

Project Administration Instructions

PAI 5.04
Revised in December 2023
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UTILIZING SURPLUS LOAN PROCEEDS¹

1. This Project Administration Instruction (PAI) describes the treatment of surplus loan proceeds resulting from a change in the Asian Development Bank (ADB)-financed project including reduction in scope and/or cost savings in the project expenditures. This PAI should be read in conjunction with (i) PAI 4.02 (*Suspension and Cancellation of Loan*), (ii) PAI 5.02 (*Change in Loan Projects*), and (iii) PAI 5.03 (*Reallocation of Loan Proceeds, Change in Counterpart Funding and Change in Disbursement Percentage*).
2. Surplus loan proceeds may be needed to complete a project or finance additional goods and/or services required under the project. Reference should be made to PAIs 5.02 and 5.03 to determine the appropriate approval level if surplus proceeds are to be used to help complete the project or to finance changes in a project.
3. Occasionally, surplus loan proceeds from a project are needed to finance another ongoing or a new project. 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. When proposing the use of surplus concessional resources (Asian Development Fund [ADF] grant and/or concessional ordinary capital resources [COL]) for another ongoing or new project, prior to preparing a change memorandum following PAI 5.02 (*Change in Loan Projects*) or a Board paper following the *Staff Instruction on Business Processes for Sovereign and Sovereign-Guaranteed Financing*, the Strategy, Policy, and Partnerships Department should be consulted.² For surplus loan proceeds from external funding sources administered by ADB, the Partner Funds Division of the Climate Change and Sustainable Development Department should be consulted and will coordinate arrangements with the cofinancier.
4. Surplus loan proceeds not required for a project will be cancelled from the loan amount after consultation with the borrower.³ Project administration missions should identify any surplus loan proceeds and discuss possible cancellation and utilization and record this in a memorandum of understanding or an aide-mémoire to be signed or confirmed by the borrower. Prompt cancellation of the surplus loan proceeds reduces the commitment fees on regular ordinary capital resources (OCR) loans payable by the borrower. Cancellation of surplus proceeds of COL and ADF grants enables reverting them to the limited concessional resources for allocation to other projects. Repurposing of cancelled funds is processed as new financing pursuant to applicable policies.

¹ In this PAI, the term "loan(s)" includes grants and the term "project(s)" excludes program(s), unless the context requires otherwise.

² ADB. 2016. *Concessional Assistance Policy* (R36-16).

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