

Project Administration Instructions

PAI 5.05
Revised in December 2018
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PROJECT COST OVERRUNS FOR LOAN PROJECTS

1. This Project Administration Instruction (PAI) describes how the borrower¹ and Asian Development Bank (ADB) administer cost overruns in projects financed by loans.² A cost overrun happens when the actual cost exceeds the budgeted or original target cost.
2. The borrower and ADB monitor project costs including the implementation of contract packages detailed in the procurement plan. When a cost overrun is anticipated, the borrower and project team leader examine the items remaining to be procured and ascertain whether sufficient funds are available within the project budget and discuss options to finance the cost overrun. Consideration will be given to (i) reallocating loan proceeds (PAI 5.03: Reallocation of Loan Proceeds, Change in Counterpart Funding and Change in Disbursement Percentage), (ii) change in project (PAI 5.02: Change in Loan Projects), and (iii) utilizing surplus loan proceeds (PAI 5.04: Utilizing Surplus Loan Proceeds).
3. The project team leader reports the outcome of the discussions on cost overruns with the borrower following the procedures in PAI 6.03 (Reports by Project Administration Missions). The project team leader ensures that key information from progress and back-to-office reports is recorded in the project performance status in eOperations, including the status of project costs and potential cost overruns, and sends a copy to the Portfolio Management Division of the Procurement, Portfolio and Financial Management Department. Cost overruns should be discussed with the Office of Cofinancing Operations, if the project is cofinanced, and/or if possible additional financing through cofinancing is being considered.
4. Normally, the borrower finances the cost overrun from its own resources, and the sector division³ does not need to seek approval from higher authorities unless the project's outcome is affected. If the financing plan needs to be revised, PAI 5.02 and PAI 5.03 should be followed to reflect the agreement with the borrower on the proportion of funds, by category, that the borrower will provide. If cost overrun results in a change in a project, procedures in PAI 5.02 apply. When the borrower is unable to finance the cost overrun, PAI 5.03 and PAI 5.04 may apply. If additional financing from ADB or external sources is required, then the procedures in *Operations Manual Section H5: Additional Financing* and the *Staff Instruction on Business Processes for Additional Financing* will apply.

¹ In this PAI, the term "borrower" also refers to recipients of grants, executing agencies, and/or implementing agencies, unless the context requires otherwise.

² In this PAI, the reference to "loan" also includes grants, unless the context requires otherwise. This PAI also applies to loans and grants from external sources that are administered by ADB unless agreed otherwise between ADB and cofinanciers.

³ The term "sector division" also refers to the regional office or resident mission primarily administering the project.