

Project Administration Instructions

PAI 4.02
Revised in December 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 loan suspension and/or lifting the suspension is effective from the date specified in ADB's notice to the borrower, or from the date of ADB's notice to the borrower, if not specifically indicated in such notice.

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 In this PAI, 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 should 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, notice of their intent to cancel all or part of a loan. This notice is not a formal request of cancellation. Once ADB receives the notice, the project team reviews and provides comments in consultation with the Controller's Department (CTL), the country operations head and the regional sector project administration unit head. Such communication allows ADB to comment on the borrower's intent before it is put into effect. The borrower should formally request cancellation of all or part of a loan. ADB should promptly process such request provided that ADB's comments are incorporated and that the cancellation should be put into effect. 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 and submits to the country director (CD), through the regional sector project administration unit head, for approval of cancellations initiated by the borrower and informs CTL (using the Loan and Grant Milestone and Change Event [LGMCE] form),⁴ Portfolio Management Division (PFPM) of the Procurement, Portfolio, and Financial Management Department, and CCPF if cofinanced, of the cancellation details.

10. The cancellation is effective from the date 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 remains unwithdrawn from the loan account by the loan closing date;⁵
- (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:

⁴ See PAI 6.04 (*Loan Milestone and Change Event*).

⁵ Cancellations related to loan closing should refer to PAI 4.03 (*Loan Closing Dates*).

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- (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;
- (iii) the right of the borrower to make withdrawals from the loan account shall have been suspended with respect to any amount of the loan for a continuous period of 30 days;
 - (iv) an unforeseen change that causes the borrower not to undertake or proceed with the project;
 - (v) at any time ADB determines, with respect to any contract to be financed in full or in part out of the proceeds of the loan, that corrupt, fraudulent, coercive, collusive or obstructive practices, or other integrity violations, as determined by ADB, were engaged in by representatives of the borrower, the guarantor, or any beneficiary of the loan during the procurement of goods, works, services, consultants' selection, or the execution of a contract without the borrower or guarantor having taken timely and appropriate action, satisfactory to ADB, to remedy the situation; or
 - (vi) at any time 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.

12. The project team prepares a memorandum to cancel all or part of the loan, in consultation with other departments/offices (CTL,⁶ Office of Anticorruption and Integrity, and CCPF if the project is cofinanced).

13. For paras. 11 (i) and (ii), the project team leader (PTL) submits the memorandum through the sector director for approval of the CD.

14. For paras. 11 (iii) to (v), the PTL should consult with OAI, if necessary, and submit the memorandum through the senior sector director and regional director general for approval of the regional vice president. Para. 11 (v) will be evaluated in accordance with the Anticorruption Policy (1998, as amended to date).⁷

15. For para. 11 (vi), the PTL submits the memorandum through the senior sector director for approval of the regional director general.

16. ADB's notice to the borrower should indicate the effective date of the cancellation. However, if the effective date is not specified in the notice, the date of ADB's notice to the borrower

⁶ CTL will review correctness of the amount to be cancelled.

⁷ Operations Manual Section C5 (*Anticorruption*).

is the effective date of the cancellation. The project team should discourage the borrower 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.

3. Cancellation of Multitranche Financing Facility

17. Cancellation of a Multitranche Financing Facility (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* under the *Staff Instruction on Business Processes for the 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 CD 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 Office of Anticorruption and Integrity as applicable). The project team promptly completes an LGMCE form and sends the approved form to the Loan and Treasury Accounting Section and Loan Administration Division of CTL for immediate recording (footnote 4).