

Project Administration Instructions

PAI 5.06
Revised June 2007
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UTILIZING SURPLUS LOAN PROCEEDS

A. Introduction

1. During project implementation, surplus loan proceeds occur when an ADB-funded component is deleted or the cost is lower than that estimated during processing. This PAI describes the treatment of such surplus loan proceeds. It should be read in conjunction with PAI 4.04, which discusses suspension and cancellation of loans; PAI 5.04, which discusses changes in project scope and implementation arrangements; and PAI 5.05, which provides for reallocation of loan proceeds.

B. Dealing with Surplus

2. Surplus loan proceeds not required to finance increased costs of other project components (PAI 5.07) are normally canceled from the loan amount after advising the borrower and executing agency. Surplus proceeds are usually identified by project review, midterm review, and country portfolio review missions. Prompt cancellation of the surplus loan proceeds reduces the commitment fees paid by the borrower. Canceling surplus proceeds of Asian Development Fund (ADF) loans enable these amounts to revert to the limited ADF resources for lending to other projects. After the award of most major contracts, missions review the cost estimates to determine the surplus.

3. Surplus loan proceeds may be needed to complete a project or finance additional goods or services required under the project. Attainment of the project's immediate objectives is the main consideration in determining whether to cancel or use surplus loan proceeds. Reference should be made to PAIs 5.04 and 5.05 to determine the appropriate approval level if surplus loan proceeds are to be used to help complete the project (i.e., reallocation of loan proceeds) or to finance changes in scope or implementation arrangements.

4. Occasionally, surplus loan proceeds from a project are needed to finance another ongoing or new project. Surplus proceeds from several ongoing loans can also be used to finance the import of urgently needed commodities or to finance the local currency costs of other ongoing projects. When proposing the use of ADF surplus loans proceeds for another ongoing or new project, prior to preparing a Board paper SPD should be consulted to confirm the necessary resources are available within the Operations Group's ADF pool and the concerned vice-president's approval should be obtained to use the surplus loan proceeds. (see R249-04: *Review of the Asian Development Bank's Policy on the Performance-Based Allocation of ADF Resources*)

5. As Article 14 (xi) of ADB's Charter provides that loan proceeds are to be used only for the purposes for which the loan is approved, Board approval must be sought, through a brief Board paper on a no-objection basis to use surplus loan proceeds for another project. In preparing the Board paper, the sector division or the regional or resident mission responsible for implementing the project consults the Central Operations Services Office and Loan Administration Division. The format of the Board paper is similar to that shown in PAI 5.04, Appendix 1 (reporting a major change in project scope and implementation arrangements). The vice-president approves the paper prior to its circulation to the Board.

6 Utilizing surplus proceeds, within the project for which the funds were approved, results in the surplus being reallocated (PAI 5.05).