

AFRICAN DEVELOPMENT BANK GROUP



REVISED GUIDELINES ON CANCELLATION OF APPROVED LOANS, GRANTS AND GUARANTEES

OPERATIONAL RESOURCES AND POLICIES DEPARTMENT



REVISED GUIDELINES ON CANCELLATION OF APPROVED LOANS, GRANTS AND GUARANTEES

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TABLE OF CONTENTS

ACRONYMS AND ABBREVIATIONS

1. INTRODUCTION	1
1.1 Background and Objectives	1
1.2 Outline of the Report	2
2. REVISED GUIDELINES	2
2.1 Portfolio Management	2
2.2 Eligibility Criteria	3
2.3 Cancellation Conditions	3
2.4 Procedure for Cancellation	4
A. Cancellation by the Borrower	4
B. Cancellation by the Bank	4
C. Cancellation of the Guarantee	5
3. OTHER PROVISIONS	6
3.1 Cancellation of Regional Operations	6
3.2 Communicating with Co- Financiers	6
3.3 Re-allocation of Cancelled Balances	7
3.4 Automatic cancellation for public sector loans	7
4. REPORTING AND MONITORING	7
5. GOVERNANCE AND ACCOUNTABILITY	8
6. CONCLUSION AND RECOMMENDATION	8
Annex 1. The statement of legal provisions	9
Annex 2. The checklist for Cancellation by the Bank	11
Annex 3. Sample Notice of Cancellation Sent to Borrower	14
Annex 4. A comparison with other MDBs	15
Annex 5. A Comparison of the Old Guidelines and the Revised Guidelines	18

ACRONYMS AND ABBREVIATIONS

AfDB	African Development Bank Group
ADB	African Development Bank
ADF	African Development Fund
APPR	Annual Portfolio Performance Review
AsDB	Asian Development Bank
CPPR	Country Performance Portfolio Review
DAM	Delegation of Authority Matrix
NTF	Nigeria Trust Fund
PCR	Project Completion Report
REC	Regional Economic Community
UA	Unit of Account
WB	World Bank

1. INTRODUCTION

1.1 Background and Objectives

1.1.1 The General Conditions applicable to Loan, Guarantee and Grant Agreements of the African Development Bank and the African Development Fund (the “General Conditions”) and the Revised Guidelines on Cancellation of Approved Loans, Grants and Guarantees prescribe to Bank staff, Borrowers, Guarantors and Co-financiers the criteria, conditions and procedures for public sector loan and /or grant cancellation¹. The Revised Guidelines supersede the Guidelines on Cancellation of African Development Bank Loans and African Development Fund Loans and Grants (Document ADB/BD/IF/93/176/Rev.2 - ADF/BD/IF/93/130/Rev.2)². These Guidelines are also applicable to the Nigeria Trust Fund (NTF), but not to the other Trust Funds, which would have their own guidelines.

1.1.2 Recent Bank Portfolio Performance Reviews³ indicate that in spite of improvements in recent years, the Bank continues to experience an accumulation of aging and non-performing operations owing to infrequent project cancellation. The effectiveness of the Bank’s cancellation policy was impeded in the past by absence of incentives for proactive action to cancel eligible loans and grants and limited eligibility criteria for cancellation of operations in the previous General Conditions⁴.

1.1.3 Delays in cancelling non-performing operations have implications for the Bank and its client countries that go well beyond project implementation. Non-cancellation of eligible loans and grants limits the resources available for the Bank’s investment and increases the cost of borrowing for the client country as its ratings are downgraded. To address these issues will require good coordination between the regional and sector departments of the Bank.

1.1.4 These Revised Guidelines aim to improve the cancellation process and its governance framework, as well as ensure optimal utilization of Bank resources. They provide staff in the Operations and Finance Complexes with standard procedures for cancellation of approved loans, grants, and guarantees. They provide criteria for regional member countries and regional economic communities (RECs) for initiating cancellation of approved loans, grants and guarantees. They further facilitate improved coordination and communication within the Bank and between the Bank and co-financiers (multilateral and bilateral) on cancellation issues.

¹ Note should be taken that the General Conditions which serve as reference for these Guidelines are for Public sector operations, and as such, private sector operations are not covered by these Guidelines.

² Major differences between the Old Guidelines and the Revised Guidelines are provided for in Annex5.

³ Annual Portfolio Performance Review Reports (2007, 2008 and Draft 2009). The Annual Portfolio Performance Review (APPR) provides an annual assessment of the Bank’s performance in supervising the portfolio and the prospects of it achieving its development objectives.

⁴ The Revised General Conditions, approved on 30 April, 2008 provide broader eligibility criteria which have been incorporated into these Cancellation Guidelines.

1.1.5 The revised Guidelines are aligned with the Delegation of Authority Matrix (DAM)⁵, the organizational structure and the General Conditions approved by the Boards in 2008. They are complemented by the following Bank documents – “The Loan or Protocol Agreement”; “The Disbursement Handbook”; “Bank Group Policy on Portfolio Review and Restructuring”; “Bank Group Policy on Utilization of Loans Savings”; and “The Presidential Directive on the Continuity of Operations and Engagement with *De Facto* Governments in Regional Member Countries”.

1.2 Outline of the Report

1.2.1 The rest of the document proceeds as follows:

- Section 2 presents key elements of the Revised Guidelines, namely; portfolio management, the eligibility criteria, cancellation conditions, and procedure for cancellation.
- Section 3 discusses other aspects of the Guidelines, namely; cancellation of regional operations, communicating with co-financiers, re-allocation of cancelled balances and the case for automatic cancellation; and
- Section 4 discusses modalities for reporting and monitoring of cancellable resources, as well as, the governance and accountability framework.

2. REVISED GUIDELINES

2.1 Portfolio Management

2.1.1 In managing the portfolio, cancellation of approved loans and/or grants should be the last resort, used only when all other measures have failed to yield the desired adjustment in performance and development impact. Therefore before any cancellation is effected, the Bank will undertake measures to rectify the problems associated with the portfolio. These measures include the following: adequate frequency and quality of supervision, including on-site management and reporting. These Revised Guidelines provide a set of procedures for implementing the General Conditions Applicable to Loan and Guarantee Agreements when cancellation is the selected option.

2.1.2 When cancellation is the selected option, the incentives/benefits for the cancellation should be brought to the attention of the Borrower, for example, that many countries may have lower portfolio performance ratings due to the presence of non-disbursing, cancellable operations. In the case of ADF countries this decreases their performance-based allocations and constrains their resources for future programming. The Borrower must also be advised of the requirement to close all un-disbursed pending contracts relating to the undisbursed loan and/or grant and liquidation of the Special Account.⁶

⁵ Presidential Directive No 06/2008 concerning the approval authority for operations.

⁶ No disbursement will be effected after cancellation of the loan.

2.2 Eligibility Criteria

2.2.1 The Criteria for cancellation of loans, grants and guarantees is based on and guided by the provisions of the “General Conditions” and the private sector loan agreement supplemented by administrative procedures.

2.2.2 An undisbursed balance of the Bank Group loan and/or grant will be eligible for cancellation when any of the following are applicable:

- (i) the loan, grant or guarantee is approved but unsigned for over 180 days;
- (ii) the loan, grant has been signed but undisbursed for more than two years;
- (iii) no disbursement has been made for a period of two years;
- (iv) the right to disbursement by the Borrower has been suspended for a continuous period of thirty (30) days⁷;
- (v) an undisbursed amount is no longer required to finance any project or program costs previously allocated to be financed out of the loan or grant resources;
- (vi) there is mis-procurement of any item and at any time in the implementation of the project that is inconsistent with the procedures provided for in the Loan Agreement or applicable rules of procurement of the Bank;
- (vii) there is evidence of corrupt, coercive, collusive or fraudulent practices in relation to any undisbursed balance;
- (viii) an amount remains un-disbursed by closing date of any project or program / expiration of disbursement deadline;
- (ix) there is modification in the project without prior approval by the Bank;
- (x) notice for cancellation of a guarantee has been received; or
- (xi) notice for cancellation of a loan/grant has been received from the Borrower or the Recipient.

2.3 Cancellation Conditions

2.3.1 The Borrower, the Bank or the Guarantor may cancel all or part of an undisbursed loan and/or grant balance, as per the cancellation criteria defined in section 2.2 above and in Article VI of the relevant General Conditions.

2.3.2 The cancellation process begins when any of the following takes place:

- (i) a recommendation to cancel all or part of the loan and /or grant has been made as a result of project supervision, audit, or similar exercise;
- (ii) a request for loan and /or grant cancellation from the Borrower and or the Guarantor is received; and
- (iii) the Regional Department review⁸ of the loan and grant, and technical advice from the Sector Department reveal that the loan and /or grant meet the cancellation criteria, as stipulated in these Guidelines.

⁷ The decision by Senior Management (SMCC) per “Presidential Directive on the Continuity of Operations and Engagement with *De Facto* Governments in Regional Member Countries” will take precedence in eligibility criteria (iv) in the case of *De Facto* Governments.

2.3.3 It is important to underline that in all cancellation cases, the development impact of the operation will be weighed judiciously against the need to improve portfolio performance.

2.4 Procedure for Cancellation

Implementation of the cancellation policy shall follow the following process:

A. Cancellation by the Borrower

2.4.1 The Borrower may cancel any amount of a loan and /or grant by giving sixty (60) days cancellation notice in accordance with section 6.01 of the relevant General Conditions, and after prior consultation with the Bank.

2.4.2 The Regional Director after review of the status of disbursements and consultation with the Sector Director and the Legal Department (where appropriate) prepares the Acknowledgement Letter to the Borrower. The Borrower is also advised of the requirement to close all un-disbursed contracts relating to the undisbursed loan and/or grant and liquidation of the Special Account.

2.4.3 The Regional Director also issues the Cancellation Instruction Memorandum with supporting documents to the Financial Control Department. A copy of this Memorandum is sent to the relevant Vice Presidents and Executive Directors, for information.

2.4.4 On receipt of the Cancellation Instruction Memorandum, the Financial Control Department verifies/counter-checks for any pending disbursements and/or obligations for services already rendered, then cancels the loan or grant and generates the General Ledger Posting.

2.4.5 *Effective Date of Cancellation*- Cancellation shall take effect at the latest sixty (60) days from the date of receipt by the Bank of the Borrower's cancellation notice. Once the cancellation is effective, the Regional Director shall inform the Borrower, Guarantor and/or Co-financiers, as appropriate.

B. Cancellation by the Bank

2.4.6 The Bank may cancel all or part of the loan and /or grant in accordance with the cancellation criteria in section 2.2 and Section 6.03 of the relevant General Conditions, after notice to and prior consultation with the Borrower.

2.4.7 The Borrower shall be given not less than ninety (90) days notice in writing within which to submit all or any outstanding disbursement requests for settlement by the Bank prior to loan and/or grant cancellation. In the absence of an agreement on cancellation

⁸ This may be during the Country Portfolio Performance Review (CPPR) exercise.

within the ninety (90) days, the cancellation will become effective on the date of expiry of the ninety (90) days notice period.

2.4.8 In the case of ‘amount no longer required’ for use in the project or program (criteria (v) in Section 2.2.2 above), consultations must be carried out within sixty (60) days after the Bank gives notice of its intention to cancel the loan and/or grant. In the absence of an agreement to cancel within the sixty (60) days, the cancellation will become effective on the date of expiry of the sixty (60) days notice period.

2.4.9 The Regional Director, after consultation with the Sector Director and Legal Department (where appropriate) prepares the Cancellation Notice to the Borrower; and Information Letter to the Guarantor and/ or Co-financiers as appropriate. After agreement with the Borrower or at the expiry of the cancellation notice, the Regional Director issues the Cancellation Instruction Memorandum with supporting documents to the Financial Control Department.⁹ A copy of this memorandum is sent to the relevant Vice Presidents and Executive Directors, for information.

2.4.10 On receipt of the Cancellation Instruction Memorandum, the Financial Control Department verifies/counter-checks for any pending disbursements and or obligations for services already rendered, then , cancels the loan and/or grant and generates the General Ledger Posting.

2.4.11 *Effective Date of Cancellation* - Cancellation shall take effect ninety (90) days after the issuance of the Cancellation Notice to the Borrower. By mutual agreement, cancellation can be carried out as soon as agreement to cancel is reached. However, in the case of ‘evidence of corrupt, coercive, collusive or fraudulent practice’ cancellation may be effected by the Bank, by notice to the Borrower and/or the Guarantor¹⁰. In this case, upon the giving of such notice, the loan and/or grant will be cancelled on the date decided by the Bank and indicated in the notice. Once the cancellation is effective, the Regional Director shall inform the Borrower, Guarantor and/or Co-financiers, as appropriate.

C. Cancellation of the Guarantee

2.4.12 The Guarantor may cancel or terminate its obligations under the Guarantee Agreement with respect to any amount of the Loan undisbursed from the Loan Account in accordance with section 6.06 of the relevant General Conditions, after notice and consultation with the Bank and the Borrower.

2.4.13 The Regional Director after consultation with the Sector Director and Legal Department (where appropriate) prepares the Acknowledgement Letter to the Guarantor with copies to the relevant Vice Presidents and Executive Directors, for information.

⁹ The cancellation memorandum to the Financial Control Department should be issued after the Borrower agrees to cancellation or on expiration of the notice period.

¹⁰ In accordance with Section 6.02 of the General Conditions, the Bank may, by Notice to the Borrower and the Guarantor, suspend in whole or in part the right of the Borrower to request for and receive disbursement from the loan account.

2.4.14 *Effective Date of Cancellation*- Cancellation of the Guarantor's obligations shall take effect following consultations and agreement reached within sixty (60) days of receipt of notice by the Bank. Once the cancellation is effective, the Regional Director shall inform the Borrower, Guarantor and/or Co-financiers, as appropriate.

2.4.15 In the absence of an agreement to cancel within the sixty (60) days, the Guarantor may notify the Bank of the termination of its obligations.

3. OTHER PROVISIONS

3.1 Cancellation of Regional Operations

3.1.1 Regional Operations are by their nature complex, they include more than one Borrower and often take longer to implement than national projects. In Regional Operations, the Borrower is either a country or group of countries to whom parts of the loan and or grant are extended to individual participating countries; a Regional Economic Community (REC); a Continental Body¹¹; and /or Regional Institutions having authority to borrow. Cancellation of such operations calls for more extensive analyses of the causes of the delays and the development impact of such a measure. It also requires coordination and collaboration among Regional Directors and RECs and the countries involved in the regional operation.

3.1.2 For all the Regional Operation cases above, the relevant Regional Director/s should coordinate and take action in line with sections 2.1 to 2.4 of these Guidelines.

3.2 Communicating with Co- Financiers

3.2.1 For projects co-financed by other lenders or under Inter-Creditor Agreements, the Regional Director consults with the Head of Partnerships and Cooperation Department¹² and or the relevant Sector Director, as appropriate, together with the Legal Department, on the co-financing agreement, before communicating any intention to cancel with the Co-financiers and the Borrower.

3.2.2 Co-financiers/Creditors that have formal arrangements with the Bank (e.g. through a co-financing agreement, a memorandum of understanding, etc) are consulted on and notified of the intention to cancel by the Regional Director after prior consultation with the Borrower.

3.2.3 Communication to the Co-financier in the case of Trust Funds will be effected by the Head of Partnerships and Cooperation Department.

¹¹ Such as the African Union Commission.

¹² This will be in a few cases of co-financing with Trust Funds. Cancellation of Trust Funds will be guided by own guidelines. Trust Funds are also not covered by the General Conditions.

3.3 Re-allocation of Cancelled Balances

3.3.1 The cancellation of any eligible loans and grants and reallocation of the cancelled balances is an opportunity for countries and the Bank to re-channel resources to better performing operations¹³ and to relieve countries of potential financial costs in the form of the commitment fee levied on undisbursed balances.

3.3.2 However, in cases where cancellation is due to mis-procurement, corruption, coercion, or any form of collusion or fraudulent practices, 100% of the cancelled resources shall be returned to the Bank's general resource pool.

3.3.3 To improve portfolio management and enhance the development impact of Bank Group operations, while providing meaningful incentives to ADF countries to undertake portfolio restructuring, 70 per cent of cancelled resources will be retained by the country for commitment to ongoing operations or new activities consistent with the country strategy paper. The balance, 30 per cent, will be returned to the Bank's general resource pool for re-allocation. This is intended to encourage countries to curtail non-performing operations by stopping them in timely fashion and to embark on projects with better prospects. This measure will provide the basis for a healthier Bank Group portfolio.

3.4 Automatic cancellation for public sector loans

3.4.1 In cases of small balances in completed projects and programs automatic cancellation should be effected by the Bank, for efficiency purposes.

3.4.2 Automatic cancellation would be applicable to un-disbursed balances of UA 20,000 or less by closing date of any project or program / expiration of disbursement deadline.

3.4.3 In automatic cancellations, the Borrower must be informed within thirty (30) days following the cancellation.

4. REPORTING AND MONITORING

4.1 The Vice-presidency in charge of operational policy will provide on a monthly basis, highlights on the implementation of the cancellation policy.

4.2 The Financial Control Department will produce a report on loans and grants eligible for cancellation quarterly.

4.3 Country Performance Portfolio Review (CPPR) and the Annual portfolio Performance Review (APPR) reports will also include sections on analysis of implementation of the cancellation policy in portfolio management. Supervision Reports too will identify and report on projects that require cancellation.

¹³ Also see section 5.05 (re-allocation and loan savings) of the General Conditions, the Bank Group Policy on Portfolio Review and Restructuring, and Bank Group Policy on Utilization of Loans Savings.

5. GOVERNANCE AND ACCOUNTABILITY

5.1 The cancellation process is managed under a governance structure that allows for a clear demarcation in responsibilities between Sector Departments (project implementation units), Regional Departments and the Financial Control Department (instances that execute the cancellation).

5.2 Sector Departments are the implementers of the projects and programmes and their responsibility is to identify projects and programmes which may be eligible for cancellation.

5.3 Regional Departments oversee operations at the country level. The Regional Director concerned, after internal consultation with the Sector Director and, where appropriate, the Legal Department, and following external consultation with the Borrower and other concerned parties as appropriate, will make the decision to initiate the cancellation process.

5.4 The Financial Control Department is responsible for executing the cancellation upon receipt of a Cancellation Instruction Memorandum and supporting documents from the Regional Director. The memorandum and supporting documents should at the same time be copied to the relevant Vice President and Executive Director for information.

5.5 Overall oversight in the implementation of the cancellation policy will be vested in the Operations Committee of the Bank (OpsCom). OpsCom shall also provide guidance on any policy or strategic issues arising from the implementation of this policy. To discharge its responsibility of oversight, OpsCom shall on a regular basis, be provided with Country Performance Portfolio Reviews (CPPRs) and Annual Portfolio Performance Reviews (APPRs).

6. CONCLUSION AND RECOMMENDATION

6.1 The aim of the Revised Guidelines on Cancellation of Approved Public Sector Loans, Grants and Guarantees, is to make the cancellation process and its governance framework clearer, more efficient and accountable, while ensuring the optimal use of Bank resources.

6.2 The Guidelines clarify the criteria and procedure for cancellation of various types of projects or programs, especially for the benefit of staff in Operations and Finance Complexes.

6.3 The Guidelines are well aligned with the delegation of authority matrix (DAM), the new organizational structure and the General Conditions of the African Development Bank and the African Development Fund.

6.4 The Board is requested to consider and approve the proposed “Revised Guidelines on Cancellation of Approved Public Sector Loans, Grants and Guarantees.”

Annex 1. The statement of legal provisions¹⁴

SECTION 6.01: Cancellation by the Borrower

(a) The Borrower may by notice to and after consultation with the Bank, cancel the whole or part of the Loan which has not been disbursed, except that the Borrower may not so cancel any amount of the Loan in respect of which the Bank has entered into a Special Commitment.

(b) For purposes of paragraph (a) of this Section, the Borrower shall give sixty (60) days notice to the Bank of its intention to cancel all or part of the Loan and its reasons for so doing. The Bank shall notify the Borrower of the date of receipt of such notice and shall consult with the Borrower on the reasons for its request for cancellation. Unless the parties otherwise agree, the cancellation shall take effect sixty (60) days from the date of receipt by the Bank of the Borrower's cancellation notice.

SECTION 6.03: Cancellation by the Bank

The Bank may, by notice to the Borrower and the Guarantor, cancel the whole or part of the Loan, as the case may be, if:

(a) *Interruption of the Project*: for at least two consecutive years Project operations have ceased. For purposes of the present paragraph, Project operations shall be deemed to have ceased if no disbursement has been made for a continuous period of two years;

(b) *Suspension*: the right of the Borrower to disbursement of the Loan, has been suspended with respect to any amount of the Loan for a continuous period of thirty (30) days;

(c) *Amount not Required*: at any time, the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance any Project costs previously allocated to be financed out of the Loan proceeds;

(d) *Mis-procurement*: at any time, the Bank determines that the procurement of any item is inconsistent with the procedures provided for in the Loan Agreement or applicable rules of procurement of the Bank and establishes the amount of expenditures in respect of such item which would otherwise have been eligible for financing out of the proceeds of the Loan;

(e) *Corrupt, Coercive, Collusive or Fraudulent Practice*: at any time, with respect to the negotiation, execution or implementation of the Loan Agreement, including with respect to the procurement or execution of any contract to be financed in full or in part from the proceeds of the Loan, the Bank determines that any person or entity has engaged in a Corrupt Practice, a Coercive Practice, a Collusive Practice or a Fraudulent Practice,

¹⁴ General Conditions applicable to Loan, Guarantee and Grant Agreements of the African Development Bank and the African Development Fund.

without the Borrower or the Guarantor having taken timely and appropriate action satisfactory to the Bank to remedy the situation or to address such practices when they occur;

(f) *Closing Date*: on the day following the Closing Date, an amount of the Loan shall not have been disbursed;

(g) *Cancellation of Guarantee*: the Bank has received prior notice from the Guarantor pursuant to Section 6.06 (b) with respect to an amount of the Loan; or

(h) *Modification of the Project*: the Borrower has modified the nature or the objectives of the Project financed from the resources of the Loan, without the prior approval of the Bank.

Upon the giving of such notice, such amount of the Loan shall be cancelled on the date decided by the Bank and indicated in the notice, provided that : (i) in the case of paragraph (a) above, the Borrower shall be given not less than three (3) months notice in writing within which it may submit all or any outstanding disbursement requests for settlement by the Bank prior to Loan cancellation, and (ii) in the case of paragraph (c) above, a consultation with the Borrower is carried out as indicated in sub-section (2) below.

2) Consultation as required in paragraph (c) of sub-section (1) above must be carried out within sixty (60) days after the date the Bank gives notice of its intention to cancel such amount of the Loan not required to finance any Project costs previously allocated to be financed out of the Loan proceeds. In the absence of an agreement to the contrary within such sixty (60) day period, the cancellation will become effective on the date of expiry of the above-mentioned period.

SECTION 6.06: Cancellation of Guarantee

(a) If the Borrower has failed to make payment of principal or interest or any other payment required under the Loan Agreement (otherwise than as a result of any act or omission to act of the Guarantor), and such payment has been made by the Guarantor, the Guarantor may, after consultation with the Bank, and by notice to the Bank and the Borrower, terminate its obligations under the Guarantee Agreement with respect to any amount of the Loan undisbursed from the Loan Account on the date of receipt of such notice by the Bank and not subject to any Special Commitment. Upon receipt of such notice by the Bank, and subject to paragraph (b) below, the Guarantor's obligations in respect of such amount shall terminate.

(b) For the purposes of paragraph (a) of this Section, the Guarantor shall give prior notice to the Bank of its intention to terminate its obligations under the Guarantee Agreement. The Bank and the Guarantor shall have sixty (60) days from the date of receipt of the notice by the Bank to consult each other. If at the expiry of this notice period there is no agreement between the parties, the Guarantor may notify the Bank of the termination of its obligations.

Annex 2. The checklist for Cancellation by the Bank

The objective of this checklist is to provide clear guidance to the process of cancellation of approved, loans grants and guarantees, by the Bank. The questions are designed as thinking points to help deepen the understanding of the process.

1. Is the project or programme eligible for cancellation?

Responsibility	Yes	No
Sector Department	On the basis of Quarterly Statistics and other relevant information, the Task Manager specifies the eligibility criteria for the Sector Director, Regional Director and legal where necessary.	No action.

2. Is it recommended for cancellation?

Responsibility	Yes	No
Regional Department	<ul style="list-style-type: none"> i) The Regional Director prepares the Cancellation Notice with copies to relevant Vice Presidents and Executive Directors. ii) If the Project or Programme is co-financed the relevant co-financiers are advised. iii) If co-financed through trust funds, information is communicated to Head of Partnerships and Cooperation Department, for information of co-financiers. 	i) The Sector Department prepares justification to the relevant Regional Director as to why the project cannot be cancelled.

3. Has the Cancellation Notice been sent to the Borrower?

Responsibility	Yes	No
Regional Department	<p>i) The Regional Director initiates the cancellation discussion with the Borrower, highlighting the benefits of portfolio improvement.</p> <p>ii) The Borrower is advised on cancellation of all undisbursed contracts and the liquidation of the special account.</p> <p>iii) The Borrower is given not less than 90 days notice.</p> <p>iv) In the case of 'amount no longer required' the notice period is 60 days.</p> <p>v) In the case of 'evidence of corruption or fraud' cancellation is effected within 60 days of notice.</p>	<p>i) The Task Manager follows up with the Regional Director and ensures that the Cancellation Notice is sent to the Borrower.</p> <p>ii) Continue with steps ii), iii) and iv) on the left.</p>

4. Is cancellation agreement reached within the notice period?

Responsibility	Yes	No
Regional Department	<p>i) The Regional Director issues the Cancellation Instruction Memorandum to the Financial Control Department.</p>	<p>i) The regional Director continues the negotiations until the end of the notice period.</p> <p>ii) At the end of the notice period cancellation must be effected.</p> <p>iii) Continue with step i) on the left.</p>

5. Has the Financial Control Department received the Cancellation Instruction Memorandum?

Responsibility	Yes	No
Financial Control Department	i) On receipt of the Cancellation Instruction Memorandum, Financial Control Department verifies/counter-checks for any pending disbursements and/or obligations, cancels the loan or grant and generates the General Ledger Posting.	i) The Task Manager must follow up with the Regional Director. ii) Continue with step i) on the left.

6. Has cancellation been effected?

Responsibility	Yes	No
Regional Department	i) Once the cancellation is effective, the Regional Director shall inform the Borrower, Guarantor and/or Co-financiers, as appropriate.	i) The Task Manager must follow up with the Financial Control Department ii) Continue with step i) on the left.

* In the case of the Private Sector, all authorization and signature are made by the Director of Private Sector Department.

* In the case of regional operations, there should be coordination between the Regional Directors where relevant and necessary.

Annex 3. Sample Notice of Cancellation Sent to Borrower

AFRICAN DEVELOPMENT BANK GROUP



Attention:

BORROWER (Representative of Borrower)
(Project/Program Entity)
(City, Country)

SUBJECT: NOTICE OF LOAN/GRANT CANCELLATION
(Project/Programme Title, Loan/Grant Number)

PURSUANT TO ARTICLE VI, SECTION 6.03 OF THE GENERAL CONDITIONS,
THE AfDB HEREBY NOTIFIES OF THE LOAN CANCELLATION AS OF (DATE:
DATE OF THIS NOTICE), IN THE AMOUNT OF (*AMOUNT IN CURRENCY OF
COMMITMENT*).

SIGNED BY: (Director Regional Department)

CC: Relevant Vice Presidents and Executive Directors.

Annex 4. A comparison with other MDBs

	AsDB	WB	AfDB
1. Cancellation Criteria	The loan has been suspended for a continuous period of 30 days;	The loan has been suspended for a continuous period of 30 days;	The loan has been suspended for a continuous period of 30 days;
	Amounts not Required.	Amounts not Required.	Amounts not Required.
	Mis-procurement	Mis-procurement	Mis-procurement
	Fraud and Corruption (in procurement).	Fraud and Corruption	Corrupt, coercive, collusive, fraudulent practice
	An amount of the loan has not been withdrawn from the loan account at the loan closing date.	After the Closing Date, there remains an un-withdrawn Loan Balance.	On the day following the Closing Date, an amount of the Loan shall not have been disbursed.
	-	The Bank receives notice from the Guarantor on cancellation of Guarantee.	The Bank has received notice from the Guarantor on cancellation of Guarantee.
	-	-	The Borrower has modified the nature or the objectives of the Project without the prior approval of the Bank.

	AsDB	WB	AfDB
	-	-	<p>Interruption of the Project for at least two consecutive years /or Project operations have ceased.</p> <p>Administrative criteria Approved loans and grants but unsigned over 180 days.</p> <p>Signed loans and grants undisbursed for two years and above.</p> <p>Automatic cancellation for small balances.</p>
2. Re-allocation / Re-Commitment Ratio (Incentives)	-	The investment lending reform document of the Bank, proposes that for IDA 100% be re-committed in the country as an incentive for cancellation.	To provide incentives to ADF countries to undertake portfolio restructuring, 70 per cent of cancelled resources will be re-committed in the country while the balance, 30 per cent, will be returned to the Bank's relevant resource pool for re-allocation.

			In cases where cancellation is due to mis-procurement, corruption, coercion, or any form of collusion or fraudulent practices, 100% of the cancelled resources shall be returned to the Bank.
	AsDB	WB	AfDB
3. Effective date of Cancellation			
a) Cancellation by the Borrower	When AsDB receives the Borrower's notice (issued after consulting with AsDB and obtaining the guarantor's concurrence where needed).	The effective date of cancellation is on the day the cancellation request was received.	Cancellation takes effect sixty (60) days from the date of receipt of the Borrower's cancellation notice. In absence of compelling reasons cancellation should be effective from the day the cancellation notice is received by the Bank.
b) Cancellation by the Bank	Effective from the date the notice is given to the borrower, or another date may be determined on a case-by-case basis.	Normally takes effect on the date of the notice, except when the remaining balance on the loan account is canceled after the closing date.	Takes effect 3 months after the issuance of the Cancellation Notice to the Borrower. In the case of 'amount no longer required', cancellation takes

			<p>effect 60 days after notice to the Borrower.</p> <p>In the case of 'evidence of corruption or fraud' the loan and / or grant shall be Cancelled on the date decided by the Bank and indicated in the notice to the Borrower.</p>
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Annex 5. A Comparison of the Old Guidelines and the Revised Guidelines

	Old Guidelines ¹⁵	Revised Guidelines
Eligibility Criteria	<p>Approved loans and grants but unsigned over 180 days.</p> <p>Signed loans and grants undisbursed for two years and above / Not effective for first disbursement 2 years after signature.</p> <p>No disbursement has been made for a continuous period of two years.</p> <p>Loan and <i>grant</i> balances on completed and problem projects for a specific period of time.</p>	<p>Approved loans and grants but unsigned over 180 days.</p> <p>Signed loans and grants undisbursed for two years and above / Not effective for first disbursement 2 years after signature.</p> <p>No disbursement has been made for a continuous period of two years.</p> <p>The right to disbursement by the Borrower has been suspended for a continuous period of thirty (30) days.</p> <p>An undisbursed amount is no longer required to finance any project or program costs previously allocated to be financed out</p>

¹⁵ Note should be taken however that, some of the eligibility criteria such as "Mis-procurement", though not provided for in the old Guidelines was put in practice where necessary and relevant.

		<p>of the loan or grant resources.</p> <p>There is mis-procurement in the the execution of the project or programme.</p> <p>There is evidence of corrupt, coercive, collusive or fraudulent practices in relation to any undisbursed balance.</p> <p>An amount remains undisbursed by closing date of any project or program / expiration of disbursement deadline.</p> <p>There is modification in the project without prior approval by the Bank.</p> <p>Notice for cancellation of a guarantee has been received¹⁶.</p>
Notice Period	3 months for balance less than UA500,000.	There are no threshold amounts for notice periods.

¹⁶ See Annex 1 for more details.

	6 months for balance of UA 500,000 or more.	<p><i>Cancellation by the Borrower</i> The Bank is Given 60 days notice.</p> <p><i>Cancellation by the Bank</i> The Borrower is given not less than three (3) months notice.</p> <p>In the case of ‘amount no longer required’ the notice period to the Borrower is 60 days.</p> <p>In the case of ‘evidence of corruption or fraud’ the loan and / or grant shall be Cancelled on the date decided by the Bank and indicated in the notice to the Borrower.</p> <p><i>Cancellation of Guarantee</i> The Bank is Given 60 days notice.</p>
	Old Guidelines ¹⁷	Revised Guidelines
Other Provisions	-	<ul style="list-style-type: none"> - Cancellation of regional operations. - Automatic cancellation - Provision for the Private Sector. - Section for cancellation of Guarantee. - Greater emphasis on the process (Checklist for Task Managers is provided).

¹⁷ Note should be taken however that, some of the eligibility criteria such as “Mis-procurement, though not provided for in the old Guidelines was put into practice where necessary and relevant.