

Project Administration Instructions

PAI 4.02
Revised in June 2023
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SUSPENSION AND CANCELLATION OF LOANS¹

1. This Project Administration Instruction (PAI) describes how loans are suspended or cancelled in accordance with the provisions in the Asian Development Bank (ADB) Loan Regulations (the Regulations).²

A. Suspension of Loans

2. ADB may suspend in whole or in part, the borrower's³ rights to withdraw loan proceeds when any of the events specified in the Regulations occur after the date of the loan agreement. The loan agreement may identify additional, project-specific events for suspending the borrower's rights to withdraw. When a loan has been suspended, no further withdrawal can be made from that date until the event which gave rise to such suspension ceases to exist or until ADB notifies the borrower that the right to withdraw has been restored, whichever is earlier. The borrower's right to withdraw may be restored, in whole or in part, if ADB decides to lift the suspension.

3. The regional vice-president concerned approves the decision to suspend and restore a loan.

4. The suspension of withdrawal does not affect disbursements committed through outstanding ADB commitment letter procedure. Such commitments are irrevocable and ADB is obliged to disburse even if the loan is suspended. For requests of payment received by ADB before the effective date of suspension, ADB may make disbursements to pay for expenditures incurred for works, goods, and services claimed in such requests.

5. The effective date of loan suspension and/or lifting the suspension is the date of ADB's notice to the borrower, or the effective date specified in such notice to the borrower.

B. Cancellation of Loans

6. The borrower or ADB may cancel all or part of an undisbursed loan balance as provided for in the Regulations.

¹ In this PAI, the term "loan(s)" includes grant(s) and the term "project(s)" includes program(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).

² ADB. 2022. [Ordinary Operations Loan Regulations Applicable to Regular Loans Made from ADB's Ordinary Capital Resources](#); ADB. 2022. [Ordinary Operations \(Concessional\) Loan Regulations Applicable to Concessional Loans Made from ADB's Ordinary Capital Resources](#); ADB. 2022. [Special Operations Grant Regulations Applicable to Grants Made from ADB's Special Funds Resources](#); and ADB. 2022. [Externally Financed Grant Regulations Applicable to Grants Financed from a Trust Fund or Other External Sources and Administered by ADB](#).

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

1. Cancellation by the Borrower

7. After consultation with ADB, the borrower may, by notice to ADB, cancel any amount of the loan which the borrower shall not have withdrawn prior to the giving of such notice. Outstanding amounts of commitment letters issued by ADB cannot be cancelled except as expressly provided in such commitment letters.

8. ADB should receive through written communication from the borrower on their intent to cancel all or part of a loan. Such communication allows ADB to comment on the borrower's intent before it is put into effect. Once the borrower requests cancellation of all or part of a loan, ADB cannot delay or deny that request. If the ADB loan has associated cofinancing, each cofinancier must be consulted prior to a cancellation. The project team should communicate with cofinanciers through the Partner Funds Division (CCPF) of the Climate Change and Sustainable Development Department and incorporate their advice when finalizing the cancellation.

9. The project team prepares a cancellation memorandum in consultation with country operations head and submits to the country director, through the regional sector project administration unit head, for approval of cancellations initiated by the borrower and informs the Controller's Department (CTL), Portfolio Management Division (PFPM) of the Procurement, Portfolio, and Financial Management Department, and CCPF if cofinanced, of the cancellation details.

10. The effective date of cancellation is when ADB receives the borrower's notice issued after consulting with ADB and obtaining the guarantor's concurrence where needed.

2. Cancellation by ADB

11. ADB may terminate the borrower's right to withdraw the loan proceeds if any of the following instances justifies the cancellation of all or part of the loan:

- (i) an amount of the loan is not utilized;⁴
- (ii) at any time ADB determines after consultation with the borrower, that any amount of the loan will not be required for the purposes of the project due to circumstances which include, but not limited to:
 - (a) alternative financing from another source, envisaged but not finalized before ADB Board approval of the loan, materializes during project implementation;
 - (b) a change in project scope agreed to by ADB, one or more components of the project cannot be implemented, leading to partial cancellation of the loan;
 - (c) a loan is determined to not be fully required to complete the project (i.e., where surplus loan proceeds are identified during project implementation);
 - (d) a loan is refinanced from a subsequent or ensuing loan;

⁴ Cancellations related to loan closing should refer to PAI 4.03 (Loan Closing Dates).

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- (e) ADB determines that the procurement of any contract to be financed from the loan is inconsistent with the procedures stated or referred to in the loan agreement;
 - (iii) following suspension of any amount of a loan for a continuous period of 30 days;
 - (iv) an unforeseen change that causes the borrower not to undertake or proceed with the project; or
 - (v) ADB determines, for any contract to be financed from the loan, that representatives of the borrowers or beneficiaries of the loan are engaged in corruption, fraud or other integrity violations. This could be during procurement, consultant selection, or execution of contracts, without the borrower taking timely and appropriate action, satisfactory to ADB, to remedy the situation.
12. The project team prepares a memorandum to cancel all or part of the loan, in consultation with other departments/offices (CTL,⁵ Office of Anticorruption and Integrity [OAI], and CCPF if the project is cofinanced).⁶
13. For paras. 11 (i) and (ii), the project team leader submits the memorandum through the senior sector director for approval of the regional director general.
14. For paras. 11 (iii) to (v), the project team leader submits the memorandum through the senior sector director and regional director general to the regional vice president for approval. Para. 11 (v) will be evaluated in accordance with the Anticorruption Policy.⁷
15. The cancellation is effective from the date of ADB's notice to the borrower or the effective date specified in such notice to the borrower. The project team should discourage executing agencies from submitting requests for cancellations late in the calendar year. This ensures that the effective date of cancellation of loan funds is within the calendar year in which the notice of cancellation is served to the borrower, and thereby ensures accuracy of loan commitments in ADB's annual financial statements.
16. **Cancellation of Multitranche Financing Facility (MFF).** Cancellation of an MFF means that ADB terminates the borrower's right to access financing under the MFF. It can be achieved either by immediately canceling both the MFF and the ongoing tranches or canceling the MFF after completion of the ongoing tranches. Cancellation of an MFF follows the procedures in *Table A4.5: Cancellations* in the *Staff Instruction on Business Processes for the Multitranche Financing Facility*. Cancellation of a tranche of an MFF follows section B of this PAI.

⁵ CTL will review correctness of the amount to be cancelled.

⁶ Project team members from OGC and Procurement, Portfolio, and Financial Management Department should be consulted.

⁷ Operations Manual Section C5 (Anticorruption).

C. Notification of Loan Suspension and Cancellation

17. The country director writes to the borrower advising of the suspension or cancellation, indicating the effective date and/or the cancelled amount. The copy of the memorandum should be sent to the concerned ADB offices (PFPM, CTL, CCPF if the project is cofinanced, Office of the General Counsel, and OAI as applicable). The project team immediately completes a loan or grant milestone event dates (LMED or GMED) form and sends the approved form to the Loan and Treasury Accounting Section and Loan Administration Division of CTL for immediate recording.