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Case Studies

ADVANCE FUND

Case 1 – Advance Fund

The Borrower of an ADB loan of US\$15 million requested an advance to the Advance Account of US\$3 million supported by the estimate of ADB's share of expenditures to be paid through the advance account for the forthcoming 6 months.

Is this acceptable?

Answer Case 1

Answer: Yes

For project loans, the total outstanding advances should not exceed the estimate of ADB's share of expenditures to be paid through the advance account for the forthcoming 6 months

Case 2 – Advance Fund

1. **Scenario: The EA is requesting for an additional advance of USD 100,000.00 for the forthcoming 6 months**

2. **Key Facts:**

Current outstanding advance account is USD 500,000.00.

What is the total amount of the estimates of expenditures (EES)?

- a. USD 600,00.00
- b. USD 100,000.00
- c. USD 500,000.00

Answer Case 2

USD 600,000.00

Case 3 – Advance Fund

The Borrower requested ADB's approval to deposit the advance amount to the EA's account other than Advance Account, and to utilize the interest earned to fund the commitment charges.

Is it possible for ADB to agree to this request?

Answer Case 3

Answer: No

Advance account funds must:

- a) Be deposited to EA's Advance Account
- b) Fund only ADB's share of expenditure
- c) Be utilized for project purposes as stated in Schedule 3 of the Loan Agreement

Case 4 – Advance Fund

The Project consists of an ADB loan of US\$20 million and a cofinancier grant of US\$5 million. The executing agency (EA) withdrew funds from the advance account of the ADB loan to pay expenditures for activities under the cofinancier's grant.

Is this allowed?

Answer Case 4

Answer: No

The loan regulations state that the borrower shall be entitled to withdraw from the loan account such amounts as shall be required to meet the cost of goods and services required for the project and stipulated in Schedule 3 of the Loan Agreement

An expenditure for an activity under the cofinancier grant though eligible under the grant agreement is not eligible to be funded from the ADB loan

In this case, ADB will request an immediate refund

Case 5 – Advance Fund

Attachment to Schedule 3 of the Loan Agreement indicates a disbursement condition against “Management costs” category. The condition has not been met when the EA submitted a withdrawal application for the initial advance to the advance account together with an estimate for the next 6 months expenditure, which includes expenditures under “Management Costs” category.

Can the advance be provided as requested?

Answer Case 5

Answer: No

No advance to the advance account shall be made for the amount of management costs until the disbursement condition has been met

The estimate for the advance account must exclude management costs

Case 6 – Advance Fund

How much would be the appropriate amount for the initial advance under the following conditions?

- Total loan amount: US\$25,000,000
 - ADB disbursement percentage in the allocation table as an attachment to the Loan Agreement:
 - o Civil works 75% of total expenditure claimed
 - o Equipment 84% of total expenditure claimed
 - o Consulting 80% of total expenditure claimed
 - Estimated expenditure for the coming 6-month period (ADB and Government portion)
 - o Civil works US\$ 5,000,000
 - o Equipment US\$ 800,000
 - o Consulting US\$ 312,500
 - Intended Mode of Payment
 - o Civil works: About 80% of the civil works contract amount will be paid through advance fund procedure 20% (large payment only) will be through direct payment procedure
 - o Equipment: Large importation, all will be paid through Commitment procedure
 - o Consulting: About 50% of the consulting contracts will be paid through advance fund procedure; 50% will be paid through reimbursement procedure
- a. US\$6,112,500.00
b. US\$4,672,000.00
c. US\$4,156,250.00
d. US\$3,125,000.00

Answer Case 6

ANSWER NO

USD 3,125,000

	Estimated	Mode of	ADB Fin	ADB
Category	Expenditure	Payment	%	Fin Amount
Civil Works	\$ 5,000,000.00	80%	75%	\$ 3,000,000.00
Equipment	\$ 800,000.00	0%	84%	\$ -
Consulting	\$ 312,500.00	50%	80%	\$ 125,000.00
				<u>\$ 3,125,000.00</u>

Case 7 – Advance Fund

What should be the amount claimed from ADB in the following case (Loan No. 8989(SF))?

- a. US\$ 552,500
- b. US\$ 550,000
- c. US\$ 469,625
- d. US\$ 467,500

A civil works contract for US\$5,000,000 was executed between Global Company (the Contractor) and the Ministry of Roads and Transportation (EA). The contract falls under category 01 (Civil works) with ADB financing of 85% of expenditure. Payment terms indicated in the contract state that payment will be made based on IPC (interim payment certificate), agreed between EA – Supplier – Consultant/Supervisor/Engineer. The advance amount is 20% of the contract and will gradually be reduced thru interim payment, equivalent to 35% of the amount requested. A retention payment of 10% will be executed, 5% of which will be released upon acceptance of the Hand-Over Minutes and the other 5% to be paid after the guarantee period of 1 year after receipt of Handover Minutes.

The EA submitted a replenishment WA to ADB, requesting ADB to replenish the Advance Account for a payment it made to the Contractor in the amount of US\$552,500. The EA's computation is as follows: US\$1,000,000 – advance of US\$350,000 = 650,000 x 85% = US\$ 552,500.

Details of payment shown in the IPC are as follows:

Value of completed work for the period:	US\$ 1,000,000
Less: Advance recovered (35% x US\$ 1,000,000)	(US\$ 350,000)
Less: Retention 10%:	<u>(US\$ 100,000)</u>
Net	<u>US\$ 550,000</u>

Answer Case 7

ANSWER:

USD 467,500

Value of work completed per IPC	US\$	1,000,000
Advance recovered		(350,000)
10% Retention		(100,000)
Net Invoice	US\$	550,000
x ADB Financing %		85%
Amount to be claimed from ADB	US\$	467,500