. invoices, receipts, etc.)

Certificates for Force Account for Works (FAW)

Advance Account Reconciliation Statement

5. The undersigned certifies and agrees as follows:

- a. The expenditures were or will be made for the purposes specified in the Agreement and in accordance with its terms and conditions and the undersigned has not previously withdrawn from the Account or obtained or will obtain any other loan, credit or grant for the purpose of fully or partially meeting these expenditures.
- b. The works, goods or services claimed for direct payment, reimbursement, or liquidation of advance have been procured in accordance with the agreement(s) and the cost and terms of the purchase thereof are reasonable and in accordance with the relevant contract(s).
- c. The works, goods or services were or will be produced in and supplied by a member country of ADB, unless specifically permitted otherwise by ADB's Board of Directors.
- d. This application is claimed in accordance with ADB's Loan Disbursement Handbook and all documents related to the expenditures covered by this application are available for examination by auditors and by ADB upon request.
- e. Unless otherwise restricted in the Agreement, if the disbursement pursuant to this application results in the agreed allocation of the corresponding expenditure categories of the Account being exceeded, ADB will process the disbursement and subsequently reallocate to such categories from other categories to the extent required to meet the shortfall.

By (name of Borrower or Recipient)

Date signed

Signature of Authorized Representative(s)

Printed Name/Title of Authorized Representative(s)



# Summary Sheet

- A summary sheet lists individual items according to category or subcategory to which they relate.
- Use separate sheet(s) for each category or subcategory.
- List items of payment to the same supplier together, one below another.

# Sample of Summary Sheet Form

## SUMMARY/STATEMENT OF EXPENDITURES (SOE) SHEET FOR PROJECT LOANS/GRANTS

Asian Development Bank



Type of Form [Select (one) appropriate box]:

Summary Sheet <sup>b</sup> **Select One**

SOE Sheet <sup>c</sup> Indicate applicable SOE ceiling, if any <sup>d</sup>

ADB Loan/Grant No.  -

Application No.

Category/subcategory No. <sup>a</sup>

Sheet No.  of

For the period: From  to

Type of Disbursement: [Select (one) appropriate box]

Reimbursement  Liquidation of Advance  Direct Payment

Item No.	EA's Contract/PO Record No.	ADB Contract No.	Description of Goods and Services	Name and Address of Supplier	Total Amount of Bill Paid/Payable <sup>d</sup>	ADB's Disbursement Percentage <sup>e</sup>	ADB's Share of Expenditures <sup>e</sup>	For Advance Fund Only		Remarks <sup>g</sup>	Date Paid <sup>h</sup>
								Exchange Rate <sup>f</sup>	Amount for Liquidation <sup>f</sup>		
					(i)	(ii)	(iii = i * ii)	(iv)	(v = iii / iv)		
1											
2											
3											
4											
5											
6											
7											
8											
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10											
11											
12											
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14											
15											

EA = Executing Agency, PO = Purchase Order.

TOTAL <sup>e1</sup>                     -      TOTAL <sup>e2</sup>                     -

Add: Total from previous sheet (if any)                     -

Total claim amount                     -

- Notes:**
- Prepare separate form for each category or subcategory.
  - Summary Sheet is used for direct payment, or for expenditures for which supporting documents are required to be submitted to ADB (e.g. individual payments exceeding any applicable SOE ceiling).
  - Not applicable for direct payment procedure.
  - For all individual payments exceeding any applicable SOE ceiling, prepare a separate summary sheet (Appendix 6A) and attach the required supporting documents.
  - Ensure that the total claim amount or the aggregate total claim amount of all summary/SOE sheets agrees with the amount indicated in the withdrawal application for (i) reimbursement or direct payment (e1) or (ii) advance fund (e2).
  - Applicable for liquidation of advance under the advance fund procedure. Indicate the actual foreign exchange rates used for each transaction (see additional notes and illustration on the next page).
  - Indicate down payment, advance payment, an installment payment number, Interim Payment Certificate number or other relevant information. If the item was claimed in a previous WA but withheld by ADB, indicate the WA no. where the item was previously claimed, and the reason why the item was withheld.
  - Applicable only for liquidation of advance or reimbursement.



# Contract Number

- For identifying a particular contract.
- The Contract no includes:
  - Date of contract approval
  - Mode of procurement and/or consultant selection method
  - Name and nationality of contractor or supplier
  - Terms of payment and currencies of contract
  - Price escalation clause (yes / no)
  - Total amount of the contract
  - Amount to be financed by ADB, and
  - ADB's disbursement percentage.
- The borrower should ensure sufficient contract balances before requesting disbursements





# Module 4: Required Documentation



# Documentation Requirement

- ❑ The required supporting documents must be submitted together with the WA
- ❑ ADB will return WAs that do not meet the requirements.
- ❑ Additional supporting documents may be required depending on the transaction involved.
- ❑ Do not submit documents that are not required to avoid delays in disbursement.
- ❑ If supporting documents are written in local language, there should be an English translation of important words and items in the documents

# Documentation Type

Module 6

Module 7

Module 8

Module 9

Reimbursement

Advance Fund

Direct Payment

Commitment

Simplified Documentation  
applicable?

YES

NO

Simplified  
Documentation  
(SOE sheets,  
FAW certificates)

Full Supporting  
Documentation  
(Invoices, bills, receipts,  
letters of credit, etc.)

# Required Supporting Documents

Payment for	Payment Type	Required Supporting Documents <sup>*a</sup>
Goods	One time or installment payment	Supplier's invoice (indicating date, amount, and bank account details) with proof of payment (e.g., official receipt, bank transfer record, acknowledgement receipt)
Services	One time or advance payment	Consultant's or service provider's invoice or request for payment (indicating amount of advance payment and bank account details) with proof of payment (e.g., official receipt, bank transfer record, acknowledgement receipt)
	Progress payment	Consultant's or service provider's invoice (indicating date, amount, and bank account details) with proof of payment (e.g., official receipt, bank transfer record, acknowledgement receipt)
Civil works	One time or advance payment	Contractor's invoice or request for payment (indicating date, amount, and bank account details) with proof of payment (e.g., official receipt, bank transfer record, acknowledgement receipt)
	Progress payment	Contractor's invoice and interim payment certificate <sup>b</sup> or summary of work progress (indicating period covered, amount, and bank account details) with proof of payment (e.g., official receipt, bank transfer record, acknowledgement receipt)
	Release of retention money	Contractor's invoice or request for payment (indicating date, amount, and bank account details) and unconditional bank guarantee (if required under section 4.27 of this handbook) with proof of payment (e.g., official receipt, bank transfer record, acknowledgement receipt)
Subloans under Financial Intermediation Loan		Invoices for subproject, subloan agreement, and/or other documents required in the PAM with proof of payment (e.g., official receipt, bank transfer record, acknowledgement receipt)
Others		Depending on project-specific requirements provided in the PAM, the contract or other legal document, or other fiduciary evidence that may be requested by ADB

**\*Proof of payment is not required for direct payment procedure.**

**<sup>a</sup> "Invoice" in this table refers to the final invoice. A proforma or preliminary invoice is not acceptable.**

**<sup>b</sup> The interim payment certificate refers to the certificate issued by the engineer under civil works contracts that certifies the work performed by the particular contractor.**

# Supporting documents to be retained by the EA/ IA

Payment for	Payment Type	Other Supporting Documents
Goods	One time or installment payments	Bill of lading or delivery receipt, bank guarantee if required under the contract, documents substantiating the amounts invoiced, and other documents as required in the contract
Services	One time or advance payment	Contract terms and conditions that refer to payment of advance and progress payments, breakdown of amount due, documents substantiating the amounts invoiced, and other documents as required in the contract
	Progress payment	
Civil works	One time or advance payment	Contract terms and conditions that refer to payment of advance, bank guarantee if required under the contract, documents substantiating the amounts invoiced, and other documents as required in the contract
	Progress payment	Breakdown of amount due, documents substantiating the amounts invoiced, and other documents as required in the contract
	Release of retention money	Contract terms and conditions that refer to release of retention money, documents substantiating the amounts invoiced, and other documents as required in the contract
Others		Depending on project-specific requirements provided in the project administration manual, the contract, or other legal documents; or other fiduciary evidence that may be requested by ADB



# Simplified Documentation

- Used when certain conditions met.
- These are:
  - ❖ Statement of Expenditures (SOE); and
  - ❖ Force account for works (FAW) certificate
- SOE and FAW certificate procedures should not be used in combination.



# Statement of Expenditures (SOE) Procedure

- Reimbursement/advance fund procedure
- No submission of supporting documentation
- SOE sheet is submitted instead of the usual supporting documents
- SOE sheet provides data on contracts and disbursements of individual payments (up to any applicable SOE ceiling)
- Expected to be used when certain conditions met



# Statement of Expenditures (SOE) Procedure

- Forms – Two Types
  - SOE sheet for Project Loans (*Appendix 6A*)
  - SOE sheet for Financial Intermediation Loans (*Appendix 6B*)



# SOE Sheet for Project Loans

## SUMMARY/STATEMENT OF EXPENDITURES (SOE) SHEET FOR PROJECT LOANS/GRANTS

Asian Development Bank



Type of Form [Select (one) appropriate box]:

Summary Sheet <sup>b</sup>

SOE Sheet <sup>c</sup>

Indicate applicable SOE ceiling, if any <sup>d</sup>

ADB Loan/Grant No.  -

Application No.

Category/subcategory No.

Sheet No.  of

For the period: From  to

Type of Disbursement [Select (one) appropriate box]:

Reimbursement

Liquidation of Advance

Direct Payment

Select One

Contract Number

Item No.	EA's Contract/PO Record No.	AD Contract No.	Description of Goods and Services	Name and Address of Supplier	Total Amount of Bill Paid/Payable <sup>d</sup>	ADB's Disbursement Percentage <sup>e</sup>	ADB's Share of Expenditures <sup>e</sup>	For Advance Fund Only		Remarks <sup>g</sup>	Date Paid <sup>h</sup>
								Exchange Rate <sup>f</sup>	Amount for Liquidation <sup>f</sup>		
					(i)	(ii)	(iii = i * ii)	(iv)	(v = iii / iv)		
1											
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14											
15											

EA = Executing Agency, PO = Purchase Order.

TOTAL <sup>e1</sup>	_____	TOTAL <sup>e2</sup>	_____
Add: Total from previous sheet (if any)	_____		_____
Total claim amount	_____		_____

- Notes:**
- Prepare separate form for each category or subcategory.
  - Summary Sheet is used for direct payment, or for expenditures for which supporting documents are required to be submitted to ADB (e.g. individual payments exceeding any applicable SOE ceiling).
  - Not applicable for direct payment procedure.
  - For all individual payments exceeding any applicable SOE ceiling, prepare a separate summary sheet (Appendix 6A) and attach the required supporting documents.
  - Ensure that the total claim amount or the aggregate total claim amount of all summary/SOE sheets agrees with the amount indicated in the withdrawal application for (i) reimbursement or direct payment (e1) or (ii) advance fund (e2).
  - Applicable for liquidation of advance under the advance fund procedure. Indicate the actual foreign exchange rates used for each transaction (see additional notes and illustration on the next page).
  - Indicate down payment, advance payment, an installment payment number, Interim Payment Certificate number or other relevant information. If the item was claimed in a previous WA but withheld by ADB, indicate the WA no. where the item was previously claimed, and the reason why the item was withheld.
  - Applicable only for liquidation of advance or reimbursement.



# Conditions for Approval to Use the SOE Procedure

## Borrower's Capacity

- ✓ EA/IA has adequate administrative and accounting capacity to maintain SOE records and make them available for examination.
- ✓ If capacity is inadequate, SOE procedure should not be used.

## Audit Arrangements

- ✓ EA/IA capable of arranging audit of SOE transactions.



# Approval of the SOE Procedure and SOE Ceiling

## Approval of the SOE Procedure

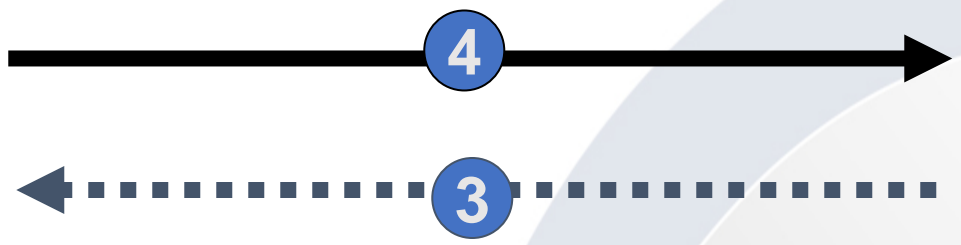
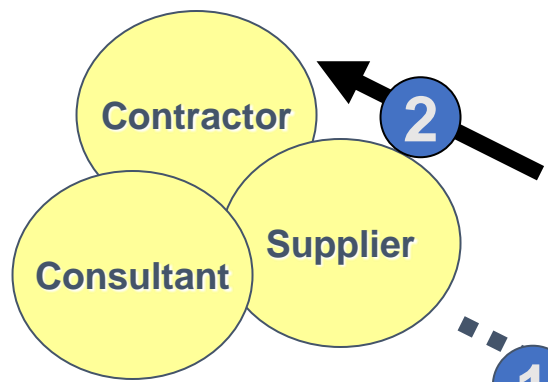
- Approval by ADB – Use considered during project preparation and provided for in the PAM.
- If use of the procedure is identified only during project implementation, borrower may request ADB's approval.

## SOE Ceiling

- No ceiling for EA/IAs with adequate capacity.
- A ceiling may be established when there is concern or uncertainty about the EA/IA's capacity.
- Ceiling applies to the total amount paid by the EA/IA



# Module 5: Reimbursement Procedure



- Full documentation or Simplified documentation (SOE, FAW certificate)



# Reimbursement Procedure

- ADB pays the borrower for eligible expenditures which have been incurred and paid for by the borrower out of its budget allocation or its own resources.
- Use of the procedure is encouraged for all eligible project expenditures when the borrower has sufficient resources.



# Basic Requirements

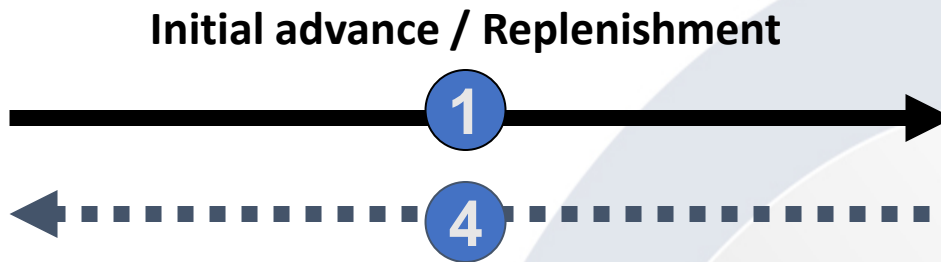
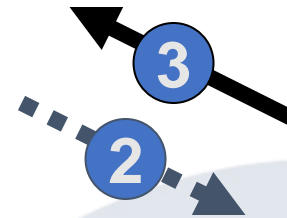
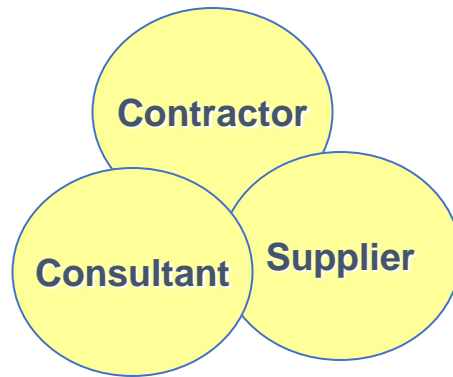
- ✓ Signed withdrawal application  
*(Appendix 5A of LDH)*
- ✓ Summary/SOE sheet  
*(Appendix 6A and 6B of LDH)*
- ✓ Required supporting documents
  - Full documentation (including proof of payment); or
  - SOE or force account for works (FAW) certificate as applicable



# Module 6: Advance Fund Procedure

FORMERLY IMPREST FUND PROCEDURE





## Advance Fund Procedure

- Full documentation, or simplified documentation (SOE, FAW Certificate)



# Advance Fund Procedure

- ADB makes advance disbursement from the loan account to an Advance Account to be used exclusively for ADB's share of eligible expenditures.
- The borrower may use the Advance Account to reimburse the borrower, EA and/or IA's accounts



# Advance Fund Procedure

## Objectives

- ✓ Provide the borrower more control over payments; and
- ✓ Reduce the number of withdrawal applications (WAs) and related costs.

## When is it Applicable?

- ✓ Certain conditions are met
- ✓ Expected for all project eligible expenditures



# Conditions for Approval to Use the Advance Fund Procedure

## ❑ Borrower's capacity

- Borrower must have adequate administrative and accounting capacity.

## ❑ Audit arrangement

- Borrower has the capability to arrange for periodic and annual independent audits.



# Borrower's (EA's) Responsibility

- Accountable and responsible for the use of advances to the advance account/subaccount;
- Liquidation/refund of outstanding advances;
- Monitoring of advance account turnover ratio;
- Monitoring/reconciliation of subaccounts.



# Establishment of the Advance Account

- Open a separate bank account (or a separate accounting ledger in the borrower's financial systems).
- No restrictions on withdrawing funds.
- Opened in the name of the borrower/executing agency/project.



# Location and Currency of the Advance Account

## Location of the Advance Account

- Central bank of the borrower's country or in a commercial bank designated by the borrower/EA/IA.
  - ❖ Commercial bank must be capable of:
    - Executing foreign exchange and local currency transactions;
    - Opening letters of credit and handling a large volume of transactions; and
    - Issuing detailed monthly bank statements promptly.

## Currency of the Account

- To be indicated in PAM.
- “Freely convertible”



# Request for Advances

- ✓ Initial and additional advances based on estimate of eligible expenditures for 6 months, paid through the advance account.
  - ❑ Withdrawal Application (*Appendix 5A of LDH*);
  - ❑ Estimate of Expenditure (*Appendix 8A of LDH*).
    - Endorsement by ADB's relevant sector revision/RM
- ✓ Conditions for withdrawal, if any, have been met
- ✓ All advances deposited to the advance account



# Estimate of Expenditures (EES)

→ Should normally be for the forthcoming 6-month period (e.g., for replenishment requests, if the balance of the advance account per bank statement is as of 30 June, forthcoming 6-month period should be from July to December)

→ Should be based on the amount of the contracts awarded and to be awarded. For expenditures related to operational costs, the amount should be linked to the project's annual budget provision.



## ESTIMATE OF EXPENDITURES<sup>a</sup> TO BE FINANCED FROM THE ADVANCE ACCOUNT



Date: \_\_\_\_\_

ADB Loan/Grant No.	_____ . _____
Application No.	_____
Estimate Sheet No.	_____ of _____
Period Covered: <sup>b</sup>	_____ to _____

Category No.	Contract No. <sup>c</sup>	Description of Goods/Services	Name of Contractor/Supplier/Consultant/Etc. <sup>d</sup>	Estimated Amount of Expenditures for the Period Covered (i)	ADB's Disbursement Percentage (ii)	Estimated Amount of Expenditures for ADB Financing (iii = i * ii)	Exchange Rate <sup>e</sup> (iv)	Estimated Amount in Advance Account Currency Equivalent <sup>f</sup> (v = iii / iv)

1. Total this page	_____
2. Add: Total from previous sheet(s) if any	_____
3. Total estimated expenditures to be financed from the advance account	_____
<hr/>	
4. Requested level of advance	_____
5. Less: Current outstanding amount advanced to the advance account, if any <sup>g</sup>	_____
6. Requested amount for initial/additional advance <sup>g,h</sup>	_____



# Liquidation & Replenishment or Liquidation (only)

- Borrower submits:
  - ✓ Withdrawal Application (*Appendix 5A of LDH*)
  - ✓ Advance Account Reconciliation Statement (*Appendix 8B of LDH*)
  - ✓ End balance per the corresponding bank statement
  - ✓ Summary/SOE sheet (*Appendix 6A or 6B of LDH*)
  - ✓ Other supporting documents, as appropriate
- Liquidate often, subject to the minimum WA value.



# Advance Fund Turnover Ratio

- Number of times the average outstanding advance is replenished over the period of a year.
- Available at LFIS/GFIS website
- Formula:

Cumulative Amount of Liquidation in the past year

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Weighted Average Outstanding Advance



# Requirement for Sufficient Advance Fund Turnover

- ❖ Initial and additional advance to the advance account is determined based on 6 months projection of expenditures.
- ❖ As such, target turnover ratio should be at least 2.0.
- ❖ If the turnover ratio is lower than the target (2.0), ADB may reduce the level of advance by adjusting the amount of replenishment or by requesting for refund.



# Advance Account Reconciliation Statement (AARS)



## ADVANCE ACCOUNT RECONCILIATION STATEMENT (AARS)

LOAN/GRANT NO. \_\_\_\_\_

WA Number: \_\_\_\_\_  
Bank Account Number: \_\_\_\_\_

With (Bank): \_\_\_\_\_  
Bank Address: \_\_\_\_\_

**1 PRESENT OUTSTANDING AMOUNT ADVANCED TO THE ADVANCE ACCOUNT NOT YET RECOVERED** US\$<sup>a</sup> **4,000,000.00**

**2 BALANCE of advance account as of \_\_\_\_\_ per bank statement<sup>b</sup>** US\$ \_\_\_\_\_

**3 ADD: Amount of eligible expenditures claimed in attached application (WA No. \_\_\_\_\_)** US\$ \_\_\_\_\_

**4 ADD: Amount claimed in previous applications not yet credited at date of bank statement** US\$ \_\_\_\_\_ -

<u>Withdrawal Application No.</u>	<u>Amount</u>
_____	US\$ _____
_____	US\$ _____
_____	US\$ _____

**5 TOTAL amount withdrawn from the advance account but not yet claimed for replenishment**

**a. Subaccount(s)<sup>c</sup>**

a.1 Total balance for subaccount #1	_____	US\$ _____ -
a.2 Total balance for subaccount #2	_____	US\$ _____ -
a.3 Total balance for subaccount #3	_____	US\$ _____ -
a.4 Total balance for subaccount #4	_____	US\$ _____ -
a.5 Total balance for subaccount #5	_____	US\$ _____ -
<i>Total subaccount balances accounted for</i>		US\$ _____ -

**b. Transfer(s) in transit** US\$ \_\_\_\_\_ -

**c. Petty cash balance** US\$ \_\_\_\_\_ -

**d. Amount of unliquidated expenses<sup>d</sup>** US\$ \_\_\_\_\_ -

**e. Others [please specify, for example bank charges, etc.]** US\$ \_\_\_\_\_ - US\$ \_\_\_\_\_ -


**6 TOTAL ADVANCE ACCOUNTED FOR** US\$ \_\_\_\_\_ -  
[Explain any discrepancy between totals appearing in lines 1 and 6 above (e.g., earned interest credited to the account, etc.)]

**7 ADVANCE ACCOUNT TURNOVER RATIO<sup>e</sup>** **1.60**

**8 APPROPRIATE LEVEL OF ADVANCE BALANCE (item 1 x item 7 x 6/12)** US\$ **3,200,000.00**

**9 REQUESTED LEVEL OF ADVANCE** US\$ **4,000,000.00**

Attach the latest estimate of expenditures (use the form of Appendix 8A) if the amount of item 9 is larger than the lower of item 1 or item 8 (See Loan Disbursement Handbook, Sections 8.13 and 8.18).



# Final Liquidation of the Advance Account

- Advances are normally liquidated without replenishment during the 6 months prior to the loan closing date .
- This is to ensure (i) refund of advance is zero or minimal amount, and (ii) the borrower can obtain supporting documentation for clearing the outstanding advances before the end of the winding-up period.



# Refund of Advance

- Any unliquidated balance of advance to the advance account, must be promptly refunded to ADB, in the currency of the advance account.
- ADB applies the current value of the refund.
- Exchange differences are borne by the borrower.




# Loan Cancellation

(LDH 3.10-3.13)

## Cancellation by the Borrower

- The borrower may, by notice to ADB, cancel any amount of the loan which has not been withdrawn.
- The effective cancellation date is when ADB receives the borrower's notice of such cancellation issued after consulting with ADB and obtaining the guarantor's concurrence where needed.





# Winding-up Period

(LDH 4.20-4.21)

- 4 months for winding-up may be provided to allow the borrower to:
  - (i) submit WA for expenditures incurred on or before the loan closing date, and
  - (ii) fully liquidate expenditures incurred on or before the loan closing date.
- The borrower must promptly inform ADB of any expected delay in submitting WA by the end of the winding-up period.
- Within 2 months after the winding-up period, the borrower should fully refund any outstanding advances provided to the advance account to ADB.



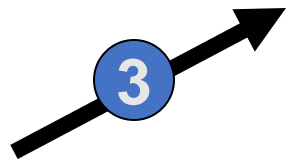
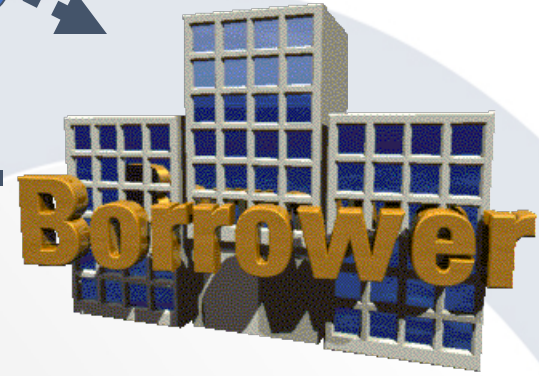
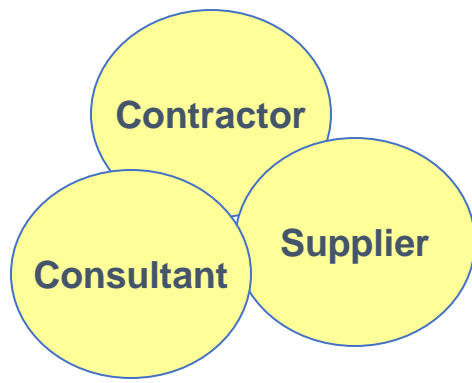
# Retention Money

(LDH 4.27)

- ❑ Payment of retention money is made at the end of the warranty period.
- ❑ Where payment is due after the loan closing date; ADB may disburse the retention money to the contractor, as expenditure incurred, against an unconditional bank guarantee.



# Module 7: Direct Payment



# Direct Payment

- Full documentation





## Direct Payment

- ✓ Normally used for large value payments when the borrower has insufficient resources and the advance fund procedure is not approved for the project
- ✓ A signed WA (Appendix 5A) must be submitted to ADB together with a summary sheet (Appendix 6A or 6B) and the required supporting documents.
- ✓ A separate WA is required for each different currency of disbursement requested.



# Module 8: Commitment Procedure

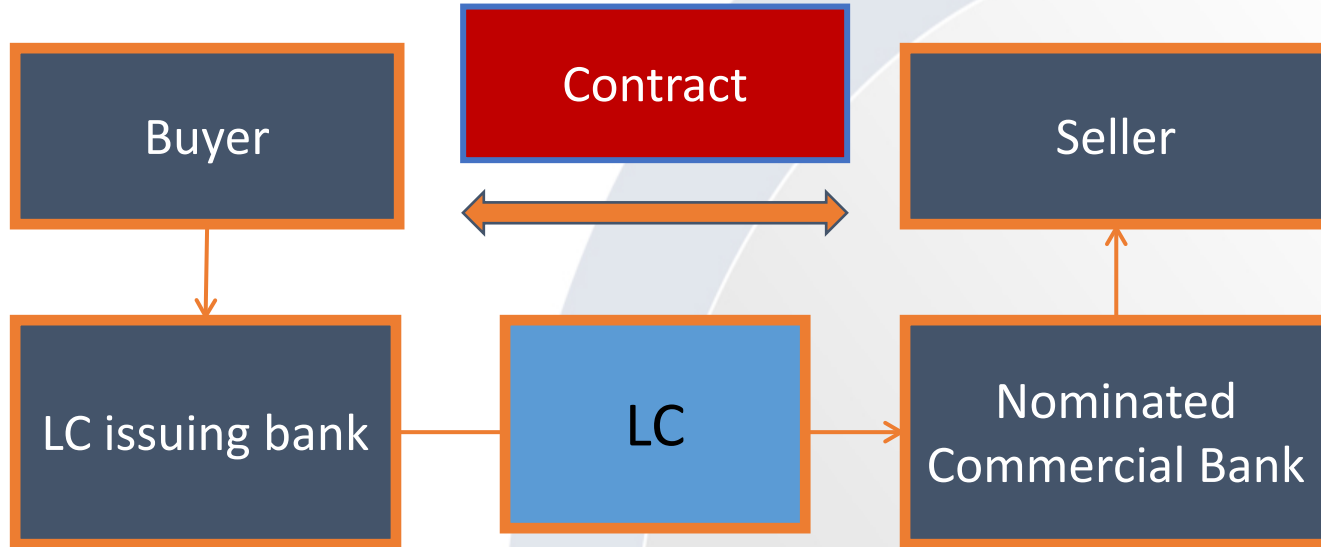


# Commitment Procedure

- Under the Commitment procedure, ADB, at the borrower's request, irrevocably agrees to reimburse a commercial bank for payments made or to be made to a supplier against a Letter of Credit (LC).

# What is a Letter of Credit (LC)?

- A written undertaking by the “LC issuing bank” given to the seller at the request of the buyer to pay a stated sum of money within a prescribed time limit and against stipulated documentary proof of delivery.





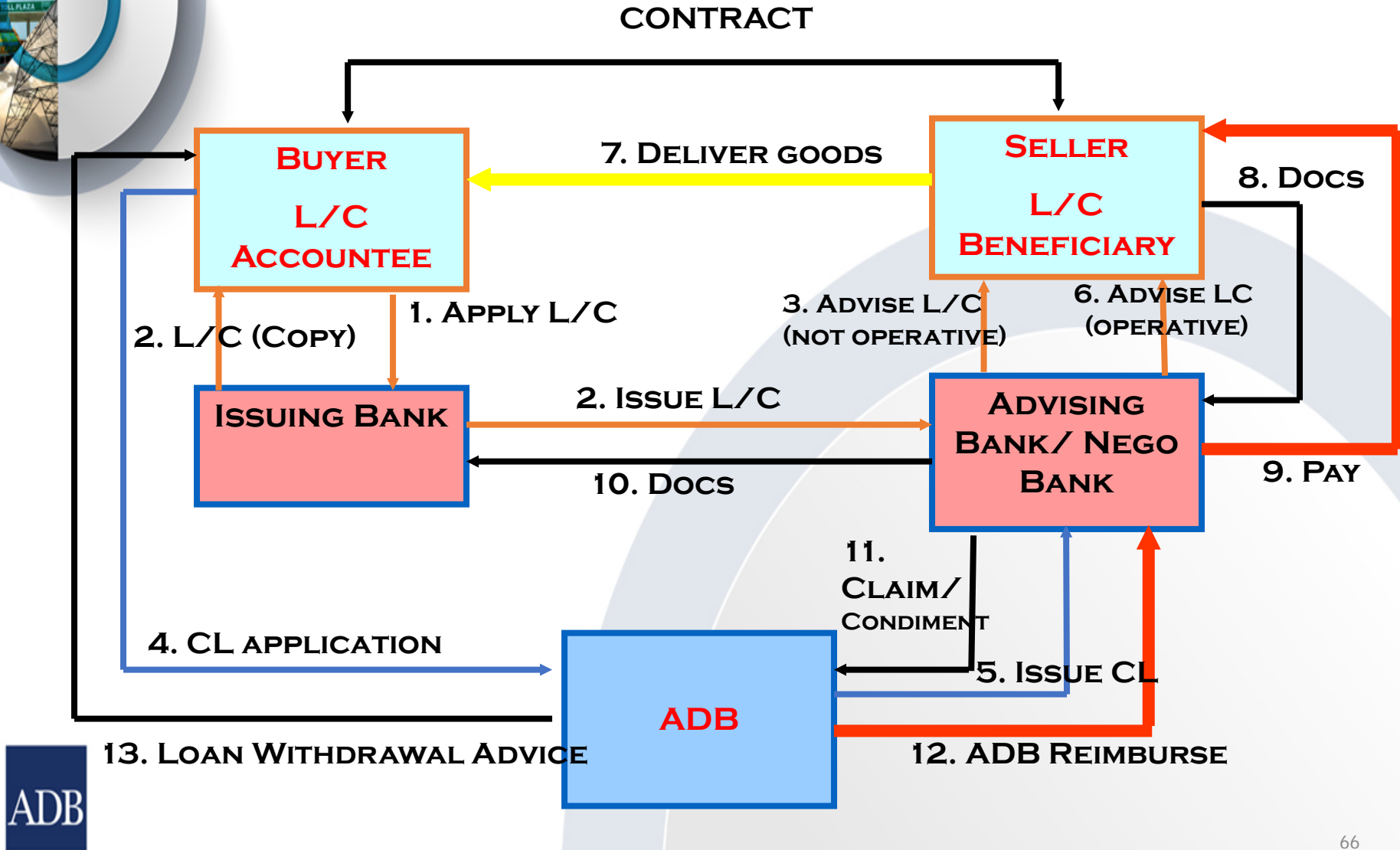


# Features of Commitment Procedure

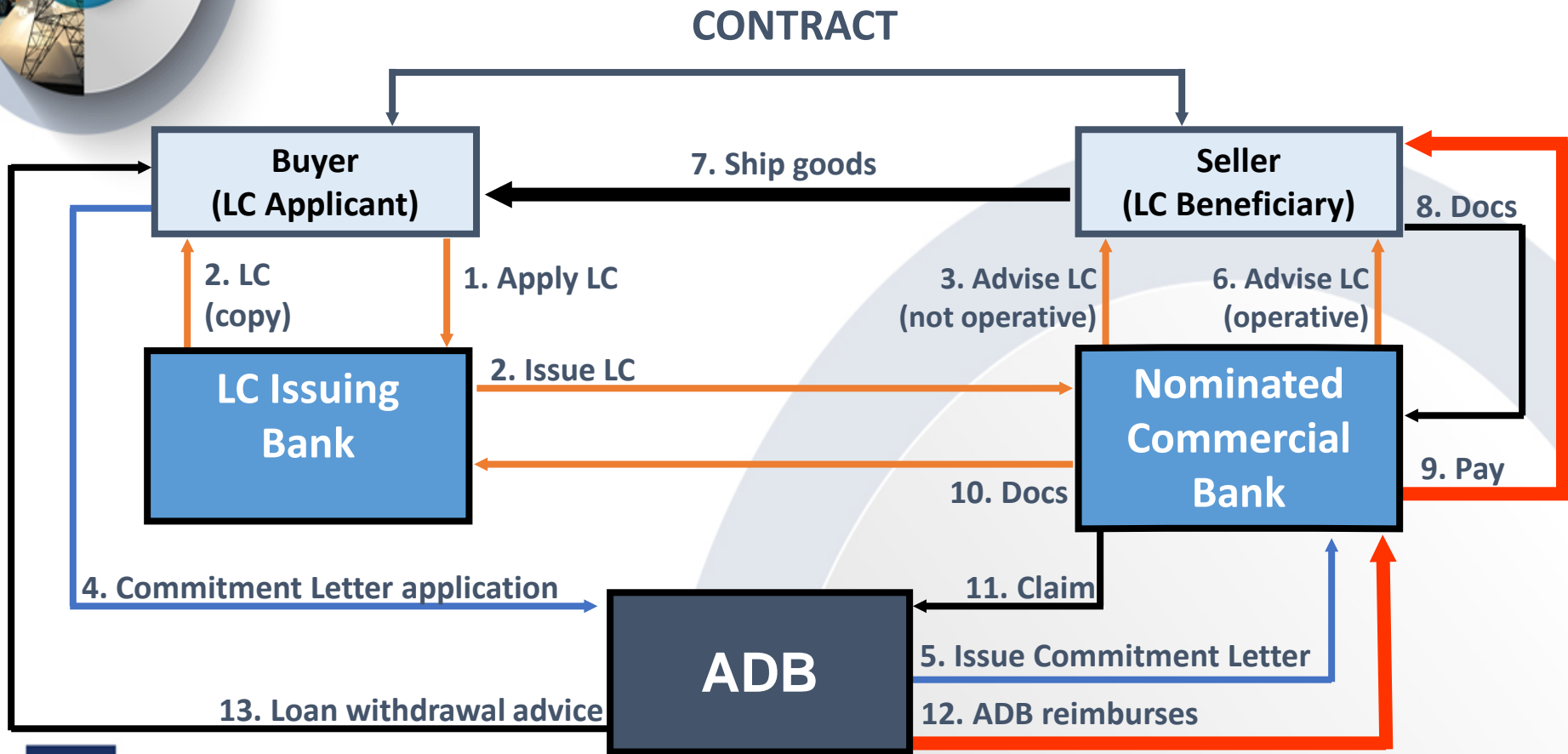
- ❖ For financing the large importation costs, the amount of which is not less than minimum WA amount.
- ❖ ADB's payment assurance is limited to the amount available in the loan account.
- ❖ LC issued by the LC issuing bank becomes operative only if and when ADB issues its commitment letter to the nominated commercial bank.
- ❖ Irrevocable in the sense that ADB's obligation is not be affected by suspension or cancellation of the loan.

# DIAGRAM

## COMMITMENT LETTER



# DIAGRAM OF STEP-BY-STEP ACTIONS PERFORMED BY PARTIES INVOLVED





# Basic Requirements for Issuance of ADB's Commitment Letter

- ✓ Signed application for Issuance of Commitment Letter (*Appendix 10A of LDH*)
  - Separate application for each currency
- ✓ Summary sheet for Commitment Letter (*Appendix 10B of LDH*)
- ✓ Required supporting documents
  - Contract or confirmed purchase order, if not submitted earlier to ADB.
  - A copy of the LC.



# Issuing the Commitment Letter

- ❖ Upon approval of borrower's application for a Commitment Letter, Commitment Letter is issued to a commercial bank specified in LC.
- ❖ When LC indicates a separate advising bank and nominated bank, Commitment Letter will be issued to the nominated bank, with a copy to the advising bank.
  - *"negotiation with any bank" is not acceptable*
- ❖ A "transferrable" LC is not acceptable.
- ❖ No Commitment Letter is issued if shipment or LC expiry date fall beyond the loan closing date.



# Linking the LC to the Commitment Letter

(Section 10.23 of LDH)

- The LC is linked to ADB's Commitment Letter with following clause:
- *“This LC is established under Asian Development Bank Loan \_\_\_\_\_(number) and becomes effective only if and when the Asian Development Bank issues its commitment letter to the nominated commercial bank. For payment please follow the instructions contained in the commitment letter.”*



# Payment to Nominated Commercial Banks

- ADB pays after the receipt of the confirmation of payment from the nominated commercial bank.
- Requests for reimbursement are made in authenticated Society for Worldwide Interbank Financial Telecommunication (SWIFT) or tested telex.



# Payment to Commercial Banks

- Requests must include the word ‘Condiment’ or
- *“(i) Payment has been made or is due and will be promptly made to the beneficiary under and in full compliance with the terms and conditions of the LC; (ii) documents were presented within the original or extended expiry date; and (iii) discrepancies, if any, have been referred to and accepted by the LC issuing bank.”*





## Amendments to the LC

- ❖ ADB's approval of amendments to the LC should be requested as soon as the LC amendment is obtained from the LC issuing bank. (*Appendix 10E of LDH*)
- ❖ ADB communicates its approval by the form in LDH (*Appendix 10F*) or by authenticated SWIFT, tested telex, or a formal letter of approval.
- ❖ In urgent cases, application by FAX are allowable.
- ❖ Message includes (i) amendment was made by LC issuing bank and (ii) relevant documents are airmailed to ADB.



# LC Amendments Requiring ADB's Prior Approval

ADB's prior approval is required for amendments to the LC involving changes such as

- ❖ Extension of LC expiry date beyond loan closing date;
- ❖ Change in LC's value or currency;
- ❖ Description or quantity of goods;
- ❖ Country of Origin;
- ❖ Beneficiary; and
- ❖ Terms of payment.



## Discrepancies

If there is any discrepancy between the documents and the LC terms, the nominated bank must seek the borrower's authorization for payment.



Thank you!

ADB