

OP-310 Financing Increase of Cost Overruns for Operations in Execution

Effective: October 2004

OBJECTIVE

To make it possible to provide financing increase for investment operations in exceptional cases where cost overruns exist so that the project components can be completed and its objectives attained.

DEFINITIONS

Cost overruns: Costs that exceed the costs initially estimated in the loan contract and adjustments occurring during project execution (inflation index) that are stipulated in the loan document.

JUSTIFICATION

Development projects are in the public interest and need to be effectively completed in order to benefit the country and its people. The Bank's involvement, in support of the request by the borrower country, must help ensure that all of the objectives of a Bank financed project are accomplished. Accordingly, the Bank may provide additional financing as necessary to cover cost overruns in the projects it finances when such financing is duly justified in accordance with the guidelines established in this policy.

GENERAL POLICY

In exceptional cases, the Board of Executive Directors will approve, at the request of the borrower, additional financing for cost overruns based on a detailed case-by-case analysis that at least updates the original project analysis and takes into account other alternatives in order to ensure that the project objectives are achieved, including the possibility of reducing the physical targets or turning to other sources of financing.

All public sector investment and reimbursable technical-cooperation projects in which there are cost overruns are eligible.

CONDITIONS FOR RECEIVING ADDITIONAL FINANCING FOR COST OVERRUNS

In addition to the eligibility and analysis requirements established herein as a general policy, all of the following conditions must be fulfilled:

- i. The borrower must make the request before the present disbursement period expires.

- ii. The project or program must be proceeding satisfactorily.

- iii. The cost overruns must be the result of exceptional circumstances beyond the borrower's control.
- iv. Adjusting the project volume or coverage to the funding available would seriously jeopardize the possibility of achieving the project objectives.
- v. The additional financing will make it possible to achieve the objectives of the operation without adversely affecting the economic, financial, institutional, and environmental feasibility of the operation.
- vi. The borrower must not have additional resources at its disposal, and must not have been able to obtain financing from other sources on reasonable terms and conditions.
- vii. The borrower must be in a position to provide additional counterpart resources to maintain the original ratios approved in the project financing matrix, including cost overruns.
- viii. The country must be current on its payments to the Bank, in accordance with the policy in effect.

TERMS AND CONDITIONS OF ADDITIONAL FINANCING FOR COST OVERRUNS AND THE APPLICABILITY OF THE BANK'S POLICIES

The additional financing is subject to the same conditions contained in the original loan contract, except for the financial terms and conditions agreed on when the financing is approved. Also, the Bank's general policies and regulations in effect when the request for additional financing is made will apply. When warranted by circumstances, because of a change in the policies and regulations in effect when the original financing was approved, the prior consent of the borrower must be obtained and the necessary contractual modifications made.

REGULATIONS

The specific guidelines for the additional financing of cost overruns will be set out in the Operations Administration Manual, the Procurement Manual, and the Country Offices Manual.

Prevailing Reference Document:

GN-2329, September 2004.