



Major Change in Scope

Project Number: 30254
Loan Number: 1788
September 2009

Lao People's Democratic Republic: Decentralized Irrigation Development and Management Sector Project

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I. INTRODUCTION

1. All physical works for the Primary Health Care Expansion Project were successfully completed in December 2008, and 100% financial progress was achieved as of March 2009 with a loan surplus of SDR71,535.05 (equivalent to \$110,652.21).¹ The Northern Community Managed Irrigation Management Sector Project is progressing satisfactorily and the project has an unallocated budget of SDR38,792.00 (equivalent to \$60,523.00 as of 31 July 2009).² Considering the remaining works of this project and available budget allocated, the unallocated amount will not be required to implement the approved scope. For the Decentralized Irrigation Development and Management Sector Project, all physical works were successfully completed in December 2008 and the financial progress is 100%.³ Overall, this project has satisfactorily achieved its intended outcomes; however, the project has a cost overrun of about \$116,814.20 (equivalent to SDR75,312.45 as of 31 July 2009). This Board paper seeks the approval on changes in scope to use the surplus loan proceeds under the Primary Health Care Expansion Project, and part of the unallocated budget of the Northern Community Managed Irrigation Management Sector Project, to finance the cost overrun that exists for the Decentralized Irrigation Development and Management Sector Project.

II. BACKGROUND

A. Primary Health Care Expansion Project

2. The Primary Health Care Expansion Project was approved on 24 August 2000 for SDR14.96 million (\$20 million equivalent) from the Asian Development Fund. The Asian Development Bank (ADB) declared the loan effective on 10 January 2001, and the original closing date of the loan was 30 June 2007. The overall cost of the project as appraised was \$25 million. The objectives of the project were to improve access to quality primary health care in eight northern provinces of the Lao People's Democratic Republic, and strengthen institutional capacity for primary health care nationwide. The original scope of this project was completed successfully as planned, with a saving of \$1.5 million because the borrower was able to leverage project loan proceeds and obtain other funding for the construction of the Luang Prabang Hospital (originally an output under the project). The borrower requested, and ADB approved on 14 March 2007, a loan extension for 18 months to 31 December 2008, and reallocations of loan proceeds to use part of the saving of \$1.5 million. The executing agency is the Ministry of Health.

3. The Primary Health Care Expansion Project successfully completed all physical works in December 2008, and 100% financial progress was achieved as of March 2009. The borrower has finalized the project account and an unused advance of \$56,833.19 has been deposited back to ADB. The overall surplus under this loan as of 31 July 2009 is SDR71,313.12 (equivalent to \$110,611.00). The loan account remains open.

¹ ADB. 2000. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Lao People's Democratic Republic for the Primary Health Care Expansion Project*. Manila

² ADB. 2004. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Lao People's Democratic Republic for the Northern Community Managed Irrigation Management Sector Project*. Manila

³ ADB. 2000. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Lao People's Democratic Republic for the Decentralized Irrigation Development and Management Sector Project*. Manila

B. Northern Community Managed Irrigation Sector Project

4. The Northern Community Managed Irrigation Management Sector Project was approved for SDR6.86 million (\$10 million equivalent) on 5 July 2004 and became effective on 14 October 2004. The loan closing date is 30 April 2011. The overall goal of the project is to contribute to poverty reduction in 11 districts of northern Lao People's Democratic Republic through increased agricultural production and income-earning opportunities through the development of community-managed irrigation schemes with strong community ownership. The executing agency is the Ministry of Agriculture and Forestry.

5. The overall project progress as of July 2009 was 90% compared with an elapsed loan period of 74%; financial progress was 72%. The implementation is progressing satisfactorily in all components and it is anticipated that all project activities will be successfully completed by the loan closing date. The project has an unallocated budget under category 08 of SDR38,792 (equivalent to \$60,523 as of 31 July 2009). Considering the remaining works of the project and available budget allocated for these, the unallocated amount will not be required to implement the approved scope.

C. Decentralized Irrigation Development and Management Sector Project

6. The Decentralized Irrigation Development and Management Sector Project, which is cofinanced by the Agence Française de Développement (AFD), was approved by ADB for SDR11.94 million (\$15.5 million equivalent) on 28 November 2000 from the Asian Development Fund. The AFD's cofinancing, which is in parallel and on a grant basis for €3.1 million, was approved on 16 March 2001, became effective in February 2002, and ended in March 2007 when all funds were expended. The overall cost of the project as appraised was \$24.2 million. The project was scheduled to be closed on 30 June 2006; however, following a request from the borrower, ADB approved on 1 August 2006 an extension of the loan for 2 years to 30 June 2009 and the related reallocations of loan proceeds. The executing agency for the project is the Ministry of Agriculture and Forestry.

7. The overall goal of the Decentralized Irrigation Development and Management Sector Project is to facilitate sustainable growth in agricultural production. By December 2008, the project had achieved physical and financial progress of 100%. Overall, the project has satisfactorily achieved its intended outcomes.

8. During the review mission for the Decentralized Irrigation Development and Management Sector Project in December 2008, a cost overrun estimated at \$116,814.20 (equivalent to SDR75,312.45 as of 31 July 2009) was identified following completion of all physical works and technical assistance contracts at the end of December 2008. The cost overrun is mainly due to currency fluctuations and the increase of both the US dollar value against SDR and the value of the Lao kip against the US dollar in 2008. The implementation of the project activities in 2008 was based on an original work plan approved at the beginning of 2008, and all disbursements for civil works and trainings were done in kip through an imprest account and, as later investigations by staff revealed, without consideration of the impact of the exchange rate changes mentioned. The last review mission advised the Government on the options to settle a cost overrun, i.e., with the Government's own funds, other sources, utilization of savings from other ongoing loans, or with supplementary credit.

III. THE PROPOSED CHANGE

9. The borrower, represented by the Ministry of Finance, has reviewed these options and submitted a request to ADB proposing (i) utilizing loan savings, amounting to \$110,611.00 (as of 31 July 2009) from the Primary Health Care Expansion Project; and (ii) utilizing unallocated budget, amounting to \$6,203.20 (as of 31 July 2009) under the Northern Community Managed Irrigation Management Sector Project, to finance the cost overrun of \$116,814.20 under the Decentralized Irrigation Development and Management Sector Project.

IV. ASSESSMENT

10. The Decentralized Irrigation Development and Management Sector Project was satisfactorily completed, albeit with a small cost overrun, as described in para. 8. Bearing in mind that the proposed change in project scope to utilize surplus loan proceeds of the Primary Health Care Expansion Project and unallocated budget under the Northern Community Managed Irrigation Management Sector Project will not affect the overall purpose and objective of both projects, it appears that the use of these funds is the best available solution to settle the cost overrun.

V. THE PRESIDENT'S RECOMMENDATION

11. The President recommends that the Board approve, on a no-objection basis, changes in scope to use (i) loan surplus of \$110,611.00 equivalent under the Primary Health Care Expansion Project; and (ii) \$6,203.20 equivalent of the unallocated budget under the Northern Community Managed Irrigation Management Sector Project, to finance the cost overrun of \$116,814.20 under the Decentralized Irrigation Development and Management Sector Project.