

Project Administration Instructions

PAI 5.04
Revised on June 2008
Page 1 of 3

CHANGE IN PROJECT SCOPE OR IMPLEMENTATION ARRANGEMENTS

A. Introduction

1. Normally projects are expected to be implemented as approved by the Board. However, flexibility should be built into project design to allow changes in project scope and implementation arrangements in response to unexpected changes in circumstances during implementation. Moreover, project design should be receptive to changes in project scope and implementation arrangements that would improve the development impact and reflect stakeholder interests during implementation. Midterm review missions assess the appropriateness of the project scope and implementation arrangements in detail. The borrower, executing agency (EA), or ADB may propose changes in scope and implementation arrangements.

B. Procedure and Criteria for Change

2. A change in scope or implementation arrangements may require reallocation of loan proceeds or utilization of surplus loan proceeds. In such cases, PAIs 5.05 and 5.06 also apply.

3. Substantial changes to a project or in its environment may affect the attainment of its original objectives as given in the design and monitoring framework. If the project's objectives are no longer achievable due to changes in factors that affect the scope and implementation arrangements, the objectives must be redefined or the project terminated. The following guidelines are observed when proposals to change the project scope or implementation arrangements are considered.

4. A change in scope or implementation arrangements is classified as major or minor, and the approval authorities for these changes are specified in paras. 13–15. Several factors are considered in making such a decision. A major change substantially affects the project's purpose (immediate objectives), components, costs, benefits, procurement, or other implementation arrangements. A minor change does not substantially affect the project's purpose (immediate objectives), benefits, procurement, or other implementation arrangements.

C. Change in Project Scope

5. To assess if a change in project scope is major or minor, the fundamental nature of the change and its cost implications are examined. If changes in either of these factors are considered major, the overall change of the project scope is considered major.

1. Change in the Project Objectives, Components and Benefits

6. A change that materially alters or fundamentally affects the project's purpose (immediate objectives), components, costs, benefits, procurement, or other implementation arrangements as approved by the Board is considered a major change. It is not necessarily accompanied by a significant cost impact. As an example, the following changes in project scope could be considered as major changes because their immediate objectives and the major project components are different from those approved by the Board, and anticipated benefits and their impacts are significantly affected:

Project Administration Instructions

PAI 5.04
Revised on June 2008
Page 2 of 3

- a major change in route (e.g., a spur road to a new location or a deviation through a town/city not previously included in the scope);
- a major shift in the physical site or location of the infrastructure that involves an entirely new set of stakeholders and distribution of benefits and impacts; and
- a change in the country's road classification (e.g., that affects its type of paving and/or vehicle capacity such as changing from a two-lane bitumen road to a four-lane concrete road).

Similarly, in irrigation projects, a decision to line the irrigation channels with concrete may be classified as minor, while a change that extends the area of irrigation beyond the project boundaries may be a major change.

2. Change in Cost Estimate

7. After deciding whether a change in project scope is major or minor based on the considerations in para. 6, the cost implication of the change is then assessed. Notwithstanding that a change is classified as minor based on the above criteria, if the cost change is estimated in excess of 15 percent of the total project cost, regardless of ADB's contribution, then the change in scope is considered as major. In this case, a change to the cost estimates does not necessarily mean an increase in project costs, but to changes among the existing categories of the cost estimates. Total project cost is used as the base figure, not the ADB loan amount, since the evaluations of the project's economic and financial internal rate of return (EIRR and FIRR) are based on the total project cost.

8. When proposing the changes, the director, user division or country director, RM ensures that the proposed changes in aggregate with the earlier changes should not be the cause of the project cost overruns.

9. A change in project cost due solely to currency fluctuations or lower than estimated contract prices does not constitute a change in scope.

D. Change in Implementation Arrangements

10. Changes to implementation arrangements that do not affect costs (for example, changing the EA) are considered with respect to their impact on the project. An EA that is changed due to the renaming of the relevant ministry can be considered a minor change, while a new ministry taking over as EA may be considered a major change.

11. For changes in the mode of procurement, see PAI 3.01, paras. 41-43. For changes in the mode of recruitment of consulting services, see PAI 2.02A, Section H.

E. Environmental and Social Safeguards

12. All major changes in scope must be screened and classified in accordance with ADB safeguard policies (Environment, Involuntary Resettlement, and Indigenous People) and the procedures described in OM section F1/OP (paras. 6-7), OM section F2/OP (paras. 18-22) or OM section F3/OP (paras. 4-7), respectively. Based on the classification, the safeguard planning requirements, if any, as prescribed in

Project Administration Instructions

PAI 5.04
Revised on June 2008
Page 3 of 3

OM section F1/OP (para. 29), OM section F2/OP (para. 52) and OM F3/OP (para. 36) must be fulfilled before the change in scope is approved.

F. Approvals and Reporting

13. The director, user division or country director, regional or resident mission (RM) responsible for implementing the project decides whether the proposed change in scope or implementation arrangements is major or minor. The director, user division or country director, RM may consult the Central Operations Service Office (COSO) and the Office of the General Counsel (OGC). If such consultation is not conclusive, the director general decides.

14. The director, user division or country director, RM approves the minor change. The memorandum approving the change should follow the format in Appendix 1 and is copied for information to COSO, Controller's Department, Operations Coordination Division/Unit (OCD/U), OGC, Office of Cofinancing Operations (OCO) if the project is cofinanced, and other concerned departments and offices. If the director, user division did not have prior consultation with COSO and OGC and, on receipt of the memorandum of approval, if COSO or OGC considers the change is major, COSO or OGC will immediately notify this to the director general for decision.

15. When the director, user division or country director, RM considers the proposed change to be major, a draft memorandum (Appendix 1) is circulated to COSO, OCD/U, OGC, and other departments and offices concerned for interdepartmental comments, in particular whether the major change is one that can be approved by the vice-president concerned or requires Board approval. The draft memorandum and the memorandum approving the change are copied for information to OCO if the project is cofinanced. A major change that materially alters or fundamentally affects the overall project purpose (immediate objectives) and scope is approved by the Board. Otherwise the vice-president¹ concerned approves the major change. The vice-president² concerned decides, after receiving interdepartmental comments, whether Board approval is required.

16. If Board approval is required, a Board paper (usually on a no-objection basis) is forwarded for the vice-president's approval³ prior to circulation to the Board. The format of the Board paper is given in Appendix 2.

17. Changes in scope or implementation arrangements, including those approved by the Board, are reported by COSO to the Board through the quarterly portfolio updates. For loans, the update includes both minor and major changes. For TAs, only major changes. Changes are also indicated in the project performance report (PPR), TA performance report (TPR), and appropriate parts of the design and monitoring framework by the project officer concerned, and become a criterion for rating project implementation progress (PAI 5.10 and 6.09).

¹ In case of Operations Evaluations Department (OED) TAs, approval authority is delegated to Director General, OED.

² In case of OED TAs, the Director General, OED decides whether Board approval is required.

³ In case of OED TAs, a Board paper is forwarded for the Director General, OED's approval prior to circulation to the Board.

Memorandum for a Change in Project Scope or Implementation Arrangements

FOR APPROVAL OF PARA. _____

To: Approval Authority
From: User Division or Resident Mission
Subject: **Loan No., Country, Project Title**
- Minor or Major Change in Project Scope or Implementation Arrangements

Background Information

Indicate the loan amount and dates of approval, loan effectiveness, and loan closing.

Describe the project components and provide names of agencies involved in the implementation.

Current Status of Project Implementation

Describe the project's status (what has been done and what remains to be done, contract awarded and to be awarded, and disbursement).

Change in Project Scope or Implementation Arrangements

Describe the proposed change in the project's scope and the reasons for it. Describe the implications for project cost, the financing plan, implementation schedule, project benefits, and implementation and procurement arrangements, where applicable.

Staff Views

Include consultations with COSO, Operations Coordination Division/Unit (OCD/U), OGC, and other departments and offices concerned, where applicable.

Recommendations

Quote relevant paragraphs of PAIs.

cc: COSO, Controller's Department, OCD/U, OGC and other departments and offices concerned
OCO (if there is cofinancing involved)

Board Paper Reporting a Major Change in Project Scope or Implementation Arrangements

The paper will include the official Board of Directors title page indicating that in the absence of objection or request for discussion, the recommendation(s) at the end of the paper will be deemed to be approved, to be so recorded in the minutes of a subsequent Board meeting.

I. INTRODUCTION

Provide the following:

- project classification; loan amount; dates of approval, loan effectiveness, and closing; and financing plan; and
- summary of the matter(s) for consideration by the Board.

II. BACKGROUND

Provide the following:

- summary of the long-term objectives (goals), immediate objective (purpose), outputs (what the project will produce), activities (tasks) to implement the project, and inputs (resources) needed, as approved by the Board; include the design and monitoring framework contained in the report and recommendation of the President (RRP) as Appendix 1;
- agencies responsible for implementing the project and implementation arrangements;
- summary of implementation progress to date (what has been done and what remains to be done) including loan utilization (status of contract awards and disbursements), compliance with covenants, achievement of targets, the major issues and problems, and overall project rating; include the latest PPR as Appendix 2.

III. THE PROPOSED CHANGE(S)

Provide the following:

- an indication of if the proposed change(s) was/were investigated by the borrower, EA, and ADB;
- summary of the proposed change(s) in terms of revised outputs and consequent revisions to the activities and inputs including new or updated safeguard plans to achieve the changed outputs;
- revised FIRR and EIRR, and a comparison with the FIRR and EIRR contained in the RRP (where appropriate, include a summary of the revised financial and economic analysis⁴ as Appendix 3);
- revised immediate development objectives (project purpose), comparison with that/those envisaged during processing, and whether the revised immediate objectives will still help

⁴ Where possible, the analysis is done on the same basis as that contained in the RRP.

to achieve the long-term objectives (goals). Include a revised design and monitoring framework based on the proposed changes as Appendix 4.

IV. ASSESSMENT

Considering

- existing project issues and problems,
- safeguard risks, and mitigation and management measures,
- achievement of targets,
- compliance with loan covenants,
- revised outputs,
- revised FIRR and EIRR, and their sensitivity analyses,
- revised objectives, and
- impact on the goal,

assess the benefit of the proposed changes. Indicate clearly the implications for project cost, financing plan, implementation arrangements, implementation schedule, and procurement arrangements. Where appropriate, include the revised financing plan and reallocation of loan proceeds, etc., as additional appendixes.

V. THE PRESIDENT'S RECOMMENDATION

In consultation with OGC, state precisely the recommended changes in scope and/or implementation arrangements. Advise the Board that if the recommended changes are approved, the necessary loan documents will be amended to reflect the changes where appropriate.