

TASK FORCE ON IMPROVING PROJECT QUALITY

Terms of Reference

The Terms of Reference of the Task Force on Improving Project Quality include the following:

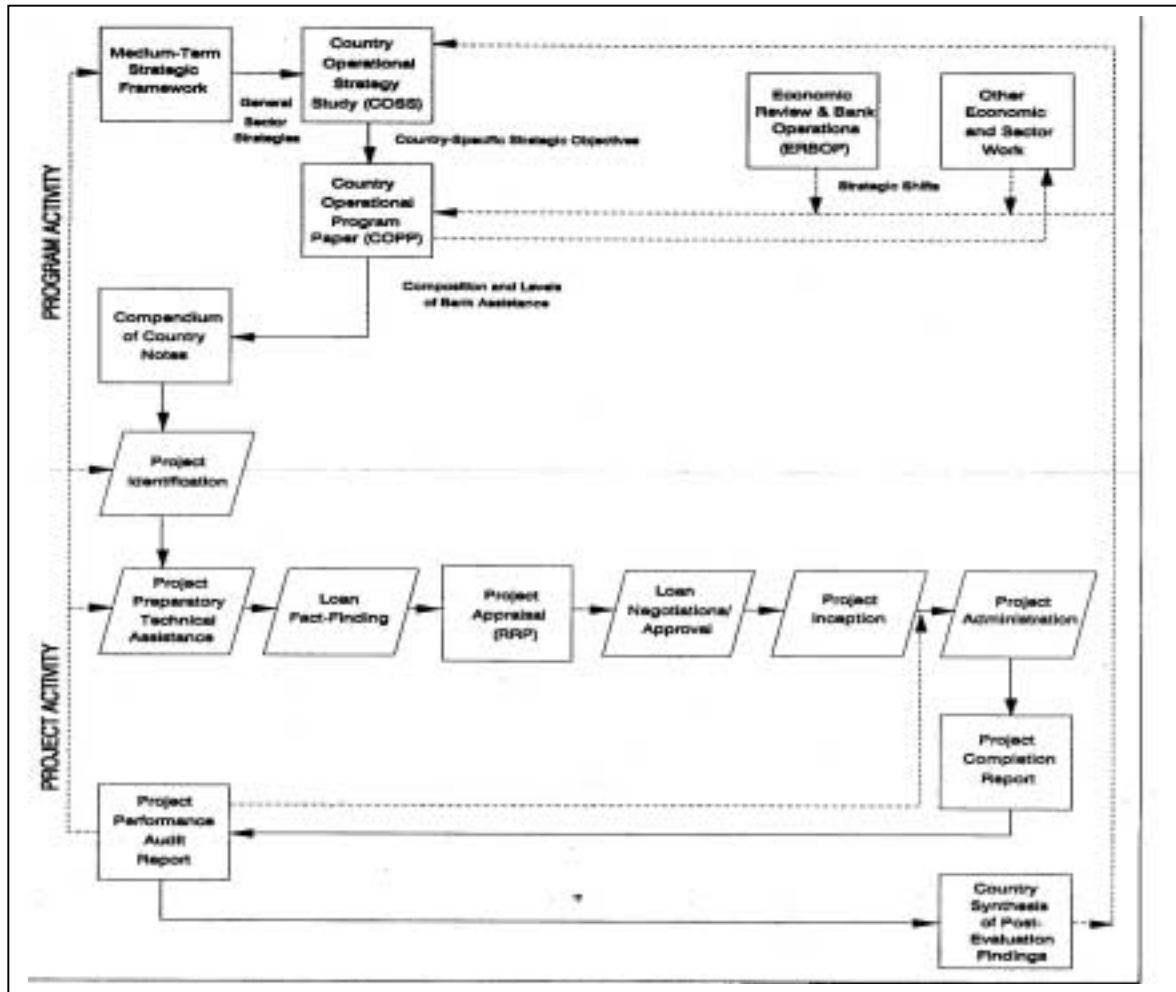
- 1) Determine the implications of project quality and whether the economic internal rate of return (EIRR) should be the sole yardstick of project success or other criteria should also be considered.
- 2) Determine whether the role of a development bank implies a certain proportion of project failures and if so, recommend an acceptable percentage of project failures in the Bank's portfolio.
- 3) Project formulation is essentially done by the Bank while implementation is largely effected by the borrower. In this connection, review the need for a change in the respective roles of the Bank and the borrower at the formulation and implementation stages.
- 4) Recommend ways to build in project sustainability at the formulation and implementation stages.
- 5) Recommend ways to improve further the Bank's contribution to capacity building in executing agencies.
- 6) Suggest ways to enhance the effectiveness of the Bank's projects review system and integrate the sector and country foci, in this regard.
- 7) Recommend ways to improve the effectiveness of project review missions.
- 8) Determine whether staff should combine project processing and administration functions and in this connection, review past experience of project administration units (PAUs).
- 9) Find out whether different types of projects require different approaches to implementation. If so, determine whether it would be worthwhile to develop a typology of projects and apply differing methods and procedures to their administration in the Bank.
- 10) Determine whether the handling of procurement matters should be centralized in the Central Projects Services Office (CPSO) (as at present) or decentralized with the Projects Departments, with CPSO focusing on policies and guidelines, high-value cases and random checks.
- 11) Assess the need for intensification of involvement of regional/resident offices in project formulation and administration.
- 12) Determine whether there is a need to increase staff accountability for project administration. If so, recommend ways to achieve this.
- 13) Examine the implications of the recommendations in respect of the above issues to the format and scope of project performance audit reports (PPARs).


- 14) Examine the implications of the recommendations to staffing.
- 15) Review other issues considered relevant to its work by the Task Force.

Accordingly the broad Terms of Reference include the following:

- 1) definition of project quality and re-examining criteria for its assessment;
- 2) roles of Bank (Headquarters and regional/resident offices) and borrowers in project formulation and implementation;
- 3) project design for sustainability;
- 4) adequacy of the Bank's present project administration practices (including PAUs and the project review system);
- 5) handling of procurement matters and nonperforming projects; and
- 6) quality and scope of PPARs.

FLOW CHART OF THE BANK'S PROJECT CYCLE



Legend: Product  Process Activity   Product/Process Activity Flow  Flow of Information

TASK FORCE ON IMPROVING PROJECT QUALITY

Recommendations

I. General Organizational Reforms

1. The President should signal a change in corporate culture through a clear policy statement reasserting the importance of development impact rather than loan approval.
2. The Bank should adopt a comprehensive policy on capacity building and implement capacity building programs in DMCs.
3. Staff capabilities must be strengthened and better aligned to changing needs.
4. The roles of the special units (AGSD, PSSU, PRSP) and of EDRC, OENV and ROs should be reassessed and realigned to provide stronger operational support.
5. Programs and Projects Departments should be restructured to ensure better coordination.
6. Concerned departments/offices should have authority to reallocate budget among line items and to recruit staff consultants.

II. Project Processing (Project at Entry)

- A. Economic and Sector Work. COSS and ERBOP
7. Relevant staff skills and resources for macroeconomic and social analyses should be enhanced through, inter alia, an exchange of economists between the Programs and Projects Departments, and the greater involvement of the Economic and Development Resource Center (EDRC) and AGSD in these processes.
8. The COSS should be anchored in strong sectoral analyses and underpinnings; this requires much closer cooperation between the Programs and the Projects Departments; the COSS should be undertaken jointly with the Projects Departments, using their sectoral studies to lead up to the macro assessments and decisions on areas of potential intervention.
9. The agenda for sectoral analysis should be identified from the macroeconomic work in the ERBOP and COSS.
10. The analysis of the DMC's macroeconomic and social progress, related risk analyses and institutional assessments should be an integral part of COSS and should play a major role in defining the Bank's proposed investment exposure and strategies in the DMC; in this connection, the data base on these analyses, the methodologies to be used and related consultation with DMC governments should be strengthened.

B. COPP and Project Identification

11. The pre-CPM Position Paper must take a position on the quality, appropriateness and effectiveness of the current portfolio with reference and linkage to aspects of the COSS, ERBOP and ongoing ESW.
12. The involvement of Projects Departments in CPMs should be enhanced.
13. The COPP should incorporate the findings of ongoing sectoral performance assessments and institutional assessments, and the results of policy dialogue.
14. The CPM should be given adequate resources of staff, time and travel budget to fulfill its terms of reference effectively.
15. The CPM should be required to justify its proposed lending volume, sectoral mix and land specific project proposals on the basis of available sectoral analyses, strategically based choices, institutional capacity assessments and demonstrated government commitment.
16. Annual IPFs established in the COPP must be flexible (i.e., plus or minus about 20 per cent), adjustable to absorptive capacities and responsive to changing circumstances in the DMC. A three-year rolling IPF should also be considered.
17. If the CPM has identified major absorptive capacity constraints, the COPP should include a capacity building program for the DMC, sector or specific institution, and arrange for its financing through either loan and/or TA funds.
18. The project profiles appended to the COPP and developed during the CPM should be completed in close consultation with the borrower and should particularly focus on the project's role in addressing sectoral and/or area priorities, and include information on the client groups.

C. Project Preparation

19. PPT A fact-finding missions must make every effort to have more active involvement of the government during the mission, including comprehensive visits to sites and consultations with a sample of prospective beneficiaries and NGOs.
20. PPTA missions should be given adequate resources to complete their terms of reference effectively. The involvement of experts on cross-cutting issues is particularly recommended.
21. The missions should be required to use, in appropriate sectors and projects, systematic diagnostic and planning tools such as the logical framework, constraints-opportunities-demand analysis, social reconnaissance surveys, environment appraisal techniques, and institutional assessments.

22. The TA agreement must be explicit and detailed on implementation arrangements. It should clearly identify the government's role including supply of counterpart and other inputs, and the consultants' interaction processes with the government.
23. The TA Board document should be more concise with respect to TA rationale, objectives and outputs, and more comprehensive on the terms of reference for the consultants.
24. The Bank must increase its role in PPTA implementation supervision, using it as an opportunity for policy dialogue and building government ownership, maintaining contact with the consultants and ensuring appropriate representation at tripartite meetings.

D. Loan Processing

25. In general, the Bank should adopt a longer time frame for processing projects, particularly from the project fact-finding stage to loan approval.
26. A preliminary PB should be prepared on the basis of the feasibility study, prior to loan fact-finding, for in-house review. Feedback from PPARs, PCRs and Implementation Review Missions should be clearly indicated.
27. Loan fact-finding missions should visit project sites, consult with a cross-section of prospective beneficiaries, devote detailed attention to institutional capacities and arrangements and the government/project-beneficiary interface, and confirm in-field demand and the validity of the risk/sensitivity analyses undertaken by the feasibility study, besides addressing the traditional technical, financial and economic issues. Accordingly, the missions should have greater flexibility with respect to their duration and staffing.
28. PBs should be thoroughly reviewed on an interdepartmental basis prior to submission to Management for the MAM; the primary function of the MRM should be to obtain feedback and guidance from Management.
29. Pre-appraisal missions should be sent if there are substantive issues pending after the MRM.
30. Appraisal missions should focus on tying up all key issues, particularly those critical to early implementation; SACs should focus on the quality of project documentation.
31. The preparation and discussion of the PAM during the appraisal mission must be made mandatory so that the appraisal MOU is supported by the PAM.
32. The Bank should require establishment of a project office and appointment of a project manager prior to loan approval.

III. Project Implementation

A. Project Inception

33. The PAM must be formalized and serve as the basic reference document for the implementing agencies.
34. The PAM should include the logical framework description of the project wherever relevant, supported by adequate explanations of the project concept; work schedules for each key activity; a detailed description of contract packaging and the terms of reference for consultants; and specification of the roles of the government agencies, the beneficiaries, the consultants and the Bank.
35. The appraisal mission chief should also be responsible for project inception, and should continue supervising and supporting project implementation for at least one year after loan effectiveness.

B. Project Supervision

36. The President should clearly signify the equal importance of project administration and project processing through a formal policy statement.
37. Management should become more actively involved in monitoring project administration.
38. Country portfolio review missions should be intensified and should be led by a Vice President, a Department Director or the Chief, CPSO as far as possible.
39. A one-time "spring cleaning" of the Bank's portfolio of projects in each country should be undertaken in partnership with the DMCs in conjunction with the implementation of the recommendations of this report.
40. Budgetary allocation should be made to allow for two weeks of field time per year for review missions of an ongoing project.
41. A full and comprehensive mid-term review should be mounted at least once during implementation, and if required, this should also comprise a reappraisal of the project.
42. Departmental work should be rationalized so that professional staff should generally handle not more than four projects a year requiring active attention.
43. Incentive systems within the Bank should be adapted to offer project administration staff adequate incentives and recognition for their work.
44. The Bank should experiment with in-country project advisors who would be responsible for facilitating day-to-day administration in the field and would report to the Bank regularly.

45. Systematic action should be taken to upgrade the skills and expertise of project administration staff in the Bank.
 46. Implementation review missions should have authority to take decisions in the field except in the case of project reformulation or cancellation.
- C. Project Administration Procedures
47. Authority for contract approvals to divisional project managers should be increased.
 48. Authority for approving minor changes in project scope and implementation arrangements should be delegated to divisional project managers.
 49. Concerned departments and offices should have the authority to allocate available budgetary resources across line items, and to recruit staff consultants.
 50. The Bank's business practices relating to project administration should be reviewed and streamlined.
- D. Project Administration Units (PAUs)
51. The Bank should adopt the PAU structure. While the head of a PAU should remain stable in terms of position and responsibilities, there should be greater flexibility for other staff to be involved in *both* project processing and administration.
 52. The position of Head, PAU should be formalized, at an appropriate level.
- E. Regional/Resident Offices (ROs)
53. The Bank should delegate more responsibility, accountability and authority to the ROs, particularly for project administration.
 54. A program of assigning more projects to the ROs should be introduced.
 55. The staffing of the ROs should be reviewed, and options for strengthening these offices considered, including the engagement of more national staff.
- F. Role of the Central Projects Services Office (CPSO)
56. CPSO and its country portfolio reviews should play an important role in the Bank's formulation of the COSS and COPP.
 57. CPSO should retain its present role with respect to consultant selection; the current system is necessary to provide the checks and balances essential to demonstrate objectivity in this area; however, with respect to the recruitment of staff consultants, currently handled by the Budget, Personnel and Management Systems Department (BPMSD), the Task Force's view is that this function should be delegated to the concerned departments/offices in the interest of greater accountability with CPSO maintaining an audit function.

58. With respect to advisory services for procurement, this function and related authorities should be retained by CPSO I except that the threshold for approval of contracts by department heads, chiefs of ROs, and divisional managers should be significantly raised.

IV. Feedback Mechanisms

G. Country/Sector Monitoring

59. All COSS and COPPs should explicitly incorporate a thorough review of the problems encountered in implementing the previous Bank strategy and projects in the country concerned.
60. COSS and COPPs should draw such feedback from key in-country sources as well as from PEO and other concerned departments/offices within the Bank.
61. PEO should undertake more frequent country assessments from the point of view of the Bank's post-evaluation experience.

H. Benefit Monitoring and Evaluation (BME)

62. BME should be viewed as an important tool for monitoring and evaluating the performance of an investment operation throughout its economic life. Significant project milestones during implementation and operation should be identified in the exercise. The adoption of a logical framework approach in project preparation, processing and implementation would assist in the identification of key indicators and critical milestones.
63. The indicators should ideally encompass monitoring of both processes (e.g., degree of participation of beneficiaries) and outcomes (e.g., benefits accruing in the form of production, employment and income).
64. To ensure that the chosen indicators are carefully monitored and that timely corrective action is taken, a list of these indicators should be included in the RRP with appropriate provisions incorporated in the loan agreement.
65. The Project Administration Committee (PAC) notes should be modified to incorporate information on these indicators on a regular basis. CPSO could act as the Bankwide coordinator for the modified BME.

I. Project Completion Reports (PCRs)

66. The present format of the PCR should be reviewed by both PEO and the projects departments so as to derive a format that would form the basis of a future PPAR, thus avoiding the current duplication. The revised format, containing as up-to-date information as available at the time of preparation on financial, economic and social benefits, would have the advantage of covering 100 per cent of completed projects as well as providing a more timely assessment of the performance of these projects.

67. Experience with the suggested BME system should be comprehensively documented in the PCRs.
- J. Post-Evaluation
68. PPARs should cover a maximum of 30 per cent of completed Bank projects, randomly chosen and stratified by country. PPARs should be undertaken only when data from the second year of operation of the project are available.
69. Project impact studies should cover 20 per cent of the Bank's completed projects.
70. A comprehensive annual performance evaluation program should be prepared to bring together the activities of different departments/offices related to project performance.
71. Wherever relevant, PPARs should be based on the logical framework design of the project, and should cover an assessment of "process" as well; they should also evaluate capacity building efforts and the related institutional impact of the project.
72. A review of PEa should be undertaken to examine the desirable institutional changes, staffing levels and budget for post-evaluation in light of its workload.