

# Project Administration Instructions

PAI 5.05  
Revised in June 2023  
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## PROJECT COST OVERRUNS FOR LOAN PROJECTS<sup>1</sup>

1. This Project Administration Instruction (PAI) describes how the borrower<sup>2</sup> and Asian Development Bank (ADB) administer cost overruns in projects financed by loans. A cost overrun happens when the actual cost exceeds the budgeted or original target cost.
2. The borrower and the project team monitor project costs including the implementation of contract packages detailed in the procurement plan. When a cost overrun is anticipated, the borrower and the project team leader (PTL) 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. If the progress report submitted by the borrower identified the cost overrun, the PTL, in consultation with the regional sector project administration unit head and country operations head, should communicate with the borrower and take necessary actions such as organizing a mission to discuss the issue.
4. The PTL 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 PTL ensures that key information on cost overruns and actions to be taken are recorded in back-to-office reports and the “problems with outputs” section of the design and monitoring framework 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 Partner Funds Division of the Climate Change and Sustainable Development Department if the project is cofinanced, and/or if possible additional financing through cofinancing is being considered.
5. Normally, the borrower finances the cost overrun from its own resources. If the financing plan needs to be revised, PAIs 5.02 and 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 the 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, PAIs 5.03 and 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.

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<sup>1</sup> In this PAI, the term “loan(s)” includes grant(s) and the term “project(s)” includes program(s), unless the context requires otherwise. This PAI also applies to loans from external sources that are administered by ADB, unless agreed otherwise between ADB and cofinancier(s).

<sup>2</sup> In this PAI, the term “borrower” also refers to recipients of grants, executing agencies, and/or implementing agencies, unless the context requires otherwise.