

# Project Administration Instructions

PAI 4.02  
Revised in December 2018  
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## SUSPENSION AND CANCELLATION OF LOANS

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

### A. Suspension of Loans

2. ADB may suspend in whole or in part, the borrower's<sup>3</sup> 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 vice-president of the region 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 day 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.

6. Suspension may be effected in cases specified in the Regulations and relevant loan agreement. The same procedure and approving authorities will be applied to lift the suspension.

### B. Cancellation of Loans

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

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<sup>1</sup> The term "loan" includes grants, unless the context requires otherwise, but does not include technical assistance grants. This PAI also applies to loans and grants from external sources that are administered by ADB, unless agreed otherwise between ADB and cofinanciers.

<sup>2</sup> ADB. 2017. [Ordinary Operations Loan Regulations Applicable to Regular Loans Made from ADB's Ordinary Capital Resources](#); ADB. 2017. [Ordinary Operations \(Concessional\) Loan Regulations Applicable to Concessional Loans Made from ADB's Ordinary Capital Resources](#); ADB. 2017. [Special Operations Grant Regulations Applicable to Grants Made from ADB's Special Funds Resources](#); and ADB. 2017. [Externally Financed Grant Regulations Applicable to Grants Financed from a Trust Fund or Other External Sources and Administered by ADB](#).

<sup>3</sup> 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**

8. 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.

9. Consultation with the sector division<sup>4</sup> should be done through written communication. Such consultation 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. Staff should communicate with cofinanciers through the Office of Cofinancing Operations (OCO), and incorporate OCO's advice when finalizing the cancellation.

10. The head of the sector division approves cancellations initiated by the borrower and informs the Controller's Department (CTL) and Portfolio Management Division (PFPM) of the Procurement, Portfolio and Financial Management Department (PPFD) of the cancellation details.

11. 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**

12. 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;<sup>5</sup>
- (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;
  - 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

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<sup>4</sup> The term "sector division" also refers to the regional office or resident mission primarily administering the project.

<sup>5</sup> Cancellations related to loan closing should refer to PAI 4.03 (Loan Closing Dates).

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- (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.

13. The sector division cancels all or part of the loan, in consultation with other offices (PPFD, CTL, Office of Anticorruption and Integrity [OAI], Office of the General Counsel [OGC], and OCO if the project is cofinanced).

14. For paras. 12 (i) and (ii), the director general approves cancellation of all or part of the loan after consulting with other offices.

15. For paras. 12 (iii) to (v), the decision to cancel all or part of the loan is made by the vice-president concerned on the recommendation of the regional department. Para. 12 (v) will be evaluated in accordance with the Anticorruption Policy.<sup>6</sup>

16. 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 sector division 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.

17. **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 5: Cancellations in the Staff Instruction on Business Processes for Multitranche Financing Facility*. Cancellation of a tranche of an MFF follows section B of this PAI.

### **C. Notification of Loan Suspension and Cancellation**

18. The sector division writes to the borrower advising of the suspension or cancellation, indicating the effective date and/or the cancelled amount, and copies the concerned ADB offices (PFPM, CTL, OCO if the project is cofinanced, OGC, OAI as applicable, and resident mission or sector division as applicable). The sector division immediately completes a loan or grant milestone event dates (LMED or GMED) form and sends the approved form to the Loan Administration Division of CTL for immediate recording.

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<sup>6</sup> Operations Manual Section C5 (Anticorruption).