

Project Administration Instructions

PAI 5.07
Revised December 2001
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PROJECT COST OVERRUNS

A. Introduction

1. Actions by the borrower, executing agency (EA), and ADB can help avoid project cost overruns.

B. Monitoring, Review, and Assessment

2. The borrower or EA and ADB review missions constantly monitor project costs. Including information in the progress report comparing financial and physical performance assists in determining when total project cost overruns are occurring. When a cost overrun is likely, the borrower, EA, and ADB examine the items remaining to be procured and ascertain whether sufficient funds are available within the project budget. Consideration is given to PAI 5.05, Reallocating Loan Proceeds, and PAI 5.04, Change in Project Scope or Implementation Arrangements. In the case of the latter, the sector division or the regional or resident mission (RM) responsible for implementing the project should decide if approval for a change in withdrawal percentages is also required.

C. Reporting

3. When a cost overrun is anticipated, a mission discusses the financing of it with the borrower and EA, and follows procedures indicated in PAI 6.03 for reporting important matters, both orally and through the mission's back-to-office report (BTOR). The sector division or RM captures the key information from progress reports and BTORs, and updates the project performance report (PPR) (PAIs 5.01, 6.02, and 6.05). This includes the status of project costs and potential cost overruns (sample format is in Appendix 1). The Central Operations Service Office reports the cost overrun to the Board through the Quarterly Portfolio Updates.
4. Normally, the borrower finances the cost overrun from its own resources, and the sector division or RM does not need to refer the matter to higher authorities unless the project benefits are seriously affected. When the borrower is unable to finance the cost overrun except through a change in scope, utilization of surplus funds from another project, supplementary financing from ADB or other external sources, the procedures relating to a major change in scope apply (PAI 5.04).
5. Project cost overrun is an another criterion for rating project implementation progress and identifying potential problem project (PAI 5.10, Appendix 1).

Report on Potential Cost Overrun

Loan No./ Project	Net Loan Amount	Total Project Cost	Amount of Contract s Awarded	Estimated Value of Contracts Still to be Awarded	Estimated Amount of Cost Overrun	% of Cost Overrun to Total Project Cost	Reason for Cost Overrun