

Report of the Task Force
on
Improving Project Quality

28 January 1994

ABBREVIATIONS

ADTA	–	Advisory Technical Assistance
AGSD	–	Social Dimensions Unit
BME	–	Benefit Monitoring and Evaluation
BPMSD	–	Budget, Personnel and Management Systems Department
COPP	–	Country Operational Program Paper
COSS	–	Country Operational Strategy Study
CPM	–	Country Program Mission
CPRM	–	Country Projects Review Mission
CPSO	–	Central Projects Services Office
DMCs	–	Developing Member Countries
EA	–	Executing Agency
EDRC	–	Economics and Development Resource Center
ERBOP	–	Economic Review and Bank Operations Paper
ESW	–	Economic and Sector Work
IMF	–	International Monetary Fund
IPF	–	Indicative Planning Figure
MOU	–	Memorandum of Understanding
MRM	–	Management Review Meeting
NGOs	–	Nongovernment Organizations
OENV	–	Office of the Environment
PAC	–	Project Administration Committee
PAM	–	Project Administration Memorandum
PAU	–	Project Administration Unit
PB	–	Project Brief
PCR	–	Project Completion Report
PEO	–	Post-Evaluation Office
PIDC	–	Pacific Island Developing Country
PPAR	–	Project Performance Audit Report
PPTA	–	Project Preparatory Technical Assistance
PRSP	–	Strategic Planning Unit
PSSU	–	Private Sector Support Unit
RO	–	Regional/Resident Office
RRP	–	Report and Recommendation of the President
SRC	–	Staff Review Committee
TA	–	Technical Assistance

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EXECUTIVE SUMMARY

Project failures and implementation delays cause substantial economic, financial and social costs to the Bank's developing member countries (DMCs), which ultimately have to repay their loans. Although the quality of the Bank's portfolio has been reasonably satisfactory, there are indications that it needs to be improved. A recent review of the Bank's projects under implementation indicated that about a fifth of the projects were experiencing problems in varying degrees. The need to assess and improve project quality also stems from the increasingly complex development challenges that the Bank is being called upon to meet. In this context, the setting up of the Task Force on Improving Project Quality in April 1993 signalled the Bank's determination to improve its standards of performance and enhance the effectiveness of its operations.

The Task Force identified the following major themes that underlie the analysis of project quality: (i) Bank responsiveness to the needs of its clients, namely the DMCs; (ii) institutional capacity and project ownership in the DMCs; and (iii) accountability for project quality within the Bank. Analyses and assessment of current Bank practices and accumulated experience within the framework of these themes led to a number of important findings, which became the basis for the various recommendations and the action plan developed by the Task Force.

Three findings relate to the Bank's responsiveness to its clients: (i) current practices put excessive emphasis on achieving annual levels of programmed lending, creating an "approval culture", which can result in inadequate project design and insufficient consideration of local needs, demands and absorptive capacities; (ii) the country focus in Bank operations needs strengthening, as do the links between economic and sector work, country economic documentation and programming and project design; and (iii) capacity in the Bank needs to be strengthened in selected areas to meet the increasing complexity of development challenges.

Regarding institutional capacity and ownership in the DMCs, the Task Force's findings are: (i) capacity in DMCs for designing and implementing high quality projects needs to be augmented; and (ii) full "ownership" of projects by DMCs is often lacking as a result of their insufficient involvement in project design and their inadequate commitment of financial and human resources.

The main findings regarding internal accountability are that (i) project administration is given less importance than project processing, a by-product of the approval culture; (ii) Bank practices and systems are overcentralized, resulting in reduced flexibility and initiative; and (iii) feedback on the lessons of past experiences is not fully utilized in programming and project design, and in implementation activities.

These findings require significant changes to be introduced in the institutional culture, staff orientation and business practices of the Bank. To set the process of change in motion, the Task Force recommends immediate issuance of a clear policy statement by the President reasserting the importance of development impact rather than loan approval, and the equal importance of project administration and project processing. It also recommends the early development of a Bank policy for capacity building in the DMCs, and adoption of follow-up programs to help overcome institutional weaknesses. The Task Force also recommends strengthening the Bank's own institutional capacity, which is crucial to addressing the major findings of the Task Force successfully.

Regarding the early phases of the project cycle, namely programming, project preparation and processing, the key recommendations of the Task Force are that (i) the Program and Projects Departments should be restructured to ensure better coordination and

enhanced project preparation; (ii) special units (Social Dimensions Unit, Strategic Planning Unit, Private Sector Support Unit) and offices (Office of the Environment, Economics and Development Resource Center) and resident/regional offices (ROs) should be realigned to provide stronger operational support; (iii) governments and beneficiaries should be fully involved at all stages of the project cycle beginning with project identification; (iv) expected project benefits, costs and related risks, as well as the specific obligations and roles of all the parties, should be more clearly evaluated and discussed during project preparation and loan processing, and subsequently used for monitoring project implementation; and (v) three-year rolling indicative planning figures should be adopted to reduce the pressure generated by the present practice of yearly planning figures.

As an essential basis for establishing clearer accountability for project implementation, the Task Force recommends a one-time "spring cleaning" of the portfolio of projects, in partnership with DMCs, to weed out inactive and slow-moving projects. The other principal recommendations regarding this phase of the project cycle are that (i) resources devoted to project implementation activities should be increased; (ii) Management and Directors should be more actively involved in project administration; (iii) staff performance in project administration should be rewarded on an equal basis as that in project processing; (iv) project implementation missions should have greater authority to make decisions in the field; (v) the Project Office should be set up and Project Manager appointed by the DMC prior to loan approval; (vi) the appraisal mission chief should continue with project administration for at least one year after loan effectiveness; (vii) the role of the Central Projects Services Office (CPSO) should be reoriented to accord with the changing implementation support needed by DMCs and with the Bank's country focus; (viii) the concerned departments and offices should have the authority to allocate the budgetary resources available to them among line items and to recruit staff consultants; and (ix) delegation of authority to ROs, particularly in relation to project administration, should be increased.

To increase the utilization of feedback from the monitoring and evaluation of ongoing projects and post-evaluation results in project preparation and implementation, the Task Force recommends that (i) planning tools such as the logical framework should be more effectively used as a basis for project preparation and benefit monitoring as well as for project performance evaluation; (ii) Project Completion Reports should be expanded to include project performance assessment in the early years of operation; (iii) Project Performance Audit Reports should be reoriented to provide better assessment of a project's development impact; and (iv) a comprehensive annual performance evaluation program should be prepared to coordinate feedback from Bankwide assessments of project performance.

Implementation of the Task Force's recommendations will have significant organizational, staffing and budgetary implications. The restructuring of the functions of the Programs and Projects Departments under one unit of responsibility and the reorientation of CPSO will need to be considered in the broader context of the Bank's ongoing organizational review. The recommendations regarding delegation of authority within the Bank and to the ROs will involve a major change in the Bank's business practices. The Task Force's recommendations will also entail a change in the Bank's skills mix and a shift in its training strategy.

On the budget side, the resource implications of implementing the Task Force's recommendations cannot be estimated with a reasonable degree of accuracy at this stage. However, additional resources will be required to implement the recommendations in their entirety. When the recommendations regarding better project preparation are implemented, processing schedules of projects will be lengthened and this may result in some decline in loan approvals, particularly in the initial 1-2 years. If the resource savings

resulting from ongoing and proposed organizational reforms and productivity increases are not sufficient to meet the costs of implementing the Task Force's recommendations, the need for additional resources may have to be considered.

Chapter I – THE SETTING

A. Introduction

1. The Bank is at a crossroads as a development institution in a region that is experiencing high economic growth along with rising social demands, continuing poverty and extensive environmental degradation. The challenges facing the Bank's developing member countries (DMCs) are enormous, complex and urgent. Populations are growing, and with increasing exposure to international developments, are demanding expanded and improved services as well as opportunities for employment and income growth. The problem of poverty persists, as the gap between poverty groups and the mainstream population widens. The effects of years of environmental neglect are being felt, with serious impacts on both urban and rural areas. In the face of such pressures, government budgets continue to be constrained, and in many cases, the public sector is simply unable to respond to increasing and more complex development priorities. Developed country budgets are also under pressure, with corresponding constraints on official development assistance.

2. On the other hand, the region is alive with innovation, enterprise and investment on the part of the private sector, as governments liberalize trade and investment regulations. Consumer demand is expanding and is supporting strong economic growth. In many countries, a multiplicity of nongovernment organizations (NGOs) has also surfaced, and they are playing a distinct and constructive role in the development process. Local communities are also assuming shared accountability for their development, recognizing the continuing constraints on government resources and capacities.

3. It is in this context that the Bank's Management and shareholders have taken a hard and reflective look at the Bank's role and the need for it to be even more effective as a regional development institution. On the one hand the record is impressive: DMC membership has grown by 19 per cent over the last decade; annual lending increased from \$1.7 billion in 1981 to \$5.3 billion in 1993. The additional co-financing investment catalyzed by this lending rose from \$0.6 billion to \$3.5 billion over the same period. Disbursements amounted to about \$2.9 billion in 1993. The Bank offers over \$100 million a year in technical assistance (T A) grants for capacity building, and plays an important role in fostering regional cooperation. Despite these achievements, some concerns have arisen with regard to both the health of the Bank's portfolio and its effective utilization of scarce TA funds. The quality of some of the Bank's completed projects has been below expectations, and some of its existing loans have problems, as evidenced by the feedback received from the Bank's Post-Evaluation Office (PEO) and from the monitoring of ongoing projects. The Bank's current capacity (in terms of structure, policy and systems of operations) to respond to the new and urgent challenges of the region appears to need reorienting and strengthening. For the Bank to respond more effectively to the needs of its DMCs, further improvement of its performance and delivery of higher quality projects are needed.

4. In the light of these considerations the Bank has recently undertaken a series of initiatives to enhance the effectiveness of its operations. These include (i) the adoption of a *Medium-Term Strategy*, which gives as much emphasis to poverty, human resource development, women's status in development and environmental objectives as to economic growth; (ii) the creation and strengthening of specialist offices and units to support its new strategic foci; thus the Strategic Planning Unit (PRSP), the Social Dimensions Unit (AGSD) and the Private Sector Support Unit (PSSU) were established, and the Office of the Environment (GENV) was expanded; (iii) the strengthening of the policy basis of its operations by the enunciation of a series of sectoral and thematic policies; and most recently (iv) the appointment of the Task Force on Improving Project Quality in April 1993. The Task Force was mandated to review critically the Bank's portfolio of projects, assess factors within and outside the Bank influencing the quality of Bank operations, and recommend ways to

enhance project quality. The Task Force, which comprised selected Bank staff (approximately 80 staff from various levels were involved through four Working Groups), was chaired by Vice President G. Schulz and was assisted by two external advisers, Messrs. H. Buhler and C. Chanmugam, both former Executive Directors of the Bank.¹ It was also supported in its work by feedback from consultations with DMCs, developed member countries and NGOs in its member countries.

5. The Task Force Working Groups submitted their findings and recommendations in four separate reports: (i) Quality at Entry; (ii) Project Quality in Implementation; (iii) Feedback Mechanism; and (iv) Organization, Staffing and Budget Implications. The comprehensive Working Group reports contain a wealth of information and analysis, which will be valuable reference material during the implementation of the Task Force's recommendations. This report focuses on the key recommendations emerging from the Working Groups. The goal of the report is to improve quality; it is thus generally silent on aspects of operations that are proceeding well. The Task Force has not distinguished between public and private sector activities, since it has viewed project quality issues as being generic in nature.

6. To stress the scope for improvement, the Task Force has made generalizations based on the Bank's experience in problematic areas. The assessments expressed may not be applicable to all areas or sectors within the Bank, although they are considered to be true in a sufficient number of cases to merit the Bank's attention. This approach is comparable to that adopted by other multilateral institutions, namely the World Bank and the Inter-American Development Bank, on the subject of project quality. The Task Force wishes to emphasize that the effort to improve project quality is a continuous process. As circumstances change, the Bank's concept of project quality also has to undergo change. In this dynamic process, standards that were acceptable in the past may no longer be adequate in the present. The Task Force's findings and recommendations should be viewed in the context of these caveats.

B. Quality of the Bank's Portfolio of Projects

7. Since its inception in 1966, the Bank has financed development investments in its DMCs amounting to \$43 billion for 1,180 projects. These investments have been made in a variety of sectors such as agriculture and agro-industry, energy, industry, transport and communications, social infrastructure, finance and the private sector. Of these Bank-financed projects, 726 have been completed. PEG, which is mandated to evaluate a sample of the Bank's completed projects so as to assess the effectiveness and impact of Bank investments and to provide feedback to the organization on lessons learned for enhancing efficiency and effectiveness, has so far post-evaluated 427 projects representing some \$19 billion in total investment costs, of which about \$8 billion was financed by the Bank. The overall results of PEG evaluations indicate that 60 per cent of the Bank's post-evaluated projects have been rated as generally successful, another 30 per cent as partly successful and the remaining 10 per cent as unsuccessful.

8. The absence of random sampling in the selection of projects for post-evaluation precludes any statistically valid inferences concerning portfolio quality. Nonrandom sampling has been oriented to selecting projects that offer the best lesson-learning opportunities. This has invariably resulted in a selection bias toward complex and problematic projects. In addition, external factors affect project performance. Nonetheless, annual performance data do appear to show a declining trend in project performance as demonstrated by the cumulative results reported in the "Fifteenth Annual Review of Post-Evaluation Reports (1992)."

¹ See Appendix 1 for terms of reference of the Task Force.

9. Currently, the Bank has 454 projects under implementation. Until recently, they were classified under three headings — A, satisfactory; B, unsatisfactory; and C, inactive. Overall, the quality has appeared to be reasonably healthy, with only about 6 per cent classified as B. However, these results must be qualified by some less reassuring feedback. An internal review conducted by CPSO in August 1993 suggested that a number of projects experiencing substantial delays in implementation were still classified as A (i.e., satisfactory). The reasons for this included (i) optimism on the part of Projects staff with respect to implementation prospects, (ii) ambiguity in the description of B projects in the classification guidelines, and (iii) flexibility in interpreting these guidelines. The review concluded that 81 per cent were proceeding with no major current problems, but 19 per cent were facing problems in varying degrees.

10. As a result, a new system was introduced in August 1993 covering all projects in the public sector. These projects are classified and monitored regularly, particularly from three points of view: (i) implementation progress, (ii) project costs, and (iii) compliance with covenants. These three aspects are examined with reference to parameters established at project appraisal (or as revised subsequently) The monitoring and review missions of the Bank thus classify the performance of each project into one of three categories — A, B or C — based on the project's ongoing performance in the above three areas. (Category D is reserved for inactive loans.) A project with an AAA classification, for example, indicates that it is satisfactory on all three counts. Classification of ongoing Bank-financed projects on the basis of the above indicates that 79 per cent are proceeding with no major current problems; but 21 per cent are facing problems in varying degrees. The system takes no account of progress towards other substantive project objectives as envisaged during appraisal, such as developmental impact.

11. The quality of the Bank's portfolio of projects differs *by sector*. The difficulties often encountered in the agriculture, natural resources and social sectors are reflective of the social and institutional complexities that the Bank and DMCs face in the design and implementation of projects in these sectors. There are also substantial differences in the quality of Bank project portfolios *by country*.

12. Typical *characteristics* of problem projects, whatever the country or sector, include delays in implementation (Bankwide delay in project completion now averages 2.9 years per project), inappropriate design (technical, social and institutional), poor quality construction, and non-utilization or partial utilization and maintenance of project facilities. The causes are numerous, and are in fact the subject of this report. Chapters II and III examine these causes, and the extent to which they need to be addressed to enhance the quality of the Bank's portfolio.

13. The need to improve project quality in terms of better implementation performance by DMCs and greater developmental impact of the Bank's assistance is vital to the mission and effectiveness of the Bank as a development institution. Problem projects and portfolios can have substantial economic and social costs because of delays in the accrual of benefits, the partial rather than full realization of intended benefits or even the non-accrual of benefits. Resources are getting scarce globally, and the Bank is required to deliver the highest value possible for money invested. Extensive investments are at stake, and the Bank's DMCs can ill afford the economic, financial and social benefits that are foregone because of ineffective projects. Besides, the DMCs must repay the loans despite project failure. In addition, the Bank's projects often play a key role in the development processes of its DMCs. Failures can lead to significant negative impacts on the momentum of the overall development process and the well-being of the communities involved. In smaller countries, such as the Pacific Island Developing Countries (PIDCs), the financial and developmental Implications assume even greater proportions. Since project implementation

is the responsibility of borrowers, the Bank needs to assist its DMCs more effectively in resolving implementation problem and minimizing delays.

C. Critical Attributes of Project Quality

14. It is important to underscore early in this report that, with the adoption of a Medium-Term Strategic Framework early in 1992, the Bank broadened the concept of project quality. While the traditional measures of quality such as adherence to the least-cost principle and the economic internal rate of return remain valid, the Bank's new operational priorities such as poverty reduction, human resource development, women-in-development and environmental rehabilitation require that the Bank place increased emphasis on these social and environmental dimensions as well, in assessing the quality of its projects.

15. A wholly satisfactory definition of project quality is not easy; not all measures of project quality are reducible to quantitative terms. In the final analysis, the overall development impact of a project is the ideal yardstick for judging its quality. This development impact can be expressed *ex ante* through the formulation of the hierarchy of objectives set out in a logical framework, and tied together by specified and timebound targets and assumptions. From a practical point of view, project quality may be defined as a set of attributes that capture the development impact of the project. These attributes are the project's estimated:

- *economic/ financial viability,*
- *social impact,*
- *implementability, and*
- *sustainability.*

Although numerous elements combine to make up the overall development impact, the Task Force believes the above four *measures of project quality* can reasonably be considered to subsume those numerous elements. The relative importance of these four measures of project quality will vary between projects and upon the point in the project cycle at which project quality is being examined, be it at portfolio entry, during implementation, or thereafter. The Task Force has undertaken its examination of the quality of Bank-financed projects, and the processes and variables involved in their design and implementation, using as a backdrop the above four measures or attributes of project quality .

Chapter II – KEY VARIABLE AFFECTING PROJECT QUALITY

16. In its analysis of the causes contributing to inadequate quality at each phase of the project cycle, the Task Force has identified the key variables that significantly influence project quality. Some of these determinants of project quality are completely internal to the Bank, while others pertain primarily to DMCs. Some affect only a particular phase of the project cycle; others are more pervasive and influence various phases. The nature and implications of these variables and the major themes that emerge in the analysis of project quality are summarized in this chapter.

A. The Approval Culture

17. An important issue that has emerged from the analyses of the Task Force is the need for the Bank to reconcile its resource transfer and developmental objectives. Its resource transfer role is to transfer programmed amounts of financial resources annually to its DMCs. This sometimes translates into an emphasis on obtaining loan approvals as per the annual program. Related pressures are created during the project preparation and implementation processes, sometimes leading to compromises on project quality and on potential developmental impact. This phenomenon has been termed the "approval culture" in the Bank.

18. The approval and supply focus of Bank operations encourages inadequate attention to the precise nature of local needs, demands and absorptive capacities. The processing cycle sometimes gets compressed to meet deadlines. Project preparatory technical assistance (PPTA) fact-finding missions became too short; loan fact-finding missions begin even before the feasibility study (financed by the PPTA) is completed; and field visits during fact-finding and appraisal missions are not given enough time.

19. The Bank is as much accountable for the quality of its developmental assistance as for resource transfers, the dimensions of its impact and the efficiencies of its operations. If there is a demand for its services and investments, the Bank is encouraged to grow, and so growth targets are in order to assist in resource planning. However, pursuit of these targets at the expense of project quality must be avoided.

B. Ownership

20. The "ownership" of projects on the part of DMCs and beneficiaries -the sense that the projects belong to them, and not to the Bank, and their perception of their respective roles in programming, planning, preparing and implementing projects -has a major influence on project quality, impact and sustainability. Government ownership may be reflected in government initiatives to influence the direction of Bank investments; to link these to its own macroeconomic and social goals; and to actively support and supervise project design and implementation. Development of ownership, however, is complex. For every project, several parties are involved: the Finance and/or the Planning Ministry, with which the project's inclusion in the Country Program is agreed; the government and nongovernment agencies that are to be involved in project preparation, implementation, and operation and maintenance; the people who will ultimately benefit from the project; and the Bank itself. Each party may have a different perspective of the project with respect to its importance and priority, objectives, scope and implementation strategies, scheduling and management. Achieving consensus and ownership of the project's objectives and processes among these various parties is vital to its successful design, implementation and sustainability.

21. Current processes relating to the formulation of the Country Operational Strategy Study (COSS), the Country Operational Program Paper (COPP), subsequent project preparation steps and project implementation systems should be improved to

enhance ownership on the part of the borrower and beneficiaries. The involvement of government agency staff in the economic and sector studies undertaken, as well as in project feasibility study preparation, should be intensified. Sometimes, there is a clear understanding of a project's objectives and priority only at the highest levels within government agencies concerned, while the actual "doers" lower down the ladder do not have the same understanding. The people who will benefit are not always adequately consulted because of a lack of either resources, skills or appreciation of the need.

22. Projects thus often have considerable slippage in start-up after approval as the government agency personnel concerned at implementation levels grapple with the details of the project concept and strategies, and with how to proceed with implementation. Inadequate or no budgetary provision may have been made by the executing agency (EA) for the necessary counterpart funds for project implementation, despite formal commitments to do so. Agency personnel are often not completely familiar with the Bank's practices for consultant and contractor selection, procurement and disbursements. There have been cases in which over a year has elapsed after loan effectiveness without the project having an adequate counterpart staff complement to undertake implementation effectively.

C. Quality of Macro and Sectoral Analyses

23. The nature and success of the Bank's investments are inevitably influenced by the macroeconomic, social and political context of the DMC concerned. Each project, while needing to be justified on its own technical, economic, financial and social merits, must also take into account and be responsive to this macro and sectoral context. Post-evaluation experience has demonstrated that such considerations are essential to consequent project quality and sustainability. The Bank's economic and sector work (ESW) in the DMC, the resultant COSS and the annual COPP are processes through which this objective is achieved.

24. In practice, the Bank's macroeconomic and sectoral analyses have not always been allocated adequate resources to ensure comprehensiveness and depth. The Bank has traditionally viewed itself as a sector-focused "project bank." While this perception has been helpful in clarifying the role of the Bank vis-a-vis the International Monetary Fund (IMF) and the World Bank, it has resulted in lower priority being given to macroeconomic and sector work in DMCs. While ESW is undertaken for each DMC periodically, the inputs invested in these exercises are modest, and their results do not always link up closely with mainstream Bank operations in the country concerned. The Bank's limited capacity for macroeconomic and sector assessments has constrained its policy dialogue with DMCs and has sometimes weakened the economic basis of its projects.

25. The availability of macroeconomic and sectoral analyses from IMF, World Bank and other agencies is useful. Such analyses must be used by the Bank not only to enhance its own analyses, but also to strengthen aid coordination and avoid duplication. However, there should be an adequate level of in-house effort to carry out such analyses and associated policy dialogue, specifically targeted to support the Bank's investment program in each DMC, and at least to the extent that such analyses are not consistently available from other sources. The above discussion does not detract from the increasing efforts recently made within the Bank to strengthen staff capabilities and undertake more systematic and comprehensive economic and sectoral assessments. However, this attempt to enhance ESW continues to be constrained by resource availability and the priority to achieve the current lending program.

26. The need for strengthened macroeconomic and sectoral assessments as the basis for future Bank investments in its DMCs is widely accepted. Full recognition of the need for parallel analyses of the *social situation* in the DMCs and related inferences for

purposes of planning and designing investment projects are yet to emerge, and the effort remains under-resourced. Development is a complex and uncertain process, extensively controlled by local social, institutional and political factors. The Bank will need to recognize more fully the role of such factors.

D. Portfolio Management

27. The portfolio performance management of a DMC as a whole, with respect to the Bank's past investments, must become an important consideration in determining the size of investments in the DMC and in the concerned sector. The current trend of a widening gap between the rates of commitment and disbursement in some DMCs is disturbing. Poor portfolio performance reflects inadequate absorptive capacity, and the Bank should be in a position to use such signals to shift emphasis from resource transfer towards systematic and sustained capacity building in the DMC. Project investments should be related to DMC portfolio performance.

28. Assessments of the management of a DMC portfolio should appropriately be undertaken as part of the COSS and COPP exercises. Until recently, Country Projects Review Missions (CPRMs) were undertaken by CSO independently from the COSS and COPP missions, and their findings on the current health of the Bank's portfolio of projects were usually not fed into COSS and COPP preparation. With the recent inclusion of country performance reviews in the COPP, it is expected that the findings of CPRMs will be increasingly reflected in the COSS, COPP and other economic documentation. Such findings should be related to the type and extent of investments planned by the Bank for subsequent periods. The Task Force also considers that it would be timely for the Bank to undertake an extensive "spring cleaning" of its portfolio of projects, in partnership with each DMC and in conjunction with actions to be taken as a follow-up to this report, in order to restructure the portfolio where necessary. The approval of inactive and slow disbursing projects from the portfolio will help establish clearer commitment of DMC for implementation performance of the rest of the portfolio.

E. Institutional Capacity Assessments

29. Specific institutional assessments, particularly with respect to project implementation capacity, must be an important and intrinsic aspect of any feasibility study and an essential basis for establishing an effective institutional framework for project implementation. However, Bank projects are sometimes based on optimistic scenarios regarding the capacities of implementing institutions. Such capacities are overestimated in terms of management capabilities, staff and budget availability, technology absorption, and the capacity and willingness of government implementing agencies to collaborate with each other and with the private sector, NGOs and beneficiaries. Usually, the result of such an overestimation is a less-than-successful project.

30. The thoroughness of Bank institutional assessments is sometimes compromised by the pressure of the approval culture and by inadequate resources. The expertise required to undertake such assessments professionally and effectively is relatively scarce, both within the Bank and among consulting firms. The assessments are often undertaken as an addendum to the feasibility study or loan fact-finding rather than being a key determinant of project design. Given the approval culture, there is sometimes a tendency to shortcut such assessments and use the scarce resources for other processing activities. These assessments should be an essential component of the PPTA.

31. A related issue is the need to approach capacity building in the DMCs on a systematic and disciplined basis (see Box 1). This can be done through the use of advisory technical assistance (ADTA) to finance formal *capacity building programs* in selected DMCs,

by the introduction of *experimental and pilot projects* into the Bank's program, and through the use of *process-oriented approaches* (see Box 2) in some cases to build and strengthen institutional capacity. The Bank has, in the form of its ADT A facility, a potentially powerful instrument to assist institutional capacity building. Such TAs are being used increasingly as precursors to project approval, to prepare and strengthen the concerned agency/ies for implementation responsibilities; but this potential remains underutilized. Experimental and pilot projects can be similarly used as a learning-by-doing strategy to build capacity with minimal risks. Adopting the process-oriented approach will be more difficult and challenging, particularly in view of the institutional exigencies of both governments and the Bank for clear accountability on budgetary allocations, schedules of inputs and outputs, and the timely delivery of tangible benefits to justify the investment.

F. Beneficiary Involvement in Preparation and Implementation

32. While projects may be assessed as technically, economically and financially viable *ex ante*, envisaged project benefits are not likely to be achieved without the active cooperation of project beneficiaries, local agencies, people's organizations and NGOs. This is particularly important in certain sectors such as agriculture and social infrastructure, as well as in PIDCs and other small countries. Thus, beneficiary involvement at all stages of the project cycle becomes a critical determinant of project quality, especially when close involvement of beneficiaries is needed in project implementation and operation, such as for projects in the social sectors and in rural and agricultural development. As is borne out by the Bank's post-evaluation exercises, several of the Bank's projects have had shortcomings in this area owing to (i) lack of a coordinated and clear approach to addressing this issue; (ii) inadequate resources, both staff and consultants, available for this purpose; (iii) project preparation deadlines that exert pressure to cut short initiatives in this area; (iv) lack of expertise to undertake such consultation effectively; and (v) inadequate appreciation of social issues by staff and consultants, who are by profession primarily technical and economics focused.

Box 1 – Main Features of Capacity Building In DMCs

- **Government Capacity for Policy Analysis, Formulation and Management.** More than any other factor, it is domestic economic and social policies that are responsible for accelerating or constraining the development process of a country. Critical policies range from those affecting monetary and fiscal management, exchange rates and external debt to population and pollution control and the protection of the country's natural resources. Governments have learned that "good" projects are unlikely in a "poor" policy environment. Thus, if project investments are to have sustainable impact, the Bank must equally focus on the strengthening of capacities for policy analysis, formulation and management within the recipient country.
- **Public Sector Management.** A strong policy framework must be supported by sound and efficient public sector management. The Bank must encourage governments to shed roles and functions that can be fulfilled by the private and nongovernment sectors with greater efficiency and effectiveness. On the other hand, the Bank should assist in the reform and strengthening of public sector management, particularly in its functions of the establishment and maintenance of public infrastructure, the delivery of public services, the mobilization and management of domestic resources, and the creation and enforcement of an appropriate legal framework. Government capacity to fulfill these administrative and management functions efficiently and effectively influences in large measure the development process.
- **Participation.** Some of the faster growing economies of the Asia and Pacific region have demonstrated the value of private sector participation in socioeconomic development. This is now being extended to the involvement of voluntary nongovernment and peoples' organizations as well. It is a recognition of the fact that government's resources and capacities are limited; that some functions are best done by the private and nongovernment sector; and that beyond the values of efficiency and sustainability, participation is a value in itself and enriches the development process of a country. Thus, participation has come to be accepted as a valid capacity-building objective by both governments and aid agencies.

33. The situation, however, is changing for the better: AGSD has been established with Bankwide accountability to coordinate and promote the addressing of social issues and beneficiary involvement in project preparation and implementation. More staff with social science backgrounds have been recruited. Bank guidelines now require that formal social analysis processes and related beneficiary consultations be incorporated as an integral part of project processing. Consultants implementing Bank-financed feasibility studies are required to link up with local expertise to undertake required beneficiary consultations. In this context, the Task Force considers that AGSD should be given a more proactive role in project preparation.

34. Still, more remains to be done at all phases of the project cycle. Beneficiary consultation at the earlier project stages, such as during project identification and programming, needs to be carried out consistently. Application of the process approach would help. The limited number of experienced, socially oriented consulting firms, both within DMCs and internationally, remains a serious constraint. Appreciation by government agencies of the significance of this issue and their acquisition of related skills and capacity also need to be addressed systematically, particularly because the final responsibility for project implementation rests with the DMC.

Box 2 – Process Projects

The Bank is committed to the gradual adoption of process projects, or elements of such projects, in certain situations: particularly to address cross cutting-issues such as poverty, the status of women and environmental rehabilitation. Some of the more significant reasons and objectives behind this decision are the following:

- to build local, self-reliant and self-sustaining capacities;
- to achieve a better match among project designs, beneficiary needs and the capacities of executing agencies;
- to help achieve more effective ownership of the project on the part of government implementing agencies and the beneficiaries; and
- to enhance the prospects of post-project sustainability.

The **features** of process projects include (i) being generally experimental and pilot in nature, (ii) emphasizing an action learning process and substantial beneficiary participation, and (iii) focusing primarily on institution building. Thus, the project becomes the means and occasion for acquiring learning and transferring capacity. Process projects require very different approaches to their design and implementation. Project design is generally open-ended, with only goals and purposes specified. Implementation processes are often iterative and therefore require extensive flexibility in schedules, budget categories and staffing. By its very nature and purpose, the process approach is suitable primarily for projects in the agriculture, natural resources and social sectors.

While the Bank's commitment to process projects is appropriate in the context of the newly emphasized strategic objectives of poverty reduction, women in development (WID) and environment rehabilitation, the effective adoption of such process approaches will require substantial creativity, innovation and **reorientation of current Bank systems**. Process projects may require more flexibility in the application of Bank systems and procedures. More experience with these projects is necessary before it is decided to expand their application.

G. Evaluation of Risks/Sensitivity Analysis

35. If risk and sensitivity analysis are not thorough during project preparation, project performance may fall short of expected standards. Post-evaluation reports indicate, in several cases, overstatement of expected benefits; overly optimistic estimations of implementation schedules; and inadequate treatment of uncertainties that are widely prevalent in the macroeconomic, social and institutional environment.

36. The Bank needs to address these issues more systematically and carefully than it has done to date. The guidelines for sensitivity analysis need strengthening. Guidelines for assessing the risks relating to social and institutional factors need to be developed. Provision should be made in project preparation and processing, and in related documentation, for analysis of preventive and contingent measures. As the Bank increasingly adopts elements of the process-oriented approach, with more indicative rather than precise project designs and implementation approaches, the need for the comprehensive treatment of risks, sensitivity analysis, and preventive and contingent measures will be increasingly felt.

H. Clarity and Implementability of Project Design

37. Much of the above discussion on sectoral analysis, ownership and institutional assessments pertains also to the need to strengthen project design. The objectives and scope should be precisely stated; the roles of the borrower, other stakeholders and the Bank should be clearly delineated; and the project concept should be developed in close consultation with the implementing agencies and the beneficiaries to ensure acceptability and implementability. The need to minimize the complexity of design and establish clear understanding of mutual roles and responsibilities during project preparation is particularly important in the PIDCs and other DMCs where institutional and manpower resources are severely limited. In these circumstances, complex project designs and lack of clarity about their role impose an unsustainable burden on their capacities. Some of the Bank's past projects, particularly in the agriculture and social sectors, have been overly ambitious with respect to objectives, scope and implementation arrangements. Multiple objectives, numerous components and executing agencies, intricate coordination requirements and overlapping accountabilities are some of the characteristics of the design of unsuccessful projects.

38. In recognition of these issues, the Bank is making constant efforts to improve project design techniques and principles. It has initiated, and needs to expand, the use of the *logical framework* (see Box 3), which requires greater clarity of the hypotheses and assumptions on which the project is based, as well as clarity of the linkage between the stated objectives on the one hand and the outputs and inputs of the project on the other. More systematic and comprehensive sectoral diagnostic analyses to support these project hypotheses and assumptions are required from processing missions. Project objectives, related performance indicators and monitoring mechanisms need to be clearly specified as part of the project framework. Project implementation arrangements should be simple, with the roles of implementing agencies, NGOs (if any) and beneficiaries clearly delineated.

I. Role of the Bank in Project Administration

39. In-house views on the degree of the Bank's responsibility for project implementation are not unanimous. The Bank's role in project preparation is perhaps clearer, and in fact the Bank may be taking too much accountability for preparation — at the expense of greater government and beneficiary involvement. In implementation, views range from an attitude that considers the project the complete responsibility of the government, with the Bank's role restricted to simply monitoring progress, to a strong interventionist and/or supporting role that actively involves the Bank in guiding project implementation. The Task Force considers that, where the local institutions lack capacity, the Bank should take a more proactive role in implementation. Such a role, however, should take account of the need to use each project to strengthen government agency capacity and ownership, so that as the project progresses, Bank involvement can be appropriately scaled down.

40. The Task Force has also noted that the Bank's corporate culture gives higher priority to project preparation and related loan approvals than to project administration activities. This preference is reflected in the extent of resources made available for one activity as against the other, the relative recognition given to staff involved in these separate activities, and the degree of Management time devoted to monitoring and guiding portfolio management.

Box 3 -The Application of the Logical Framework to Bank T As and Projects

Description of the Logframe. It is a tool for **preparing the project design**, including goals and objectives, outputs, inputs and activities, key risks and assumptions, and project costs.

- It ensures that the project design is responsive to specific needs, constraints and opportunities, since it requires a problem analysis and an objectives analysis to be completed as preliminary steps leading up to the project design.
- It is also used as a tool to communicate with the project's stakeholders, particularly the executing " agencies and beneficiaries, on the design of the project.

Benefits of Using the Logical Framework. It clarifies and disciplines thinking processes as applied to project design.

- It has the power to describe a complex and costly project clearly and understandably on one or two sheets of paper.
- It is a participatory tool that facilitates the involvement of the executing agency/ies and beneficiaries, and the incorporation of their views in project design.
- It can be used as the basic guiding document, both through the project design processes, as well as through implementation, monitoring and evaluation.
- Project designs needs to be flexible and to adapt to changing priorities and requirements of executing agencies and beneficiaries. The logframe facilitates this process, since the linkages among objectives, outputs, activities and costs are made explicit and easy to monitor.

Potential for Application within the Bank.

- Use during **project identification** will facilitate a more thorough focus on the sector goals and objectives to be addressed and will ensure that the project profile identifies more specifically the area/s and beneficiaries to be benefitted
- The logframe can be used to design **TAs and loan projects**. For project preparatory technical assistance, it will only specify the goals and objectives of the ensuing project; the feasibility study and loan appraisal will complete the logical framework with the remaining elements of project design, viz., outputs, activities, costs and key risks/assumptions.
- It can facilitate **communication**, debate and exchanges of views on project design and implementation among departments, among mission members, and between the Bank and beneficiaries/executing agencies. This can potentially enhance **project quality**.
- It can be used as the basis for **benefit monitoring and evaluation, project monitoring and Implementation reviews, and post-evaluation**.

41. The Task Force considers that Management will need urgently to signal its recognition of the importance of project implementation and to redefine the Bank's role therein. This will need to be followed by a full review of the roles of the Projects and Programs Departments in project implementation, the role of the CPSO and that of the

Regional/Resident Offices (ROs). Further, action will be required to strengthen resources and incentive systems for project administration, and creative options may need to be considered to enhance implementation effectiveness — such as in-country project advisors, simplification of project administration procedures and greater delegation to government agencies -albeit with stronger advisory support from the Bank where necessary.

J. Responsibility for Project Quality

42. In dealing with the issue of accountability, the Task Force has distinguished between issues of accountability as applied to the main operational departments, viz., Programs and Projects, and the accountability of supporting operational offices and units. The Task Force is of the view that urgent action is necessary to delineate clearly accountabilities and associated responsibilities between the Programs and Projects Departments. Some areas of accountability remain hazy and continue to constrain coordination between the Programs and Projects Departments, with adverse impacts on the quality of operations. These include (i) the role of the Projects Departments in project identification and programming (they may not always be actively involved), (ii) the role of the Programs Departments in project and TA processing and implementation, (iii) the process of arriving at project and TA program indicative planning figures (IPFs), and (iv) the current process of periodically revising the annual operational program. A reorganization of these departments, whereby the functions of both programming and processing are better coordinated, would enhance and clarify accountability for quality. In addition, the accountability of supporting offices and units should be more clearly established with regard to project processing and project quality.

K. Major Themes in Project Quality Analysis

43. Three major themes underlie the analysis of project quality in this report: (i) increasing the Bank's responsiveness to its clients, (ii) capacity building in the DMCs, and (iii) accountability for quality within the Bank. These themes emerge when project quality in the various stages of the project cycle is analyzed in terms of the key variables discussed in the earlier section.

1. Responsiveness to Clients

44. With the adoption of the Medium-Term Strategic Framework in early 1992, the Bank formally moved from a predominantly sector-focused approach to country-focused operations. This was in recognition of the fact that the Bank's DMCs, i.e., its clients, were each unique in their respective development needs and capacities, and the Bank's development effectiveness must necessarily be judged by the extent to which it is responsive to these needs and capacities. The Bank shows its responsiveness to clients through its loan and TA operations in the DMC including participation in policy dialogue. The needs of the DMCs are large, but those areas that can be addressed by the Bank should be identified by the country strategy in close consultation with the DMC and operationalized through the COPP. The Bank has begun emphasizing responsiveness to clients in country strategies and country programming. The full implications of such a mode of operations are, however, still in the process of being developed and internalized within the Bank. These range from establishing more effective dialogue mechanisms between the Bank and the DMCs, to the use of country portfolio assessments to guide future investments in the country concerned, as well as to the more active involvement of beneficiaries and other stakeholders in specific projects. The Task Force considers that the Bank should be ready to strengthen responsiveness to clients in its operations and to restructure and reorient itself to address this objective more effectively.

2. Building Ownership and Capacity in the DMCs

45. The Bank has traditionally focused on and emphasized the transfer of financial resources, the creation of infrastructure and the strengthening of regional cooperation. It should now move to complement these functions with equal attention to building ownership and capacity in its DMCs, recognizing the significance of these issues from the point of view of the sustainability of the development process.

46. The issues of ownership and capacity building in the Bank's DMCs are viewed as central to the enhancement of project quality. The active involvement of government and beneficiaries, their commitment to the project, efficient implementation, and sustained operation and maintenance of project facilities are all functions of institutional capacity. The Bank recognizes that it can never, by itself, perfect the quality of the projects it finances in its DMCs. The projects are owned and implemented by DMCs — though supported by the Bank. Thus, the proper perception of ownership and institutional capacity on the part of each DMC is fundamental to project quality and sustainability. The Bank's emphasis on cross-cutting concerns requires a particularly strong response from the DMCs in designing, implementing and operating these projects effectively. Such projects require extensive beneficiary participation, and strong budget and institutional support.

47. Through the establishment of this Task Force the Bank has sought to enhance its capacity to deliver development support more effectively. The findings and recommendations of the Task Force, however, make it clear that this goal cannot be reached without enhancement of ownership and capacity of DMCs and their implementing institutions. The Bank's role in supporting this effort will be important.

3. Accountability for Project Quality

48. Finally, there is the theme of accountability for project quality, which will be referred to at various places in this report. The Task Force will point out that, as an institution committed to enhancing its effectiveness and the quality of its development assistance, the Bank cannot escape the need to restructure and reorient itself to strengthen the clarity of roles and accountability for quality at various levels in the organization. In this connection, the Task Force has identified issues related to organization structure; to standards, systems and processes; as well as to staff skills and incentive systems. The message of the Task Force is clear: There is an urgent need to promote quality consciousness and commitment within the Bank, and with collaborating and partner agencies in the Bank's DMCs.

Chapter III – ASSESSMENT OF CURRENT BANK PRACTICES AND AREAS FOR IMPROVEMENT

49. This chapter evaluates each major phase of the project cycle (see Appendix 2) to identify its impact on project quality. It assesses current Bank practice with respect to key processes and factors that occur during these phases and their respective influence on project quality. It then goes on to make specific recommendations for changes that the Task Force considers the Bank could beneficially introduce in the management of these project cycle phases in order to enhance project quality.

A. Project Processing (Project-at-Entry)

1. Economic and Sector Work, COSS and ERBOP

50. With the recent introduction of the country focus to Bank operations, ESW, the COSS and the Economic Review and Bank Operations Paper (ERBOP) are considered critical activities that establish the socioeconomic basis, strategic focus and priority areas of Bank investments in each sector in the DMC. They are the first step in the project cycle and thus the initial determinants of project quality. They should define the nature, scope and extent of Bank investments based on macro and sectoral assessments, portfolio and institutional performance reviews, and the Bank's past experience in the country concerned. Put simply, if the Bank starts off on the wrong foot, much of its good work later in the project cycle is in danger of being compromised.

51. It is the view of the Task Force that, while improvements have recently been achieved in the quality of ESW produced by the Bank, its depth and sharpness of analysis can be substantially enhanced with more resources. While related work being done by other development institutions such as IMF and World Bank should be utilized and not duplicated, the Bank itself needs to do more in these areas. This will benefit the Bank's strategy formulation, policy dialogue, recommendations on institutional reform and project identification. In the case of PIDCs and other similar DMCs where in-country capacities for macroeconomic analysis and formulation of growth strategies and plans are limited, the availability of economic analysis and strategies from the Bank becomes a very valuable input to preparing development plans and coordinating aid assistance. Specific inadequacies identified in current Bank practices in regard to ESW include the following: (i) key macroeconomic and social developments in the DMC are not adequately assessed for their strategic implications on potential Bank investments; (ii) evaluations of the country's economic and social progress are not conducted sufficiently analytically; and (iii) detailed sectoral studies are often not available.

52. The quality of the COSS and ERBOPs has also improved in recent years, but these documents are not adequately integrated and complementary in their analysis and guidance to the Bank on the distinctive role it could and should play given the macro and sectoral context of the DMC. Also, better links need to be established between performance reviews undertaken as part of the ERBOP and COSS, and future lending strategies and levels. The reasons for these inadequacies are as follows: (i) lower priority given to solid macro and sectoral analytical (both economic and social) foundations for the Bank's strategies and investments in DMCs, (ii) inadequate staff and other resources devoted to these processes and their linkage to operations, and (iii) weak coordination and collaboration between the Programs and Projects Departments in the preparation of these documents.

53. The Task Force recommends as follows:

- 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 Economics and Development Resource Center (EDRC) and AGSD in these processes.
- 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 assessments and decisions on areas of potential intervention.
- The agenda for sectoral analysis should be identified from the macroeconomic work in the ERBOP and COSS.
- The analysis of the DMC's macroeconomic and social progress, related risk analyses and institutional assessments should be an integral part of the 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.

2. COPP and Project Identification

54. The COPP sets out the Bank's proposed investments in a DMC, and is a logical extension of the COSS and the ERBOP. Decisions on the proposed nature, scope and levels of investments as reflected in the COPP should ideally be based on the macroeconomic and social analyses, absorptive capacity analyses and sectoral analyses undertaken during the COSS and confirmed during the Country Programming Mission (CPM). The COPP provides the opportunity for the Bank to dialogue constructively with the DMC; to undertake a detailed review of the performance of its existing investment portfolio in the country concerned; and to arrive at joint decisions on the lending volume, modality and mix for the short and medium term. The COPP is the annual occasion for the Bank and the DMC to strengthen their collaborative partnership and joint objectives, and to confirm the development investments that will be undertaken to support these objectives.

55. The Task Force considers that current COPPs and the processes that lead up to them, particularly the CPM, need improvement. While continuing progress is being achieved in strengthening the COPPs, their responsiveness to the priorities and directions laid out in the COSS could be enhanced. A number of identified projects do not necessarily reflect the preferred strategic emphasis of the Bank in the DMC and the sector concerned, nor do they always take adequate account of the institutional and absorptive capacities of the government, NGOs and beneficiary organizations to be involved. The degree of interest in and commitment of the government to the identified pipeline projects may also be unclear, and prospective implementing agencies and beneficiaries are not always involved at this early stage (see Box 4).

56. It is the opinion of the Task Force that project identification and the development of the country program are elements of the project cycle that substantially influence the quality of the Bank's portfolio. It is therefore important that the Bank urgently address the need to improve country programming exercises. These improvements particularly should include (i) use of the opportunity offered by the CPM for promoting

substantive dialogue on the role of the Bank and on sectoral issues related to policy reform, project implementation and institutional strengthening; (ii) devoting time to catalyzing increased ownership of and commitment to proposed project investments; (iii) more systematic ESW and comprehensive institutional assessments to support the identification, prioritization and selection of projects; and (iv) improved coordination between the Projects and Programs Departments, with more optimal allocations of staff resources and time to the CPM.

57. Thus, the Task Force urges that the CPM and other processes leading up to the formulation of the COPP be strengthened, and recommends as follows:

- 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.
- The involvement of Projects Departments in CPMs should be enhanced.
- The COPP should incorporate the findings of ongoing sectoral performance assessments and institutional assessments, and the results of policy dialogue.
- The CPM should be given adequate resources of staff, time and travel budget to fulfill its terms of reference effectively.
- The CPM should be required to justify its proposed lending volume, sectoral mix and specific project proposals on the basis of available sectoral analyses, strategically based choices, institutional capacity assessments and demonstrated government commitment.
- 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 be also considered.
- 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 loan and/or TA funds.
- The project profiles appended to the COPP and developed during the CPM should be completed in close consultation with the borrower, should focus on the project's role in addressing sectoral and/or area priorities, and should include information on the client groups.

Box 4 – Developing Member Countries' Views on Project-at-Entry

DMC planning and implementing agencies were consulted on their views regarding current processes utilized by the Bank for identifying, preparing and designing projects. This is a summary of their views:

- The design of projects with multiple objectives, particularly cross-cutting ones, leads to complex projects and may compromise the efficiency and effectiveness of implementation.
- The primary success criteria of Bank-financed projects must remain economic and financial viability; income and employment 'multiplier' effects are often more important than direct employment generation.
- Careful preparatory work during feasibility studies and appraisals, and the close involvement of implementing agencies are critical.
- More technical assistance grants should be tied to projects for training and to strengthen local capacity.
- For larger projects, engineering loans should be encouraged by the Bank, and related procedures should be simplified.

3. Project Preparation

58. As a project cycle phase, project preparation typically begins with a PPTA fact-finding mission and goes on through the approval and implementation of the PPTA up to the completion of the feasibility study. In many ways, it is the most significant of the project-at-entry phases inasmuch as it is during this period that key project quality factors are introduced and decided upon. These factors in turn determine critical issues such as ownership by the government and by prospective beneficiaries of the proposed project, the basic implementability of the project design and its consequent sustainability.

59. The project preparation phase comprises four key elements that need the Bank's particular attention: (i) the PPTA fact-finding mission, (ii) the PPTA Board document (which documents the PPTA design) and the related approval processes, (iii) the selection of consultants, and (iv) PPTA implementation and supervision. Beginning with the *PPTA fact-finding mission*, the Task Force has identified several important concerns. Such TA preparation/fact-finding missions are often scheduled by the Bank primarily to meet staffing exigencies, with the government side sometimes not adequately prepared with respect to counterpart staff availability. Government recognition of the importance of PPTAs, and full support for their implementation, is essential if a good feasibility study is to be prepared. Sometimes, to meet budgetary or staffing constraints, the fact-finding missions are underfunded or understaffed. Consequently, the missions are not always able adequately to develop strong government understanding of, support to and commitment to the proposed project concept or to conduct comprehensive site visits and consult adequately with a cross-section of prospective beneficiaries and NGOs (see Box 5).

60. *PPTA Board documents* are not always satisfactory in the view of the Task Force. The rationale and justification for the proposed project concept in some cases is inadequate, and the goals and objectives unclear; linkage to the country/sector strategy may be lacking, and the terms of reference for the consultants are often not suitably precise and comprehensive. The *selection of consultants* is a fairly routine process, although potential

improvements include making more comprehensive information available to consultants and allowing them greater flexibilities.

Box 5 – NGO Views on the Quality of Bank Operations

NGOs have been extensively involved in Bank-financed projects in varying capacities, particularly since 1987, when the Bank first enunciated its policy on cooperation with NGOs. In this context, the Task Force consulted with NGOs in five DMCs: Indonesia, Pakistan, Philippines, Vanuatu and Western Samoa. These consultations were undertaken with as large a cross-section of NGOs as possible, and were generally coordinated through a regional or national NGO network.

Generally, the NGOs preferred to discuss the larger role of the Bank vis-a-vis the poor, women and the environment, and options for strengthening the dialogue among the NGO sector, the government and the Bank in the formulation and implementation of the Bank's portfolio of projects. The following is a summary of their views on overall NGO-Bank coordination and on specific project quality issues:

- More consistent efforts should be made to build an ongoing dialogue and relationship with NGOs in each DMC.
- The Bank should use its influence and leverage with the government to encourage more open and constructive collaboration between the government and NGOs; on the other hand, it is not appropriate to encourage the involvement of NGOs in projects the Bank finances simply to reduce costs to the government or since it appears fashionable to do so.
- In the design of its projects, the Bank must consider more fully the potential negative impacts on vulnerable groups and the poor; this applies particularly to large infrastructure projects.
- The Bank insists on working through government agencies even in its projects targeted at the poor; however, government agency bureaucracies are largely inflexible and not suited to undertaking the process-oriented and community-based types of projects needed in such circumstances; NGOs face major difficulties in collaborating with government agencies in the implementation of such projects.
- The Bank must recognize the respective strengths and weaknesses of governments and NGOs and should be willing to work directly with NGOs on projects that truly reach out to the poor and vulnerable groups; in this connection, the Bank should consider a separate grant and lending window for working directly with NGOs.
- The Bank needs to consult with beneficiaries more extensively, and to support community-based projects that encourage beneficiary groups to take responsibility for their development.
- The Bank should adopt more flexible contracting procedures to enable it to work more extensively and effectively with NGOs.

61. When *PPTA implementation and supervision* begin, the Bank as well as the DMC partially lose ownership of the PPTA, so that the eventual TA feasibility study report is the "consultant's report" rather than the Bank's or the borrower's. The Task Force perceives that a cause of eventual inappropriate project designs is the inadequate attention and

resources devoted to PPTA supervision and support. PPTAs represent substantial investments by the Bank, and they provide excellent opportunities for policy dialogue; if implemented effectively and participatively, they can create powerful ownership feelings on the part of the government and prospective beneficiaries of the project. Very simply, they are the main project preparation process. Extensive dependence on consultants during project preparation reduces the use of staff time, which has helped the Bank economize on the number of staff-years used for this activity. However, this practice inhibits the Bank from developing strong, in-house sector expertise, and from conducting effective policy dialogue.

62. The Task Force's recommendations for strengthening the project preparation process are as follows:

- PPTA 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.
- 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.
- 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.
- The TA agreement must be explicit and detailed on implementation arrangements. It should clearly identify the government's role including availability of counterparts and other inputs, and the consultants' interaction processes with the government.
- The TA Board document should be more concise with respect to the rationale, objectives and outputs of the TA, and more comprehensive on the terms of reference for the consultants.
- 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.

4. Loan Processing

63. This final stage of project-at-entry begins with the in-house examination of the *feasibility study* by the department concerned prior to the departure of the loan fact-finding mission. Because of resource constraints as well as the pressure of the approval culture, reviews of feasibility studies sometimes take place in the field when the final tripartite meeting to discuss the PPTA report is synchronized with the loan fact-finding mission. This practice is generally not appropriate, and can do much to compromise project quality. It does not afford an opportunity for interdepartmental and interdisciplinary review of the feasibility study, for the preparation of a preliminary project brief (PB) as a prelude to the fact-finding mission or for the identification of weak areas of project design that require specific attention. The Task Force considers that the preparation of a preliminary PB on the basis of the feasibility study *prior* to the project *fact-finding mission* will result in more clearly focusing the terms of reference of the mission.

64. The conduct of *project fact-finding missions* as currently undertaken by Bank staff can be substantially improved. A duration of two to three weeks appears to be the general rule. This need not be the optimal duration, particularly when the project involves many government agencies and/or when it is complex, or when Intensive examination of social and Institutional issues and/or demand analysis is necessary. The missions do not always undertake all the necessary site visits, especially when the travel to sites is time consuming, as in many PIDCs. Also, the feedback from Project Completion Reports (PCRs), Project Performance Audit Reports (PPARs) and review mission reports is not always fully considered, as in many PIDCs. The timeliness, relevance and responsiveness of the project to general sector development and to prospective beneficiaries needs are often taken for granted, and the suitability of the EA and its related implementation capacities are not fully assessed. A thorough risk analysis is often not attempted.

65. The *Management Review Meeting* (MRM) is the first stage at which Management really encounters the project with all of its major implications. This is a very significant step in the project cycle, since Management feedback and guidance are considered essential. The Task Force is of the view that the MRM should be devoted primarily to receiving Management feedback. Thus, it should be incumbent on the concerned project director to ensure that interdepartmental feedback is obtained and appropriately integrated into the PB *prior to* the MRM. The MRM should be Management focused. In this connection, the Task Force feels that the current rush with which PBs are sometimes prepared and the less-than-optimal time given to interdepartmental review are counterproductive to achieving quality.

66. Traditionally, the *appraisal mission* is devoted to fine-tuning the project details and tying up loose ends, finalizing costings and implementation arrangements, and following up on policy or other issues raised by Management at the MRM. In the view of the Task Force, if the issues raised at the MRM are substantive, a pre-appraisal mission should be sent, even if this will delay project approval. The more frequent despatch of pre-appraisal missions will demonstrate to the borrowers, as well as to processing staff, Management's firm commitment to enforcing certain standards of project quality regardless of impacts on lending levels and schedules. With regard to appraisal, missions should prepare the Memorandum of Understanding (MOU) in a format as close as possible to the loan documents to facilitate later loan negotiations. In addition, missions should also prepare and discuss with their counterparts a detailed and easily understood Project Administration Memorandum (PAM) for project implementation. The PAM should include details on procurement, contract packaging, consultant selection, implementation activity schedules and the like. Such missions should also ensure that commitments are obtained from the government on establishing the project office and appointing the project manager prior to loan approval.

67. At the *Staff Review Committee (SRC) Meeting*, while the issues raised at the MRM should be reviewed, considerable attention should also be given to ensuring the quality of the Report and Recommendation of the President (RRP) and the consistency between the RRP and the loan documents.

68. The Task Force recommends as follows:

In general, the Bank should adopt a longer time frame for processing projects, particularly from the project fact-finding stage to loan approval.

- A preliminary PB should be prepared on the basis of the feasibility study, prior to loan fact-finding, for in-house review. Feedback from PPAAAs, PCAs and implementation review missions should be clearly indicated.

- 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.
- PBs should be thoroughly reviewed on an interdepartmental basis prior to submission to Management for the MAM; the primary function of the MAM should be to obtain feedback and guidance from Management.
- Pre-appraisal missions should be sent if there are substantive issues pending after the MAM.
- 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.
- 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.
- The Bank should require establishment of a project office and appointment of a project manager prior to loan approval.

B. Project Implementation

1. Project Inception

69. Project inception is the transit point from processing to implementation and can have significant impact on the successful initiation of project implementation. It is at this point that the Bank's and the DMC's commitment to successful project administration is most tested. During this early stage, conditions for loan effectiveness need to be complied with; new implementing agency staff need to be appointed and appropriately briefed about the project concept, Bank procedures and implementation arrangements; and consultants are recruited, work plans developed, procurement documents prepared, and contracts tendered and let. Yet it is precisely during this crucial start-up period that Bank staff who have conceptualized the project and carried it through to approval are often transferred to another project preparation assignment. Thus, many Bank-financed projects begin implementation with slippages in schedules.

70. The Task Force considers that, while the PAM should be initiated and drafted during appraisal, it should be finalized and discussed in detail with the implementing agencies by the inception mission. Clear understandings should be arrived at on the respective roles of the implementing agencies, the consultants and the Bank. The Task Force further considers that a project inception mission should be led by the project's appraisal mission chief; he/she should ensure complete understanding on the part of the government of implementation procedures, and should assist the government in getting the project off the ground (see Box 6).

Box 6 – DMC Views on Project Implementation

A number of DMC officials expressed views to the Task Force on the Bank's processes of project implementation from the point of view of project quality. The more significant of their recommendations are summarized as follows:

- Some DMCs felt that the Bank devotes inadequate resources and emphasis to project implementation.
- Time overruns may be reduced by the following actions: (i) setting more realistic time schedules; (ii) more comprehensive project preparation, particularly institutional arrangements; (iii) streamlining procurement procedures; and (iv) hiring consultants who are familiar with the DMC situation.
- The overall effectiveness of implementation can be enhanced through (i) the design of simpler projects; (ii) more attention to systematic institution building; (iii) more frequent project review missions, field visits and consultations with implementing agencies and beneficiaries; (iv) simplification of procurement and disbursement procedures; (v) flexibility in the reallocation of loan proceeds; (vi) increased delegation of authority to review missions; (vii) more effective project monitoring and information systems, with closer involvement of the implementing agency in monitoring; and (viii) simplification of reporting procedures.
- The Bank's ROs should be strengthened, particularly with respect to their greater involvement in project administration; more delegated responsibility; greater role in training, procurement and consultant selection; and problem solving with concerned project managers.

71. The Task Force recommends the following improvements to this stage in the project cycle:

- The PAM must be formalized and serve as the basic reference document for the implementing agencies.
- 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.
- 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.

2. Project Supervision

72. In terms of resource allocation, project supervision and administration consistently receive less priority than project processing and preparation. In principle, each ongoing project should be reviewed in the field at least twice a year. In fact, the number of project review missions has been falling — from an average of 1.38 missions per project in 1987 to 1.17 in 1992, with average person-days per project review mission falling from 10.45 in 1987 to 7.38 in 1992. Further, the reviews are frequently relatively limited exercises, often

consisting of a visit to the implementing agencies to discuss and collect data on financial and physical progress, with only a few days in the field. Inadequate time is often devoted to assisting implementing agencies to analyze and resolve major issues, address deficiencies in quality of implementation and consult with beneficiaries.

73. A more basic issue is the general focus within the Bank on project administration. While issues such as physical progress, costs and loan covenants are indeed important and are therefore monitored closely, inadequate attention is given to monitoring the more substantive aspects of a project such as the achievement of objectives, beneficiary involvement, project agency capacity enhancement and evolving development impact. A major reason for this inappropriate emphasis of project administration within the Bank is that projects are generally not administered by the staff who conceptualized them and who are usually the best informed about their objectives, focus and intended impacts. Another is that constrained budgets do not allow for a larger range of skills to be involved in project review missions. In view of their limited institutional capacity, project implementation in PIDCs is even more challenging (see Box 7).

Box 7 – Pacific Island Developing Country (PIDC) Views on Project Quality

The special socioeconomic characteristic of PIDCs (including small markets, young administrations, lack of institutional capacity, shortage of skilled manpower and strong traditional cultures) constrain successful implementation of Bank-financed projects. The views expressed by PIDC officials, project beneficiaries and NGOs on project quality are summarized below:

- Institutional weaknesses and lack of skilled manpower are the most important causes of failure of projects in PIDCs. Project-based training does not create lasting increases in institutional capacity. Institution- building TAs should be designed with longer gestation periods and implemented in adjustable phases.
- The Bank should give priority to ESW and the COSS in its operations.
- Community participation in the design and implementation of Bank projects is essential to capture aspects essential to Pacific cultures (such as sensitivity towards land ownership, extended family network, joint property ownership and community life).
- Projects should emphasize smallness in size, simplicity in design and flexibility in execution, as complex and ambitious project design has proven to be unimplementable in the past. Sustainability should receive adequate attention during project formulation.
- The Bank seems to transpose the experiences of large Asian countries in designing projects for PIDCs, which are inappropriate for the PIDC situation.
- Loan covenants, reporting requirements and implementation procedures should be customized to reflect the realities of limited counterpart capacity rather than basing these on the requirements placed on larger DMCs.
- The Bank should develop a better understanding of PIDC constraints and a more responsive approach to assisting PIDCs.

74. Based on the above, the Task Force has the following recommendations:
- The President should clearly signify the equal importance of project administration and project processing through a formal policy statement.
 - Management should become more actively involved in monitoring project administration.
 - Country portfolio review missions should be intensified and should be led by a Vice President, a Department Director or the Chief, CPSO as much as possible.
 - A one-time spring cleaning of the Bank's portfolio of projects in each country should be undertaken in partnership with the government in conjunction with the implementation of the recommendations of this report.
 - Budgetary allocation should be made to allow for two weeks of field time per year for review missions of an ongoing project.
 - 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.
 - Departmental work should be rationalized so that professional staff generally handle not more than four projects a year requiring active attention.
 - Incentive systems within the Bank should be adopted to offer project administration staff adequate incentives and recognition for their work.
 - 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.
 - Systematic action should be taken to upgrade the skills and expertise of project administration staff in the Bank.
 - Implementation review missions should have authority to take decisions in the field except in the case of project reformulation or cancellation.

3. Project Administration Procedures

75. The Bank's guidelines and procedures for disbursement and procurement have evolved over the years and are basically sound. However, they tend to emphasize control rather than effectiveness and efficiency. Also, in the period since the Bank began its operations, many EAs have progressed to a level such that they now need less administrative support from the Bank. In line with the Bank's desire to promote greater ownership by DMCs of their projects, mature EAs should be encouraged to undertake implementation with relatively less involvement by the Bank. At the same time, there are other DMCs and EAs, especially in the PIDCs, that are new and still have weak institutional capacities; these will continue to require assistance from the Bank in project implementation. Hence, there is a need to distinguish between DMCs, and within each DMC, among various agencies, in the application of Bank procedures. Encouraging strong EAs to implement projects with minimal supervision by Bank staff will necessarily involve risks, but these are

worth taking if there is a partnership and trust between the Bank and the agencies concerned. In effect, the Task Force considers that a substantive change in corporate culture with respect to project administration is required. This change should be from a predominantly narrow focus on rules and regulations to an emphasis on the broader objective of capacity building, the achievement of project benefits and the introduction of administrative reforms within the country concerned.

76. In 1993, the Bank set up an Interdepartmental Committee for Review of Disbursement Policies and Procedures and Related Procurement Functions. The objective was to streamline loan and TA disbursement and contract administration in order to achieve greater cost effectiveness. The Committee's recommendations were accepted by Management in September 1993. The Task Force considers that project administration will be substantially improved by the implementation of these recommendations.

77. Given the above, the Task Force recommends the following:

- Authority for contract approvals to divisional project managers should be increased.
- Authority for approving minor changes in project scope and implementation arrangements should be delegated to divisional project managers.
- Concerned departments and offices should have the authority to allocate available budgetary resources across line items, and to recruit staff consultants.
- The Bank's business practices relating to project administration should be reviewed and streamlined.

4. Project Administration Units (PAUs)

78. Opinions vary within the Bank on whether there should be a "core group" of staff within a project division assigned solely to project administration and called the "project administration unit." Some project divisions within the Bank have adopted this structure. In their view the structure has important merits. It allows for the assignment of a Head, PAU, who coordinates project administration for the division as a whole on behalf of the manager and who acts as the focal point for processing all documents received from EAs, thereby ensuring prompt attention to these documents, and timely follow-up action on delays. It also allows for giving distinct recognition to project administration activities. On the other hand, it encourages the separation of project administration from processing activities such that staff in the PAU are not usually involved in project processing and vice versa. This implication of the PAU structure has some important demerits. As mentioned earlier, the continuity of staff from project formulation into implementation is critical. It is also important that Bank staff be generally involved in both sets of activities so that experience and learning acquired in one area can be usefully applied to the other.

79. Given the above, the Task Force recommends the following:

- 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.
- The position of Head, PAU should be formalized, at an appropriate level.

5. Regional/Resident Offices

80. The Bank has established ROs in six DMCs. The primary rationale for setting up these ROs was, in most cases, to facilitate the Bank's activities in the DMC concerned in a cost-effective manner, as well as to improve project quality. In theory, the ROs could contribute to every stage of the project cycle beginning with ESW and on into post-evaluation; in practice, their comparative advantage is particularly in facilitating and/or supporting project administration.

81. The Bank's experience with ROs has been uniformly positive to date, although their potential for facilitating project implementation has not been fully realized. Some are more directly involved in project administration than others. However, it is expected that in time ROs will find it more productive and appropriate to focus primarily on project administration. A key to using the ROs more productively is the selection of the right projects to delegate to them. In the view of the Task Force, two criteria should be applied in this regard: (i) projects that call for close and frequent contact with the government and its implementing agencies, and (ii) projects that require considerable coordination of activities among a number of agencies. In some cases it may be worthwhile considering delegating parts of a project for administration by the RO, e.g., follow-up on the policy agenda of a program loan.

82. The Task Force recommends as follows:

- The Bank should delegate more responsibility, accountability and authority to the ROs, particularly for project administration.
- A program of assigning more projects to the ROs should be introduced.
- The staffing of the ROs should be reviewed, and options for strengthening these offices should be considered, including the engagement of more national staff.

6. Role of the Central Projects Services Office

83. To enhance the function and effectiveness of project administration within the Bank, the Task Force also undertook a review of the role of CPSO and of the accountability of Bank departments/offices for implementation performance. Traditionally, CPSO has provided centralized services for consultant recruitment (other than staff consultants), advisory services for procurement including chairing Procurement Committee meetings, training seminars for DMC officials on Bank project administration practices, preparation of country project implementation profiles, and undertaking CPRMs and country project portfolio performance reviews. The Task Force is of the view that some of CPSO's functions should be reoriented to support the Bank's country focus and the emphasis on DMG ownership and capacity. The Task Force recommends the following reorientation in the role of CPSO:

- CPSO and its country portfolio reviews should play an important role in the Bank's formulation of the COSS and COPP.
- 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.

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

C. Feedback Mechanisms

84. Feedback is not a specified stage in the project cycle. However, it is expected that, at every major stage of the project cycle, the process of feedback on lessons learned from previous projects concerning implementation should take place systematically. Given the importance of this process, particularly from the point of view of enhancing project quality, the Task Force undertook a review of key feedback processes within the project cycle. The findings of the Task Force are presented in this section.

1. Country/Sector Monitoring

85. In the ongoing ESW undertaken by the Bank, many opportunities arise to obtain feedback that can potentially enhance the quality of future Bank operations. Such information includes key country developments, the Bank's experiences in policy dialogue and project implementation, and related lessons learned. In the preparation of the GOSS, the Bank has the opportunity to address the issue of whether the previous operational strategy has been a success and has been adequately implemented through the COPP. Specific project design and implementation experience can be usefully fed back into the formulation of the to-be-revised COSS and subsequent COPPs. The Task Force considers that these opportunities for feedback are not used adequately within the Bank. The reasons range from the limited resources allocated to the preparation of the COSS and related ESW, to the lack of coordination and communication between the Programs Departments and other concerned departments and offices such as Projects Departments, CPSO, AGSD, PEO and EDRC.

86. The Task Force recommends as follows:

- 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.
- 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.
- PEO should undertake more frequent country assessments from the point of view of the Bank's post-evaluation experience.

2. Benefit Monitoring and Evaluation (BME)

87. An effort has to be made to establish a closer link between project implementation and BME by progressively integrating the data compilation and monitoring aspects of BME into the Bank's project management and administration information system. With the increased emphasis on participation, adoption of the process approach and fostering ownership of the operations by the beneficiaries, EAs and the borrowing countries as a means to improve project quality, there is a need to rethink the purpose and design of

BME. The main purpose of BME remains the monitoring and evaluation of the performance of an investment operation (project, program, or sector loan) throughout its entire economic life. BME could be redesigned with the identification of a limited number of simple, easily understandable and monitorable quantitative and qualitative indicators, information on which can be readily compiled by the project implementing/executing agencies or other local agencies (see Box 8). The indicators should ideally encompass monitoring of both processes (e.g., degree of participation of beneficiaries, including their contributions and the effectiveness of social organization and cohesion) as well as outcomes (e.g., benefits accruing in the form of production, employment, income, improved health and skill formation). The Task Force recognizes that BME during implementation will be particularly useful in types of projects in which benefits start accruing along with implementation. However, the indicators should also include significant project milestones during implementation and operation so that BME may be expanded into a more general monitoring tool.

88. To improve the effectiveness of the BME system, the Task Force recommends as follows:

- 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.
- 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).
- 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.
- The Project Administration Committee (PAC) notes should be modified to incorporate information on these indicators on a regular basis. CPSG could act as the Bankwide coordinator for the modified BME.

Box 8 – DMC Views on the Evaluation of Bank Projects

DMCs confirmed their belief in the need for an objective and comprehensive monitoring and evaluation system. Some of the more significant views and suggestions expressed in this connection were:

- The Bank should give greater emphasis to strengthening in-country monitoring and evaluation capacities; thus, requests were made for related institution development and training assistance.
- The Bank should develop simple, relevant and easily manageable monitoring and evaluation systems, suited to the institutional capacities of each DMC; realistic parameters and mechanisms for monitoring should be established at appraisal in consultation with the implementing agency.
- Lessons from Benefit Monitoring and Evaluation should be pursued systematically by the Bank and the implementing agency to ensure improvements in implementation and project sustainability.
- The Bank's Project Completion Reports and Project Performance Audit Reports should be comprehensively discussed with all of the implementing agencies concerned before they are finalized.

3. Project Completion Reports (PCRs)

89. A PCR is normally prepared 6-12 months after substantial completion of the physical components of a project. No record of the performance rating of the PCR is kept by the implementing department (unlike with PPARs), and while PCR findings may well be used for inputs into future projects of a similar nature, their present use in this respect is not fully satisfactory. Considering the time and effort exerted in preparing the PCR, as well as the cost, the Task Force strongly feels that greater utilization of PCR findings should be made in Bank operations.

90. Considering that PPARs are prepared about 18 months to two years after completion of a project, and that they cover less than 50 per cent of all completed projects, the PCRs can be improved to provide a valid alternative to the Bank for assessing project performance, especially in terms of documenting lessons learned. This would be particularly so if the experience with the modified BME system discussed earlier was adequately analyzed in the PCRs — in which case, the PCRs would be akin to comprehensive "implementation completion reports." In addition, the revised PCRs could provide an assessment of the project's transition to operations, identifying any necessary remedial action. The BME indicators should also be re-examined for use in monitoring operations and assessing the development impact. This would make the PCR a more forward-looking document. Despite these improvements in the PCR, an independent post-evaluation report from PEG is still needed.

91. To improve the PCRs, the following are recommended:

- 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.

- Experience with the suggested BME system should be comprehensively documented in the PCAs.

4. Post-Evaluation

92. The scope and timing of the post-evaluation exercise has an impact on its feedback value. PEO prepares PPARs for only a sample of projects, within two years of PCA circulation. At the time when the PPAR is prepared, investment costs are relatively well known, but operating benefits have only just begun to emerge. Thus, at present, the post-evaluation process does not provide an adequate empirical basis on which to draw firm conclusions on the development impact of projects. This is a major shortcoming and calls into question the relevance and utility of the exercise for planning future Bank operations in a DMC or in a sector across DMCs. On the other hand, re-evaluation studies (carried out about five years after PPAR completion to better assess the development impact) and impact evaluation studies (to assess the impact of the Bank operations in a DMC sector or subsector), which provide better measures of development benefits and their sustainability, have covered only 14 and 56 projects, respectively. These projects comprise only 16 per cent of all completed projects for which PPARs have been prepared. As regards the evaluation of program loans, other than commenting on compliance with loan covenants, the lack of a logical framework of objectives and associated verifiable, time-bound progress indicators in RRs precludes any sound basis for post-evaluating program performance. In its current format, policy-based lending cannot be easily post-evaluated.

93. The Task Force recognizes that the adoption of the logical framework will be particularly useful in the post-evaluation of social sector projects and nonproject loans. It recommends that it be adopted as a post-evaluation tool in relevant projects to supplement the use of the economic internal rate of return.

94. Although some attention is given in PPARs to the institutional context of projects, the attention given to this subject needs to be increased. Unless the post-evaluation process interprets project performance in terms of the overall institutional environment of the project and also of the Bank, post-evaluation findings will have limited relevance for improving project performance by changing that environment. Too few PPARs comment on internal processes of the Bank or the EA as factors for improving project performance. When they do, institutional factors affecting project performance are often not translated into practical remedial actions.

95. With the adoption of country-focused operational programs, there is a need to provide a framework to monitor and evaluate whether the programs are formulated in line with the strategic objectives of the Bank and are consistent with the country strategy and effective in responding to the needs of the country. BME findings can be fed back to improve the quality of programming work. Moreover, the Bank's current feedback system has been limited to the findings from post-evaluation reports and studies undertaken by PEO. Although useful lessons arise from activities carried out by other offices and departments, they have not been systematically fed back into the operational system of the Bank. In addition, PEO's activities need to be carried out in closer coordination with the operational departments in areas such as selection of projects for post-evaluation and identification of thematic topics for special studies. This would make post-evaluation findings more relevant to the needs of the operational departments.

96. The Task Force recommends the following for the conduct of the Bank's post-evaluation activities:

- 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.
- Project impact studies should cover 20 per cent of the Bank's completed projects.
- A comprehensive annual performance evaluation program should be prepared to bring together the activities of different departments/offices related to project performance.
- 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.
- A review of PEO should be undertaken to examine the desirable institutional changes, staffing levels and budget for post-evaluation in light of its workload.

97. The Task Force recognizes the important role played by the Board of Directors in providing guidance and feedback to ensure that quality projects are approved by the Bank and that the projects financed achieve significant developmental impact. Of particular importance is the feedback received during Board meetings when loan proposals are discussed and during Audit Committee meetings when PPAR findings are reviewed. Comments offered when COSS and COPPs are reviewed will be of increasing importance as the Board gets more involved in these discussions. The Board also has the opportunity to review TA proposals as well as project implementation performance when the quarterly PAC notes are reviewed. The signals Board members give are important to the Bank, as they reflect the direction of thinking, as well as the expectations, of shareholders from both developed and developing countries. Bank staff should continue to be sensitive to the concerns expressed and use them as feedback for preparing and processing better country programs and loan projects in the future.

Chapter IV – FINDINGS, RECOMMENDATIONS AND ACTION PLAN

98. In Chapter II, the Task Force identified three major themes that underlie the analysis of project quality: (i) Bank responsiveness to clients, i.e., DMCs; (ii) DMC ownership and capacity building, and (iii) accountability for project quality within the Bank. The assessment of the Bank's current practices and experience undertaken within the framework of these three themes was discussed in Chapters II and III. Based on that assessment, the Task Force arrived at a number of important findings and made various recommendations to address them comprehensively in order to improve project quality. For total quality improvement, all the recommendations of the Task Force (listed in Appendix 3) must be implemented. However, from a pragmatic point of view, it is necessary that key recommendations that will make a major impact on improving project quality be identified for early implementation. The main findings and the key recommendations of the Task Force aimed at addressing the three major themes, and an action plan for implementing the recommendations, are discussed in this chapter.

A. Findings and Recommendations

1. Bank Responsiveness to Clients

99. The Task Force has concluded that the Bank needs to be more responsive to the needs and absorptive capacity of its DMCs. Overall, the Bank needs selectively to strengthen its staff capabilities, reorient its business practices and enhance its institutional capacity to improve its responsiveness to the needs of DMCs. The operational focus within the Bank has in the past been largely towards the transfer of resources to DMCs. The Bank therefore needs to increase its skills, particularly in economic, sector and social analysis, for developing sharper country focus as well as in the cross-cutting areas such as environment, WID, HRD and poverty reduction.

100. The Task Force has recognized that, among the institutional strengthening priorities of the Bank, the highest should be given to those directly related to improving project quality and to responding more effectively to the needs of DMCs. Accordingly, increasing responsiveness to clients is a major objective of the organizational reforms recommended by the Task Force, including realignment of operational departments, improving the effectiveness of operational support from special units and offices, reorientation of CPSO to provide more country-specific analysis of implementation performance, and increasing the role of ROs in project administration through greater delegation of authority.

101. Correcting the approval culture within the Bank will also help improve its responsiveness to DMCs by allowing more time and resources to be utilized for focusing on issues such as absorptive capacity, beneficiary participation and institutional strengthening. For this purpose, the Bank's business practices need to be modified so that development impact rather than loan approvals is given emphasis. Thus, a change in the corporate culture is necessary to ensure that equal importance is given to the achievement of project quality at all stages of the project cycle and overemphasis on project processing and loan approval is reduced.

102. Partly as a consequence of the approval culture, the Bank has devoted fewer resources, both by way of staff inputs and system requirements, to monitoring and supervising projects. While well-established system requirements have been prescribed for loan processing missions, the lack of such requirements for project monitoring and supervision missions makes them under-resourced and less effective.

103. Developing a sharper country focus is another important aspect of improving responsiveness to clients. The operational difficulties in translating a country focus into project selection and design need to be overcome by strengthening the linkages among the various elements of country economic and programming work, and between such work and project design. The sustainability and implementability of projects depend crucially on the consistency between the country ESW and the project design.

104. In consideration of the foregoing, the Task Force's key recommendations for increasing the Bank's responsiveness to DMCs include the following:

- The President should signal a change in corporate culture through a clear policy statement reasserting the importance of development impact rather than loan approval.
- The focus of project processing efforts should be shifted from loan approval to better project preparation and implementation.

- Staff capabilities should be strengthened for better alignment with changing needs.
- The role of special units (AGSD, PSSU, PRSP), offices such as OENV and EDRC, and ROs should be reassessed and realigned to provide stronger operational support.
- Three-year rolling IPFs should be considered for adoption in place of yearly IPFs.
- Programs and Projects Departments should be restructured to ensure better coordination.
- The interaction among operational departments and offices and special units in the preparation of ESW, COSS, COPP and project design should be improved.
- Resources devoted to project implementation activities should be increased.
- The role of CPSO should be reoriented to accord with both the changing implementation support needed by DMCs and the Bank's country focus.

2. DMC Ownership and Capacity

105. The operating methods and corporate culture within the Bank have often provided inadequate attention to encouraging ownership and commitment on the part of borrowers and beneficiaries. The pressures to meet processing deadlines have tended to inhibit the involvement of borrower agencies and beneficiary groups, especially at the early stages of project preparation. Similarly, there is inadequate emphasis on the Bank's role in building capacity in DMCs in all phases of the project cycle.

106. The Task Force has noted that the Bank's DMCs are differentiated according to their institutional capacities. Some have well-developed institutions in certain sectors, while others lack adequate institutional capacity to design and implement high quality projects. Others, such as PIDCs, have unique physical and economic aspects that require special attention, particularly when it comes to augmenting institutional capacities. Appreciation of these differences is important for designing successful projects for institutional strengthening.

107. A project-based approach to institutional strengthening has been found ineffective in creating permanent increases in institutional capacities. This has led the Task Force to conclude that the Bank needs to review and reformulate its strategy and policy towards capacity building in its DMCs and to develop a more comprehensive and appropriate capacity-building program.

108. Sometimes inadequate commitment by DMCs to projects may be due to weak involvement of the government and the beneficiaries throughout the project cycle. Nurturing and building DMC commitment during project preparation is time consuming and costly; moreover, the mechanisms for beneficiary consultations are still not clearly defined. The commitment at the local level is consequently poor. However, in the view of the Task Force, more intensive efforts must be undertaken by the processing missions, with AGSD support, to build DMC ownership and commitment. Such efforts are essential for designing and implementing high quality projects, and for completed projects to be well utilized and maintained.

109. The effect of some business practices of the Bank at the project preparation and implementation stages on the ownership and commitment of DMCs also needs to be examined. The establishment of a Project Office and the recruitment of a Project Manager are seriously taken up in most DMCs only after loan approval. Questions regarding responsibility sharing and Bank procedures and policies are also generally addressed only at the project inception stage. These practices dilute DMC ownership and commitment, and need to be changed. Likewise, a one-time spring cleaning operation to weed out inactive and slow-moving projects also needs to be undertaken to garner enhanced resources and commitment of DMCs for the remaining portfolio. Some of the key recommendations of the Task Force in this context are as follows:

- The Bank should adopt a comprehensive policy on capacity building and undertake effective capacity-building programs for its DMCs.
- The government and beneficiaries should be fully involved at all stages of the project cycle beginning from project identification.
- A Project Office should be set up and a Project Manager appointed by the DMC prior to loan approval.
- A PAM should be prepared and fully discussed during appraisal, with the specific obligations and roles of all parties being clearly discussed and evaluated.
- A one-time detailed spring cleaning of all projects under implementation should be carried out to restructure the portfolio of existing projects.

3. Accountability for Project Quality in the Bank

110. The Bank has not decentralized its systems and functions along with the steady expansion of its activities. This has resulted in overcentralized business practices that dilute accountability, delay decision making and contribute to implementation problems. This overcentralization has affected the evolution of ROs as effective institutions for project administration, circumscribed review missions' authority to take decisions in the field, reduced the managerial responsibilities of line departments, tied down scarce staff resources to routine administration, and diverted them from the higher quality activities of planning and management. This calls for greater delegation coupled with identification of accountabilities. The Bank's systems, practices and procedures need to be modified to establish clear responsibility for project quality at various phases of the project cycle. The Task Force considers that there should be a clear determination of accountability for the various stages in the project cycle.

111. At the entry phase, there is need to establish accountability for the integrity of the project design by harmonizing the functions of the specialized units with those of the Projects and Programs Departments. The envisaged organizational review by the Steering Committee will contribute also to improved client responsiveness as it is expected to reduce delays in decision making and to streamline Bank operations.

112. Owing to the lesser emphasis given to implementation in the project cycle, responsibility for the delivery of high quality results at this phase has not been entrusted to any specific point. This is another dimension of the approval culture that promotes project processing activities while giving less importance to project quality at the other stages of the project cycle. This situation can be reversed only when the corporate culture gives equal importance to project quality at other stages of the project cycle as it does to project

processing and approval. Likewise, increased attention of Management and Department Directors to project implementation activities would also signal to the DMCs that the Bank is attaching greater importance to project implementation.

113. The effective utilization of feedback from both completed and ongoing projects into programming, project preparation and implementation activities requires improvements in the feedback instruments, as well as in the process of its utilization. A major feedback activity, namely post-evaluation, has provided limited feedback into Bank operations until recently. Monitoring of implementation has rarely extended beyond routine aspects of physical and financial progress. The substantial scope that exists for improving project design and implementation through lessons conveyed through feedback mechanisms has not, therefore, been fully exploited.

114. The key recommendations of the Task Force to enhance accountability within the Bank and to ensure the effective use of feedback are as follows:

- The President should clearly signify the equal importance of project administration and project processing.
- Management and Department Directors should take more active interest in project administration.
- The incentive/reward structure should be implemented in a manner that treats all project cycle activities equally.
- The appraisal mission chief should continue with project administration until at least one year after loan effectiveness.
- Concerned departments and offices should have the authority to allocate available budgetary resources across line items, and to recruit staff consultants.
- The use of feedback inputs in the preparation of the COSS, COPP and project design and during project implementation should be ensured.
- PCRs and PPARs should be reoriented to include, respectively, (i) an initial assessment of project performance, and (ii) better assessment of the project's development impact.
- A comprehensive Annual Performance Evaluation Program should be prepared to bring together activities of different departments/offices related to project performance.
- Implementation review missions should have greater authority to make decisions in the field.

B. Follow-up Measures, Time Frame for Action and Primary Responsibilities

115. The Task Force has also identified follow-up and monitorable measures related to each key recommendation. While some of the measures can be implemented quickly, a few will need to be evaluated further, before a final decision can be taken on their implementation. The latter approach is unavoidable, because the Task Force has evolved its recommendations primarily on the basis of project quality considerations, and some recommendations may have implications for other aspects of the Bank's operations.

116. The Task Force has recommended a time frame for accomplishing action on the proposed key recommendations. Some of the proposed recommendations can be implemented immediately. For others, a time frame of six months, one year or two years has been recommended as guideposts for completing action on the further steps, depending on the effort needed to accomplish the measures concerned. It is proposed that the status of implementation of the recommendations be updated from time to time, and steadily convergent estimates be made for completion of action. The Task Force also recognizes that the responsibility for implementing the recommendations is Bankwide, but it has determined the primary responsibility centers for implementation. These primary responsibility centers will initiate and coordinate the actions required to implement the proposals.

C. Action Plan

Major Finding	Key Recommendation	Follow-Up Action	Time Frame for Accomplishing Action	Primary Responsibility
1. Capacity in the Bank needs to be strengthened in selected areas to meet the increasing complexity of development challenges.	1.1. Strengthen staff capabilities for better alignment with changing needs.	1.1.1. Based on an inventory of available skills and projected skills-mix requirements, identify areas for staff redeployment and skill supplementation.	1 year	BPMS
		1.1.2. Review the adequacy of existing training in areas given priority by the Task Force, and make necessary amendments to the training program.	1 year	BPMS
	1.2. Role of CPSO should be reoriented to accord with the changing implementation support needed by DMCs and with the Bank's country focus.	1.2.1. Redefine the functions of CPSO to emphasize its role as a facilitator and guide for project implementation activities.	6 months	Steering Committee for a Review of the Bank's Organization
	1.3. Roles of special units (AGSD, PSSU, PRSP), OENV, EDRC and ROs should be reassessed and realigned to provide stronger operational support.	1.3.1. Examine alternatives for realigning the roles of these special units and offices.	6 months	Steering Committee for a Review of the Bank's Organization
2. Project preparation and processing practices support the approval culture.	2.1. President should signal a change in corporate culture through a clear policy statement reasserting the importance of development impact rather than loan approval.	2.1.1. Statement by the President.	Immediate	President
		2.2. Focus of project processing efforts should be shifted from loan approval to better project preparation.	2.2.1. Provide increased attention and staff input to preparation and implementation of PPTAs.	6 months
	2.3. Three-year rolling IPFs should be considered for adoption in place of yearly IPFs.	2.2.2. Allow adequate time during processing for satisfactory completion of staff work and internal consultations.	6 months	Projects
		2.3.1. Examine the implications of adopting a three-year rolling IPF, and develop milestones for monitoring and implementation arrangements.	6 months	BPMS

Major Finding	Key Recommendation	Follow-Up Action	Time Frame for Accomplishing Action	Primary Responsibility
<p>3. The status of project administration is given less importance than project processing in the Bank, and implementation efforts must be intensified.</p>	<p>3.1. President should clearly signify the equal importance of project administration and project processing.</p>	<p>3.1.1. Statement by the President.</p>	<p>Immediate</p>	<p>President</p>
	<p>3.2. Management and Directors should be more actively involved in project administration.</p>	<p>3.2.1. Issue instructions that country portfolio review missions should be led by VP, Programs-Projects, Director/Chief CPSO as appropriate.</p>	<p>Immediate</p>	<p>Programs</p>
	<p>3.3. Resources devoted to project implementation activities should be increased.</p>	<p>3.3.1. Undertake at least two weeks of field review for each project every year.</p>	<p>1 year</p>	<p>Projects</p>
	<p>3.4. Introduce appropriate shifts in the incentives/rewards structure.</p>	<p>3.3.2. A mid-term review should be carried out for each project.</p>	<p>1 year</p>	<p>Projects</p>
	<p>3.4. Introduce appropriate shifts in the incentives/rewards structure.</p>	<p>3.4.1. Issue instructions to recognize and reward performance in project administration on an equal basis with project processing.</p>	<p>Immediate</p>	<p>BPMS</p>
	<p>3.5. Appraisal mission chief should continue with project administration for at least one year after loan effectiveness.</p>	<p>3.4.2. Re-examine the job classification level of staff handling project administration.</p>	<p>1 year</p>	<p>BPMS</p>
<p>4. Capacity in DMCs needs to be augmented to match the requirements of designing, implementing and evaluating projects.</p>	<p>4.1. The Bank should adopt a comprehensive policy on capacity building and develop appropriate programs of training/institutional strengthening.</p>	<p>3.5.1. Require appraisal mission chief to participate in project administration for at least one year after loan effectiveness.</p>	<p>Immediate</p>	<p>Projects</p>
		<p>4.1.1. Prepare a policy on capacity building in DMCs and proposed approaches and Bank institutional arrangements to be adopted in this regard.</p>	<p>1 year</p>	<p>DPO</p>
		<p>4.1.2. Prepare and implement effective programs to carry out the capacity-building policy.</p>	<p>2 years</p>	<p>Programs</p>

Major Finding	Key Recommendation	Follow-Up Action	Time Frame for Accomplishing Action	Primary Responsibility
5. Full ownership of projects by DMCs is often lacking.	5.1. The Government and beneficiaries should be fully involved at all stages of the project cycle beginning from project identification.	5.1.1. Establish guidelines for enhanced government and beneficiary consultations at the PPTA and loan processing stages.	1 year	AGSD
	5.2. The PAM should be prepared and fully discussed during appraisal, with the specific obligations and roles of all parties being clearly discussed and evaluated.	5.2.1. Refine and implement a format for the PAM. 5.2.2. Instruct appraisal missions to prepare a comprehensive PAM and append the same to the MOU.	6 months 6 months	CPSO Projects
	5.3. Project Office should be set up and the Project Manager appointed by the DMC prior to loan approval.	5.3.1. Require the needed actions to be discussed during appraisal and confirmed during loan negotiations.	Immediate	Projects
	5.4. A one-time "spring-cleaning" of all projects under implementation should be carried out in partnership with the DMCs.	5.4.1. Prepare and implement a one-time program of portfolio restructuring.	1 year	Projects
6. Country focus is not fully realized because of weak linkage between ESW, COSS, ERBOP, COPP and project design.	6.1. The Programs and Projects Departments should be restructured to ensure better coordination.	6.1.1. Examine the various alternatives for combining programs and projects functions under a single unit of responsibility. 6.1.2. Implement the selected alternative.	6 months 1 year	Steering Committee for a Review of the Bank's Organization BPMSD
	6.2. The interaction of operational departments and offices are special units in the preparation of ESW, COSS, COPP and project design should be strengthened.	6.2.1. Enable the special units (AGSD, PSSU, PRSP), OENV and EDRC to participate increasingly in the preparation of ESW, COSS and COPP.	1 year	Programs/Projects
		6.2.2. Estimate the resource needs of more intensive ESW and prepare a strategy for mobilizing the same.	1 year	Programs/Projects

Major Finding	Key Recommendation	Follow-Up Action	Time Frame for Accomplishing Action	Primary Responsibility	
7. Bank practices and systems are over-centralized.	7.1. Delegation to ROs, including project administration matters, should be increased.	7.1.1. Review the ROs in terms of the potential for delegating authority to them, and associated staff/other resource requirements.	1 year	BPMS	
		7.1.2. Review the current and projected project portfolio in terms of its potential for delegating administrative responsibility to the ROs.	6 months	Projects	
		7.1.3. Implement a phased program of resource supplementation/delegation of responsibility to the ROs.	2 years	BPMS	
	7.2. Implementation Review Missions should have authority to take decisions in the field except in the case of project reformulation or cancellation.	7.2.1. Develop procedures for review missions to take decisions in the field.	1 year	CPSO	
		7.3. Concerned departments/offices should have authority to allocate budgetary resources available to them among line items, and to recruit staff consultants.	7.3.1. Issue suitable staff instructions.	1 year	BPMS
8. Feedback mechanisms are not being fully utilized in programming and in project activities.	8.1. The use of feedback inputs in the preparation of the COSS, COPP and project design and during project implementation should be ensured.	8.1.1. Require concerned missions to incorporate feedback findings in their respective reports.	Immediate	Programs/ Projects	
		8.2. Project design and evaluation tools such as the logical framework, which would also contribute to more effective BME, should be better used.	8.2.1. Revise/introduce appropriate guidelines and training to ensure effective Bankwide use of these tools.	6 months	Projects
	8.3. PCRs should be expanded to include an initial assessment of project performance.	8.3.1. Prepare a revised PCR format.	6 months	Projects	
		8.3.2. Introduce a phased scheme for the preparation of expanded PCRs.	1 year	Projects	
	8.4. The timing of PPARs should be scheduled to enable better assessment of the project's development impact.	8.4.1. Undertake PPAR preparation three years after project completion.	Immediate	PEO	
	8.5. A comprehensive annual performance evaluation program should be prepared to bring together the activities of different departments/offices related to project performance.	8.5.1. Issue staff instructions.	Immediate	PEO	

Chapter V – IMPLICATIONS AND MONITORING ARRANGEMENTS

117. This chapter outlines the organizational and resource implications of the recommendations, and the possible trade-offs involved, including the scope for savings and efficiency gains that might partly offset some of the additional resources required. It also examines other measures required to create an internal organizational climate in support of improved project quality. Finally, it looks at the monitoring arrangements that will be needed to ensure that the Task Force's recommendations are implemented in a timely manner.

118. Some of these recommendations, particularly those of a procedural nature, can be implemented quickly within the present organizational structure, and with relatively few resource implications. Others, however, do imply organizational changes, while some recommendations imply the need for additional resources, particularly staffing and business travel budget.

A. Organizational Implications

119. An important recommendation of the Task Force is the combination of programs and projects functions under a single unit of responsibility in order to improve linkages between country economic and programming documentation (COSS, COPP and ERBOP) and project design, and to establish accountability for project quality. The Steering Committee for a Review of the Bank's Organization (the Steering Committee), which has already been established by the President, will need to examine the various alternatives and decide on the most appropriate organizational structure to implement the recommendation.

120. Another important recommendation of the Task Force is the alignment of the roles of the special units (AGSD, PSSU and PRSP), OENV, EDRC and ROs to provide stronger operational support. New operational directions for the special units to implement the Bank's strategic agenda have often not been clearly understood in the field and have resulted in considerable "second guessing" as to their intent. An effective way to address this issue is to involve the special units more intensively in operations. While a reasonable start has been made to include membership from some of the special units on project processing, programming and country strategy missions, these interactions could be intensified. Suitable procedures will therefore have to be evolved to enhance the interactions between operational and policy making units in the Bank without affecting the objectivity of the latter.

121. Chapter II has shown that there is a need to review, revise and consolidate the Bank's training and other activities in support of the development of institutional capacities in DMCs in order to improve their quality and impact, and thus to enhance the sustainability of the Bank's operations in the DMC concerned. While the development of a comprehensive Bank policy on capacity building will be the prerequisite for further action in this regard, a focal point for capacity development will be required to assume responsibility for the Bank's further capacity building policy/program development, monitoring and review; assessment of country needs and resource analysis; and coordination and evaluation of activities. This should also be examined by the Steering Committee.

122. The growing complexity of the Bank's strategic agenda requires sophisticated economic and social analysis at the level of country operations. EDRC must revise as appropriate the guidelines on economic, social and sensitivity analysis of projects, and participate in missions and project work actively to demonstrate how the new procedures and requirements can be met. Closer cooperation between EDRC and the operational departments and offices is also needed in the context of the Task Force's recommendation for upgrading the Bank's ESW.

123. The Task Force has recommended reorienting the role of CPSO by reducing its involvement in routine procurement matters and redirecting its mission to one of providing policy and analytical support, and by intensifying and enlarging its inputs in country-focused implementation reviews such as the CPRMs. This recommendation will have far-reaching organizational implications. It is therefore necessary that the future role of CPSO be carefully evaluated as part of the work of the Steering Committee.

124. The organizational issues concerning the future role of the ROs center mainly around the need to delegate more responsibility and authority to them in order better to realize their potential for contributing to more effective project implementation. First, it should be decided whether the delegation should be across all sectors or should focus on specific sectors. The Task Force has suggested that the former approach may be adopted. However, given the relatively small size of some ROs, it is not clear that the recommendation, even if sound from an operational point of view, is cost effective. Second, the issue of the appropriate structure of delegation is linked with the issue of the pattern of staffing. The Task Force has recommended that a larger number of national staff be employed in the ROs. This could be a cost-effective solution, but the availability of an adequate number of qualified candidates in the various DMCs, particularly the PIDCs, cannot be assumed. It is possible that country-specific solutions could emerge, and the decision on the structure of delegation would depend on whether or not national staff are available in the various disciplines.

125. The Task Force has recommended several changes in the Bank's business practices with the objective of decentralizing operations and decision making. It has also called for a shift in the corporate culture from the operational focus on loan approvals to project quality throughout the project cycle. It is necessary that the Bank undertake a comprehensive review of its business practices and procedures with a view to streamlining and eliminating unnecessary procedures and processes, focusing on achieving increased economy and efficiency of effort, and delegating more authority to the extent possible.

B. Staffing Implications

126. The Task Force's recommendation for strengthening staff capabilities for a better alignment with the changing needs of the Bank has several implications for the Bank's human resource development strategy, particularly in the areas of skills mix, redeployment, recruitment of appropriate staff, training and the incentive structure. Staff recruitment was, until a few years ago, influenced by the Bank's focus on producing traditional projects, and therefore resulted in an operational staff of specialists with skills aligned to the analysis of technical, economic and financial issues. With the increasing volume and complexity of the Bank's operations, there has been an increasing need for the Bank to address, in depth, macroeconomic and sectoral issues and cross-cutting issues such as the environment and promotion of the role of women in development, and to handle the Bank's private sector operations. Specialists have therefore been recruited to support the incorporation of these issues into country strategy, program and project design and implementation. The implementation of the Task Force's recommendation will imply a further shifting of the skills mix towards these specialists and a corresponding decline in other disciplines. Increased emphasis on recruiting staff with practical experience in project management in developing countries will also be required. A Bankwide skills mix inventory will also need to be completed as early as possible to identify the scope for redeployment of staff, together with departmental skills mix projections that will identify the need for any additional skills.

127. An important aspect of in-house capacity building is training and sensitizing Bank staff to the need for capacity building and increased client responsiveness within the Bank. Bank staff need to undergo training to upgrade their basic competencies and to develop new skills wherever needed to meet changing work requirements. The adequacy of existing training in the areas given priority by the Task Force — such as macroeconomic,

social and institutional analysis; demand analysis; and project implementation — needs review. Training in the use of relevant diagnostic tools, such as the logical framework, will also be essential. The Bank's in-house training program has been upgraded considerably in recent years to relate it more directly to staff needs, but staff need to be further encouraged to give priority to training activities.

C. Budgetary Implications and Trade-Offs

128. The agenda proposed by the Task Force to improve and sustain the quality of Bank operations will have significant budget resource implications. Improved project quality will depend partly on enhanced staff quality, but there will also be budgetary implications relating to more and wider staff inputs at the project inception stages; more thorough, direct and explicit consideration of lessons learned from completed and ongoing related projects; increased use of the more staff-intensive process-oriented approach to projects; intensified and more continuous staff involvement in project administration; increased staff training and development; expanded and intensified frequency, composition and duration of mission travel at all stages of the project cycle; and strengthening and better utilization of the ROs.

129. Comprehensive implementation of the Task Force's recommendations will call for significant adjustments and increments to the Budget. It will also call for managers to be given authority to make trade-off decisions among allocated line items, to encourage them to become more efficient, effective and results-oriented. While redirection of existing budgetary resources and more responsive budget planning and utilization will be necessary, growth in the Budget — as appropriate — will need to be considered carefully.

130. The 1994 Budget, recently approved by the Board, was formulated without the availability of the Task Force's report. To the extent possible, therefore, efforts should be made during 1994 to utilize the approved provisions to support the implementation of the Task Force's recommendations. More substantially, the 1995-1997 Medium-Term Work Program and Budget Framework paper to be presented to the Board in the third quarter of 1994, and the 1995 Budget, should aim to capture the budgetary implications of the Task Force's recommendations.

131. It is also considered that multiyear programming and budgeting (with indicative annual milestones) could provide a framework for the Bank to move away from the approval culture, which is characterized by an undue emphasis on obtaining loan approvals and which results in an annual "bunching" problem for the Bank's Board of Directors. The translation of this concept into practical and meaningful performance measurement and accountability will, however, require further study prior to implementation.

132. The implementation of the Task Force's recommendations on better project preparation will result in lengthening project processing schedules. At the early stage, this could mean a reduction in the number of projects approved in a particular year. However, if the rolling three-year IPF recommended is also implemented, the slippages in project approvals will be carried over to the subsequent periods within the three-year time frame. In particular, if it is decided to implement these recommendations immediately, there could be some decline in the level of loan approvals in 1994. It will be necessary to explain to the DMCs the implications of implementing the recommendations.

133. At this stage, it is difficult to estimate fully the resource requirements stemming from the recommendations of the Task Force. However, there will be substantial costs in making the transition from the present situation to the preferred state if all the recommendations are fully implemented. In this exercise, it will be necessary to compare the costs with the expected improvements and to assess the affordability of the latter. First,

organizational improvements and reforms that will likely result from the work of the Steering Committee may release resources that will then be available for deployment. Higher productivity is also expected from improvements in business practices in the future. To the extent that excess resources can thus be realized, they can be utilized for improving project quality. If the resource requirements of improving project quality are in excess of this potential, two possible alternatives remain: either additional resources should be mobilized or the volume of activity should be scaled back. The Task Force does not prefer the second alternative, since it would mean a diminished involvement of the Bank in the Region's socioeconomic development at a time when the Bank has been called upon to play a more proactive role in it. This whole area requires detailed examination and ultimate decision by Management and the Board.

D. Monitoring Arrangements

134. This analysis of problems and the focus on the need to do better have been an invaluable exercise in view of the active participation of a large number of Bank staff at all levels, and of the cooperation and inputs of DMCs, EAs and NGOs. Still, the utility of this report will depend ultimately on the extent to which the Bank and the DMCs implement the recommendations. Continuous monitoring of their implementation will be required on the part of both the Bank and the DMCs.

135. Insofar as the Bank is concerned, implementation of the recommendations will have to be undertaken by all departments/offices involved in the programming and project cycle. The Task Force recommends that the Development Policy Office monitor the implementation of the recommendations and report to Management periodically. An overall implementation report should also be submitted to the President and Board of Directors after one year.

136. DMC representatives have made a significant contribution to the findings of the Task Force, and their continued involvement will be vital to the successful implementation of the Task Force's recommendations. Accordingly, it is proposed that the Bank should continue to work closely with the counterpart groups that interacted with the Task Force in responding to questionnaires and meeting with Task Force missions. It is also proposed to seek an early meeting, in Manila, with DMC officials with a view to developing a program of collaborative follow-up actions. Continued dialogue between the Bank and governments will not only facilitate monitoring of follow-up, but will also provide valuable feedback during the process of implementing the recommendations. The periodic reports referred to above will also cover actions taken by the DMCs and their EAs.

TASK FORCE ON IMPROVING PROJECT QUALITY

Terms of Reference

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

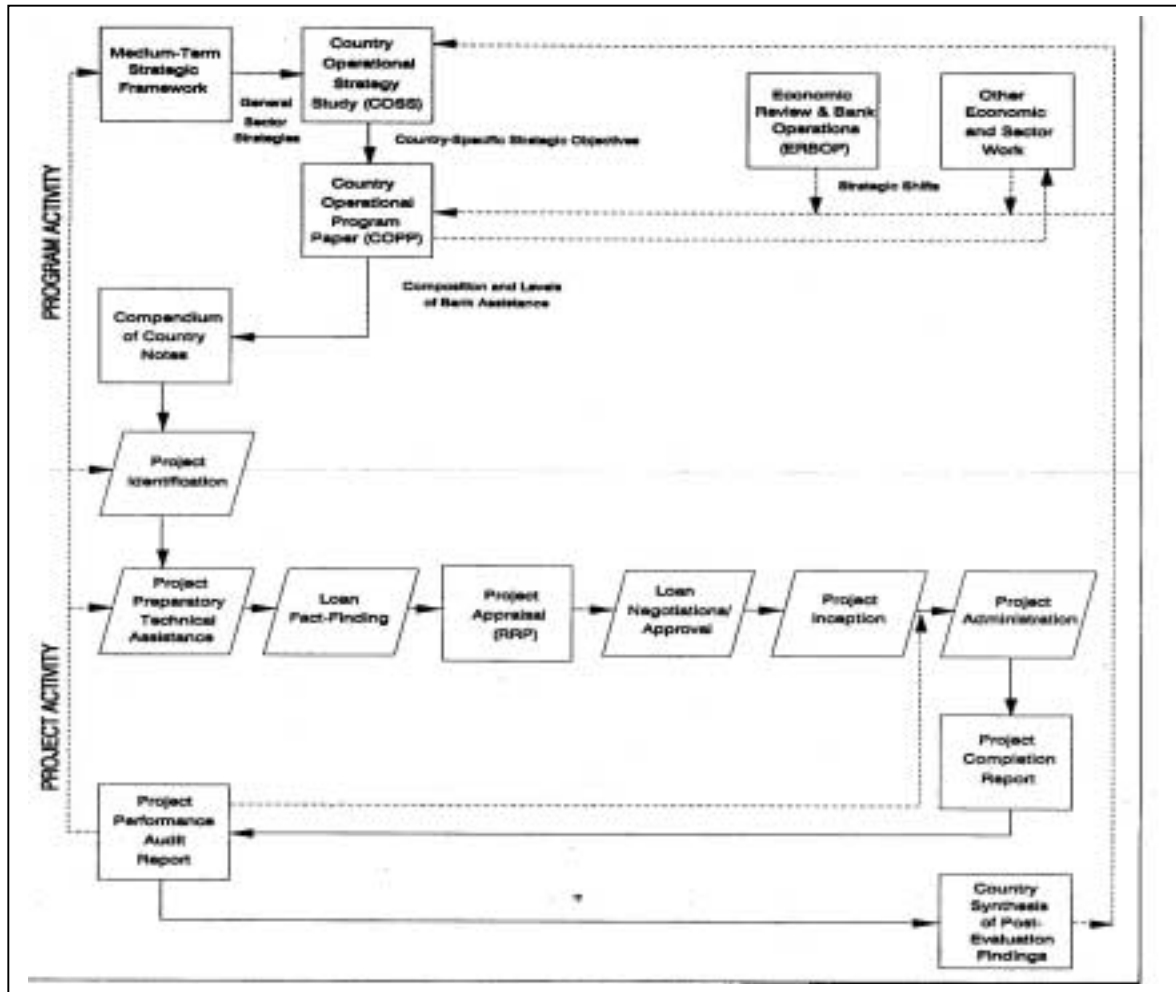
- 1) Determine the implications of project quality and whether the economic internal rate of return (EIRR) should be the sole yardstick of project success or other criteria should also be considered.
- 2) Determine whether the role of a development bank implies a certain proportion of project failures 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.