

**SPECIAL EVALUATION STUDY**

**ON**

**PROJECT PERFORMANCE MANAGEMENT**

**IN THE ASIAN DEVELOPMENT BANK**

**AND ITS PROJECTS IN DEVELOPING MEMBER COUNTRIES**

**November 2003**

## ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
BME	–	benefit monitoring and evaluation
BTOR	–	back-to-office report
COPP	–	Project Coordination and Procurement Division
COSO	–	Central Operations Services Office
CPF	–	country program framework
CPRM	–	country portfolio review mission
CSP	–	country strategy and program
CSPU	–	country strategy and program update
DBM	–	Department of Budget and Management
DEC	–	Development Effectiveness Committee
DFID	–	Department for International Development
DILG	–	Department of Interior and Local Government
DMC	–	developing member country
DO	–	development objective
EA	–	executing agency
IA	–	implementing agency
IDO	–	immediate development objective
IP	–	implementation progress
KPIO	–	Key Projects Inspectors Office
LGU	–	local government unit
LTDO	–	long-term development objective
LTSF	–	long-term strategic framework
M&E	–	monitoring and evaluation
MDG	–	millennium development goal
MIS	–	management information system
MTR	–	midterm review
MTS	–	medium-term strategy
MTSF	–	medium-term strategic framework
NEDA	–	National Economic and Development Authority
NGO	–	nongovernment organization
NO	–	national officer
OED	–	Operations Evaluation Department
ORM	–	operations review meeting
PAC Note	–	project administration committee note
PAI	–	project administration instruction
PAM	–	project administration memorandum
PAU	–	project administration unit
PBA	–	performance-based allocation
PCR	–	project completion report
PF	–	project framework
PIU	–	project implementation unit
PM	–	performance management
PNG	–	Papua New Guinea
PPAR	–	project performance audit report
PPM	–	project performance management
PPMS	–	project performance management system

PPR	–	project performance report
PRC	–	People’s Republic of China
PRS	–	poverty reduction strategy
RBM	–	results-based management
RD	–	regional department
RM	–	resident mission
RME	–	results-based monitoring and evaluation
RRP	–	report and recommendation of the President
RSDD	–	Regional and Sustainable Development Department
SDO	–	strategic development objective
SDPC	–	State Development Planning Commission
SES	–	special evaluation study
TA	–	technical assistance
TPAR	–	technical assistance performance audit report
UNDP	–	United Nations Development Programme

### NOTES

- (i) The fiscal year (FY) of the Government ends on 31 December.
- (ii) In this report, “\$” refers to US dollars.

## CONTENTS

	<b>Page</b>
EXECUTIVE SUMMARY	ii
I. INTRODUCTION	1
A. Study Purpose	1
B. Study Methodology	1
C. Limitations and Constraints	2
D. Report Structure	2
II. BACKGROUND	2
A. The Imperative for Project Performance Management	2
B. The Asian Development Bank's Response	4
C. Definitions and Procedures	9
D. Remaining Issues	13
E. Experience Elsewhere from Adopting Project Performance Management	16
III. FINDINGS ON THE STATUS OF PPM IN ADB	18
A. Lack of Consistency in Key Documents and Terminology	18
B. Status of the Project Performance Management System	19
C. Other Findings Related to Project Performance in ADB	26
IV. FINDINGS ON THE STATUS OF PPM IN ADB PROJECTS IN DMCs	28
A. Executing Agency Progress Reporting	28
B. Executing Agency Project Completion Reports	30
V. FINDINGS ON THE CONTEXT FOR PPM	30
A. In the Asian Development Bank	30
B. In Developing Member Countries	35
VI. LOOKING FORWARD	36
A. Conclusions	36
B. Recommendations	40
APPENDIXES	
1. Literature Review	43
2. Staff Perceptions Survey: Methodology and Findings	50
3. Quantitative Quality Assessments of Selected Project Performance Management System Elements	67
4. Country Context for Project Performance Management	79

## EXECUTIVE SUMMARY

This report documents the findings of a special evaluation study (SES) on project performance management (PPM) in the Asian Development Bank (ADB) and the projects it funds in its developing member countries (DMCs).

Over the last decade, ADB has been required to more clearly demonstrate the development results of its work. Improving the definition of expected results during design, measurement of actual achievements during implementation and beyond, and using this information to enhance the performance of current and future projects is a way of responding to this challenge. This is the essence of PPM. Adopting PPM allows ADB to better deliver on its overarching goal of poverty reduction in three ways: first, it leads to better performance of individual projects through improved design and early warning about emerging problems during implementation. Second, it assists strategic management so that resources are allocated to the best effect. Third, it gives ADB greater credibility and authority because ADB has sound evidence to back up its statements and advice.

ADB has always been interested in the results of its work. However, the articulation of what results matter and how they are to be attained has evolved over time, influenced by ADB's own experience and the changes in stakeholder perceptions and priorities. Since the early 1990s, ADB has responded to the challenge in five interrelated ways: (i) clearer and more focused definition of key results areas; (ii) formation of task forces and working groups on improving project quality (1994), portfolio restructuring (1999), and reorganization (2001); (iii) process enhancement in the area of project performance measurement and reporting, which culminated in developing a project performance management system (PPMS) that provides a common evaluative framework covering all stages of the project cycle; (iv) improved oversight—most recently through creation of the Development Effectiveness Committee in January 2001; and (v) capacity building for PPM in ADB's DMCs.

The PPMS is the focus of this SES. It consists of five elements: (i) the project framework (PF), which specifies performance targets and indicators *ex ante*, along with assumptions and risks—this provides a common basis for all subsequent evaluation; (ii) the project performance report (PPR), which is a system for reporting on project progress and the likelihood of achieving development objectives—it generates a project performance rating for implementation progress and development objectives, and it incorporates an early warning system to identify potential problem projects; (iii) the project completion report, which details achievements against PF targets; (iv) the project performance audit (postevaluation) report, which also evaluates achievements against PF targets, but some years later; and (v) executing agency (EA) monitoring and evaluation during project implementation and afterwards.

Although the PPMS is in place, evidence suggests its effectiveness can be improved. This provides the rationale for the SES. Specifically, the SES seeks to answer the following question, and in so doing, its aim is to improve the performance and development effectiveness of ADB's operations:

“What, if any, changes (in the short and medium term) can be made to improve the efficiency, quality, and use of ADB's PPMS, and its alignment with DMC processes, with particular emphasis on the design and implementation stages of the project cycle?”

The methodology adopted for the SES included (i) a literature review; (ii) a survey of staff perceptions on a number of contextual factors known to be important for successful adoption of PPM-type systems; (iii) quantitative assessments of various PPMS elements; (iv) field investigations of 25 ADB-supported projects in five DMCs (Bangladesh, People's Republic of China, Papua New Guinea, Philippines, and Viet Nam); and (v) consultation with key informants in ADB and DMCs.

The SES concludes that ADB has made substantial progress in developing and adopting specific processes for PPM. The PPMS is generating information on project performance, and this information is being used to improve the performance of current and proposed projects. However, the findings show that a number of challenges remain, particularly with regard to the specification and measurement of development objectives. Some of the issues identified by the SES relate to the context within which the PPMS operates. These include (i) the potential for incompatibility between ADB's banking and development objectives and a perception that staff incentives favor the former; (ii) resource issues, including the number of staff available for project administration; and (iii) the increasing complexity of projects, because of the much wider range of development dimensions and crosscutting issues considered. While this contextual environment may influence the effectiveness of the PPMS, the SES directs its recommendations to actions that can be taken in the short term within the prevailing environment.

The actions can be divided into two groups: (i) those that can be implemented immediately, and (ii) those that should also be addressed expeditiously but that require further consultation before decisions are made. With regard to the former group, the SES recommends that (i) PPMS terminology be standardized on that used in the PF, thereby significantly reducing confusion; (ii) PPMS guidelines be updated and finalized; (iii) a preliminary PF (covering at least goal and purpose) be mandatory in project preparatory technical assistance documents; (iv) borrower progress reporting follow the guidelines contained in the project administration instruction issued in January 2002 to ensure a closer alignment with ADB's PPR (with help given to EAs to achieve this); and (v) PPR reports be shared and discussed regularly with EA and other concerned agencies where this is not already being done.

The second group of actions, which require further consultation to generate a consensus, include consideration of the SES conclusions that there is a need to do the following:

- (i) Review and, where necessary, improve statements of expected performance in all active PPRs (in terms of project goal, purpose, outputs, targets, indicators, assumptions, and risks) to provide a sounder basis for performance assessment of the active portfolio, particularly with respect to the achievement of development objectives.
- (ii) Require an independent sign-off (quality control) on PFs prior to approval of new loans and technical assistance grants to ensure quality at entry and a credible basis for subsequent performance assessment. The SES found that the existing system of quality assurance by originating departments and advisory input by knowledge departments is commonly not producing the quality of *ex ante* performance specification required for effective PPM. The definitions of project goals and purpose are particularly problematic and, in the case of purpose statements, their quality has deteriorated over the last 3 years.

- (iii) Extend the training program for ADB and EA staff in all aspects of the PPMS. The large numbers of new staff entering ADB and the high staff turnover in many EAs highlight the need for training and mentoring in the PPMS to be ongoing and in-depth. Two years ago, the intent was to develop an in-house capability (at headquarters and in resident missions) to provide this level of training, but this is yet to be achieved. Also, the budget allocated to PPMS training is insufficient to meet the needs.
- (iv) Adopt an advocacy role for the PPMS in DMCs. Most borrowers see results-based monitoring and management of development projects as being an external requirement rather than a productive and value-for-money exercise from the country's perspective. This needs to change for the PPMS to be fully effective. The SES discovered that in a few cases, this change is occurring. Collecting and disseminating positive experiences from PPM can influence the pace at which this change takes place.
- (v) Provide ongoing support to strengthen EA progress reporting. A short-term measure is to fully implement current project administration instruction guidelines. Training will also help. However, such measures will not be sufficient to substantially improve the quality of these reports. The advocacy role mentioned in (iv) is also important to gain commitment. Effective performance measurement and management require good data. In many cases, the underlying management information systems of EAs are inadequate to provide the quality of information needed. Many projects dedicate a lot of resources to creating management information systems uniquely for such projects. Some of these are very good. They could and should have wider application. Similarly, financial reporting software is often developed on a case-by-case basis. ADB should play a role in developing and extending the use of good project management information systems for use by EAs.
- (vi) Appoint PPMS specialists to a knowledge department to undertake independent quality control of PFs and to provide training and mentoring in all aspects of the PPMS. Currently, PPMS expertise in ADB resides in individuals who have other primary areas of responsibility. The SES sees the need to appoint specialists who will work full-time on the area of PPMS improvement and enhancement.
- (vii) Conduct a regular independent sample assessment of the quality of monitoring data in PPRs. A significant proportion of staff believe that the information on project progress in PPRs does not accurately reflect the situation on the ground and that independent validation is inadequate. Accordingly, the SES suggests that a random sample of PPRs be independently checked to validate the performance assessment information contained therein. This should be an ongoing activity.
- (viii) Create a permanent standing body on the PPMS and PPMS training to be responsible for overseeing system integrity, its further development, and all training related to this. Just as PPMS expertise in ADB resides in individuals, no department or group of departments has mandated responsibility for the ongoing development of the PPMS as a whole or the exercise of key quality controls to ensure that it is working as intended. Accordingly, the SES sees the need to create an interdepartmental body that will fulfill these roles.

- (ix) Relax the rule that mission leaders be responsible for projects for their first year of implementation so that earlier delegation to resident missions becomes possible. Resident mission staff have a number of advantages over headquarters staff in terms of the regularity and nature of contact that is possible with executing and other concerned agencies. This can often result in a more effective and timely resolution of problems. It is not efficient to delegate responsibility to resident missions at project mid-point or even later, when implementation delays and other problems may already have occurred.
- (x) Consider extending the PPMS to private sector operations. The PPMS provides for a common evaluative framework across sectors, DMCs, and time. The SES suggests that private sector operations should now be included under this evaluation framework to ensure that these are also contributing effectively to the achievement of ADB's overarching goal of poverty reduction.
- (xi) Consider introducing a country program framework (with measurable targets) as part of the country strategy and program. The aim is to generate improved strategic alignment between project goals and country strategy. The SES identified the lack of such alignment as an important issue. Further, the SES noted that problems of attribution often occur when trying to assess attainment of project goals. Development of a country program framework with a goal (based on the Millennium Development Goals) and purpose (the expected results from ADB's program of lending and nonlending products and services) could resolve these problems.
- (xii) Provide adequate resources for the PPMS. Adoption of the actions arising from the above issues is unlikely to be resource neutral. Managing on the basis of results is likely to be more costly, but the benefits in terms of development impact will be much greater.

To address these 12 issues—along with others arising from the SES—and to provide for the needed consultation, the SES recommends that the President reconvene and reconstitute the interdepartmental Working Group on PPMS to produce, by end of 2003, a time-bound action plan that identifies resource requirements.

## I. INTRODUCTION

1. This report documents the findings of a special evaluation study (SES) on project performance management (PPM) in the Asian Development Bank (ADB) and the projects it funds in its developing member countries (DMCs).<sup>1</sup> PPM is a management process that gives greater emphasis to the development results or impacts of projects (para. 30). ADB has developed its own version of PPM—known as the project performance management system (PPMS). PPMS is a coherent and results-based approach to monitoring and evaluating implementation performance and development impact at various stages of the project cycle (paras. 31–39). Its purpose is to contribute to improved project performance and to provide the basis for assessing portfolio performance.<sup>2</sup>

### A. Study Purpose

2. The question addressed by the SES is:

“What, if any, changes (in the short and medium term) can be made to improve the efficiency, quality, and use of ADB’s PPMS, and its alignment with DMC processes, with particular emphasis on the design and implementation stages of the project cycle?”

3. In answering this question, the SES aims to contribute to further improvement in the performance and development impact of ADB’s projects. The emphasis on the design and implementation stages is consistent with the importance attached by the PPMS to good *ex ante* performance specification and early performance assessment so that emerging problems are identified before they become entrenched, and corrective action can be taken in a timely fashion. At the DMC level, the emphasis is on PPM use in ADB-supported projects, although the country context for PPM is also considered. The SES covers only ADB’s public sector operations, because those in the private sector are not subject to a performance management framework that incorporates information on development results.

4. The purpose of the SES is to (i) assess the status of PPM in ADB and in ADB-supported projects in DMCs; (ii) identify issues, opportunities, and constraints in relation to the efficiency, quality, and use of the PPMS; and (iii) suggest changes to improve PPM in ADB and ADB projects in DMCs.

### B. Study Methodology

5. The study methodology involved the following elements:

- (i) literature review of international experience in PPM (Appendix 1);
- (ii) a survey of ADB staff perceptions on factors shown to be important in adopting PPM (Appendix 2);
- (iii) conduct of six quantitative assessments of PPMS elements (Appendix 3);

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<sup>1</sup> This report was prepared by R. Keith Leonard (Senior Evaluation Specialist) and Walter A.M. Kolkma (Evaluation Specialist). The results of three quantitative studies carried out by ADB’s PPM help desk consultant (Ken F. Smith) were also used by the SES. A number of consultants participated in case studies in five countries—James Kiele (local consultant, Papua New Guinea); Kerry McGovern (international consultant, Papua New Guinea and Viet Nam); Pham Lan Huong (local consultant, Viet Nam); and Irene Wilson (international consultant, People’s Republic of China and Philippines). Analytical support was provided by Agnes Anabo (Senior Evaluation National Officer) and Olive Nuestro (Evaluation National Officer).

<sup>2</sup> ADB. 2002. *Project Performance Management System*. Operations Manual Section 22. Available <http://www.adb.org/Documents/Manuals/Operations/om22.asp>.

- (iv) consultation with individual ADB staff members;
- (v) investigation of actual monitoring, evaluation, and reporting on implementation progress and impact assessment in 25 case study projects in five DMCs—Bangladesh, People's Republic of China, Papua New Guinea, Philippines, and Viet Nam; case study projects were selected from among those well into their implementation period to ensure that sufficient experience had accumulated to provide a source of lessons learned;
- (vi) consultation with central agencies and selected executing agencies (EAs) in the case study countries to determine the country context for PPM (Appendix 4); and
- (vii) internal review and discussion.

### **C. Limitations and Constraints**

6. A mix of quantitative and qualitative methods was used, including a staff perception survey. As perceptions, whether right or wrong, influence behavior, they are a valid and potentially useful measure of factors likely to influence success in adoption of PPM. Assessment of the 25 projects investigated in the five DMCs was generally qualitative. Therefore, care needs to be taken in generalizing the findings from these to other DMCs and to ADB's portfolio as a whole.

### **D. Report Structure**

7. Chapter II provides background information including the rationale for adoption of the PPMS. It also charts ADB's response over the last decade to the need to clarify objectives, better measure development results, and improve the development impact of its projects. Challenges remaining are outlined. Definitions are provided for key terms and procedures, and a summary is given of international experience in the adoption of PPM-type systems. Chapter III details the SES findings on the status of PPM in ADB. Chapter IV covers the findings on the use of PPM in ADB projects in DMCs. Chapter V looks at the context for PPM in ADB and, briefly, DMCs. Chapter VI provides conclusions and recommendations.

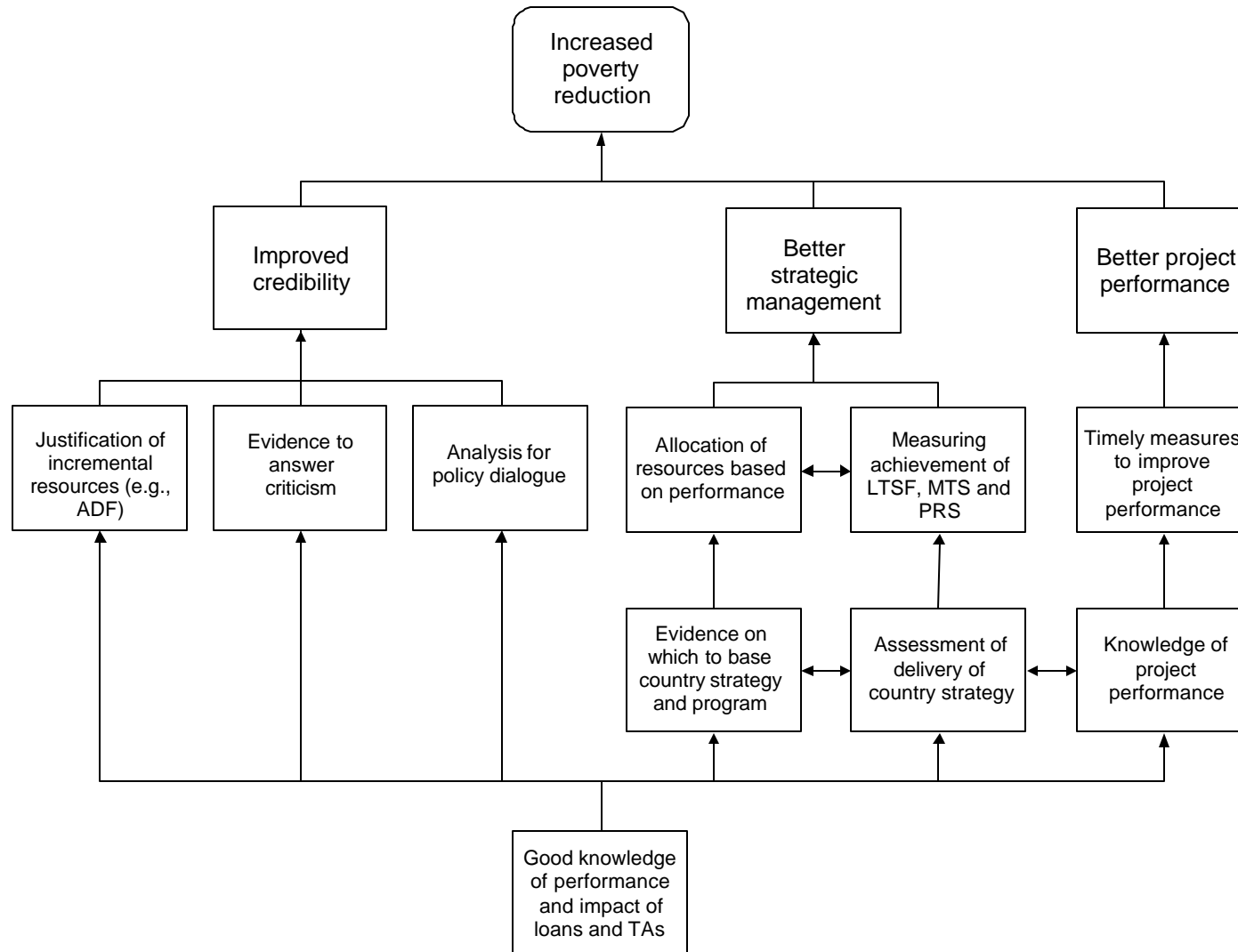
## **II. BACKGROUND**

### **A. The Imperative for Project Performance Management**

8. Public sector and economic reform during the 1990s in ADB's member countries typically emphasized performance and results, transparency, accountability, participation, decentralization of decision making, and a client-oriented focus. As well as guiding overall reform processes, these principles influenced the policies promoted in ADB, and ADB was increasingly required to demonstrate results attained.

9. The imperative for PPM can be considered from the perspective of a set of realizable positive outcomes for ADB (Figure 1). In short, better knowledge of the performance of ADB's loans and technical assistance (TA) grants can be expected to ultimately increase the pace of poverty reduction through improving ADB's credibility among external stakeholders, better strategic management, and improved performance of individual interventions. This is the challenge facing ADB.

**Figure 1: Positive Outcomes from Improved Project Performance Management**



ADF = Asian Development Fund, LTSF = long-term strategic framework, MTS = medium-term strategy, PRS = poverty reduction strategy, TA = technical assistance.  
 Source: Special Evaluation Study.

## B. The Asian Development Bank's Response

10. ADB has always been interested in the results of its products and services. However, the specification of what results matter and how they are to be attained has evolved over time, influenced by ADB's own experience and changes in stakeholder perceptions and priorities. Five categories of interrelated responses can be identified: (i) evolving definition of key results areas, (ii) formation of task forces and subsequent implementation of recommendations, (iii) process enhancement, (iv) improved oversight, and (v) capacity building for PPM in ADB's DMCs. A description, by no means exhaustive, of some of the more important responses made by ADB is given below under these five categories.<sup>3</sup>

### 1. Definition of Key Results Areas

11. ADB's charter requires it to "foster economic growth and cooperation in the region and to contribute to the acceleration of the process of economic development of the developing member countries collectively and individually."<sup>4</sup> This clearly established that the key results sought were primarily economic in nature. Two reports helped define the role of ADB in the 1980s and 1990s, respectively. The first noted that the then current development approach was economic growth with social equity, with particular concern for employment creation and poverty reduction.<sup>5</sup> The second indicated that the overriding objective of ADB was to promote development, which was defined as "a steady improvement in living standards achieved through increases in income, improvement in social conditions, and protection of the natural environment."<sup>6</sup> It proposed new priorities for social infrastructure, living standards of the poorest groups, and protection of the environment, along with a new initiative for private sector operations.

12. Strategic planning was formally adopted by ADB with the publication of a medium-term strategic framework (MTSF) in 1992.<sup>7</sup> This was a direct result of the work of a task force on strategic planning that reported in 1991.<sup>8</sup> The MTSF stated that ADB's overall aim is "to assist DMCs in improving living standards and the quality of life." It recognized that ADB had three functions: (i) a banking function, (ii) a development function, and (iii) fostering regional cooperation. Importantly, the MTSF led to ADB adopting five strategic development objectives (SDOs)—economic growth, poverty reduction, women in development (later gender and development), population planning (later human development), and environmental protection. Adoption of these SDOs considerably broadened ADB's development focus and clarified the types of results sought. A loan classification system was established to track loan approvals by primary and secondary SDO, although no lending targets (by SDO), development targets, or indicators were set.

13. In 1999, ADB declared poverty reduction as its overarching goal, and later that year a poverty reduction strategy (PRS) was approved.<sup>9</sup> In 2000, a loan classification system conforming to the PRS was approved. This included a poverty classification (poverty

<sup>3</sup> Some other enhancements are outlined in the section on ADB's PPMS (paras. 31–39).

<sup>4</sup> ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila. Available: [http://www.adb.org/Documents/ Reports/Charter/default.asp](http://www.adb.org/Documents/Reports/Charter/default.asp).

<sup>5</sup> ADB. 1983. *Study on the Operational Priorities and Plans of the Asian Development Bank for the 1980s*. Manila.

<sup>6</sup> ADB. 1989. *The Asian Development Bank in the 1990s: Panel Report*. Manila.

<sup>7</sup> ADB. 1992. *The Bank's Medium-Term Strategic Framework (1992–1995)*. Manila.

<sup>8</sup> ADB. 1991. *Report of the Task Force on Strategic Planning*. Manila. This noted that up to that time "there has been no articulation of a specific medium-term strategy for the Bank as a whole nor a framework for formulating one."

<sup>9</sup> ADB. 1999. *Fighting Poverty in Asia and the Pacific: The Poverty Reduction Strategy of the Asian Development Bank*. Manila.

intervention, core poverty intervention, and others) and one or more of seven thematic classifications (economic growth, human development, gender and development, good governance, environmental protection, private sector development, and regional cooperation). These replaced the SDOs and further broadened the definition of ADB's key results areas, within the overall objective of poverty reduction. A target was set of 40% of new loan approvals by amount for poverty interventions, including core poverty interventions.

14. The most recent refinement of ADB's strategic intent was the approval of a long-term strategic framework (LTSF)<sup>10</sup> for 2001–2015 and a medium-term strategy (MTS) for the first 5 years.<sup>11</sup> The LTSF defines three core areas of intervention—sustainable economic growth, inclusive social development, and governance for effective policies and institutions—and two crosscutting themes—promoting the role of the private sector in development, and regional cooperation and integration for development. This provides a sharper focus to ADB's key results areas. The MTS advances the cause of improved project performance in four important ways: (i) for the first time, a link, albeit tentative, is made to quantified development goals (the international development goals); (ii) it mandates a requirement for DMCs to have a national PRS as the basis for DMC/ADB poverty reduction partnership agreements; (iii) it places a strong emphasis on the need to measure development impact; and (iv) it recognizes the need for ADB to be a learning organization.

15. In 2002, ADB formally endorsed the use of the millennium development goals (MDGs) in its operations.<sup>12</sup> In particular, the MDGs are to be used in country strategy and program (CSP) papers, their annual updates (CSPUs), and the annual monitoring of poverty reduction partnership agreements. This was an important milestone, because for the first time ADB adopted a set of timebound and quantified development targets.

## 2. Task Forces and Working Groups

16. Over the last 8 years, the outputs of one task force and two working groups have been particularly influential on the context for PPM in ADB. These are the 1994 task force on improving project quality,<sup>13</sup> the 1999 working group on “spring cleaning,”<sup>14</sup> and the 2001 working group on the reorganization of ADB.<sup>15</sup>

17. Three findings of the task force on improving project quality stand out. First, the report noted that “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.” Second, it found that project administration was given less importance than project processing, which was

<sup>10</sup> ADB. 2000. *Moving the Poverty Reduction Agenda Forward in Asia and the Pacific: The Long-Term Strategic Framework of the Asian Development Bank (2001–2015)*. Manila.

<sup>11</sup> ADB. 2001. *Medium-Term Strategy (2001–2005)*. Manila.

<sup>12</sup> MDGs (which emerged in September 2001 as part of the United Nations Millennium Declaration) were agreed upon as targets for development effectiveness during the 2002 Monterrey Conference on Financing for Development. The MDGs are to eradicate extreme poverty and hunger; achieve universal primary education; promote gender equality and empower women; reduce child mortality; improve maternal health; combat HIV/AIDS, malaria, and other diseases; ensure environmental sustainability; and develop a global partnership for development. Specific and timebound targets are given for each area.

<sup>13</sup> ADB. 1994. *Report of the Task Force on Improving Project Quality*. Manila.

<sup>14</sup> ADB. 1999. *Toward Real Portfolio Management: Final Report of the Working Group on Spring Cleaning*. Manila.

<sup>15</sup> ADB. 2001. *Reorganization of the Asian Development Bank*. Manila.

identified as a by-product of the approval culture.<sup>16</sup> Third, it found that “feedback on the lessons of past experiences is not fully utilized in programming and project design, and in implementation activities.” It concluded that dealing with these and other findings would require significant changes in institutional culture, staff orientation, and business processes. Action plan measures have been carried out progressively—most recently through adoption of the revised business processes (para. 25). However, the recent reorganization may have had the unintended result of reducing resources available for project administration (para. 46). A direct result of the task force’s work was the phase-in of mandatory preparation of a project framework (PF) for all loans from 1995.

18. The 1994 project quality task force recommended a one-time “spring cleaning” of ADB’s portfolio to cancel inactive or slow-moving projects. Such “spring cleaning” became imperative following the 1997 regional financial crisis in order to free up unproductive funds. Based on the experience, a working group on “spring cleaning” was established in 1998 to review experience in portfolio restructuring and to determine the need for improvements. The working group recommended adoption of a portfolio management action plan under the direction of the Central Operations Services Office (COSO). Implementation of the plan is now largely complete. Key actions were to (i) strengthen the links between portfolio reviews and country programming, (ii) develop portfolio performance indicators, (iii) set timebound portfolio performance targets (not yet done), (iv) incorporate portfolio performance considerations into operational business processes, and (v) conduct more systematic project midterm reviews (MTRs).

19. In early 2001, ADB launched a process to assess its capacity to deliver on the LTSF. A working group recommended a new organizational structure that came into effect on 1 January 2002. The working group report states that “the overall objective of organizational change is to enhance ADB’s development impact by strengthening its capacity to deliver its strategic agenda...” Key changes included (i) a more focused grouping of DMCs into five geographic regions (East and Central Asia, Mekong, Pacific, South Asia, and Southeast Asia); (ii) combining programs and projects functions in regional departments (RDs) to more closely align the products and services delivered with country strategy; (iii) completing the move from a sector to a country focus, again with the aim of delivering interventions that are more responsive to country strategy; (iv) greater use of teams including regional, country, and project teams to provide collective input earlier in the strategy formulation and project cycles; (v) elevation of private sector operations to full department level in recognition of the central role of the private sector in driving economic growth and hence in poverty reduction; and (vi) establishment of a new Regional and Sustainable Development Department (RSDD) with four main functions—quality control, formulation and monitoring of sector and thematic policies, oversight for ensuring compliance with policies, and support to regional development. Revised business processes were also approved along with the reorganization (para. 25). The reorganization remains “work in progress,” with a review of the progress made under way.

### **3. Process Enhancement**

20. ADB’s efforts to track and report on project performance, and hence the performance of its whole portfolio, started in 1986 with the development and use of a project administration committee note (known as PAC Note) by the then two Agriculture and Irrigation Departments. PAC Note was a template for recording key physical and financial indicators of project progress. Until 1993, projects were classified as satisfactory (A), unsatisfactory (B), or inactive (C).

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<sup>16</sup> Processing is the term used in ADB to cover the activities up to and including project approval. Administration is the term used for all activities by ADB during project implementation.

Although only 6% of projects had a B classification, a review by the then Central Projects Services Office concluded that 19% of projects were facing problems in varying degrees. As a result of this review, a new system of classification was introduced. This broadened the criteria for assessment to three areas—implementation progress, project costs, and compliance with covenants. Each area was rated as satisfactory (A), partly satisfactory (B), or unsatisfactory (C) with a rating of AAA representing satisfactory performance on all three counts. Adoption of the new system showed that 21% of projects were facing varying degrees of problems, close to the review figure. While this was an improvement in performance measurement, as the 1994 task force on improving project quality noted, no account was taken of progress toward the achievement of project objectives or development impact.

21. Development results were tracked separately from the PAC Note through benefit monitoring. This had its antecedents in the early 1980s in the then Irrigation and Rural Development Department, which developed a process known as project benefit monitoring and evaluation. In 1992, ADB issued new guidelines on benefit monitoring and evaluation (BME) as it was then termed.<sup>17</sup> In these, BME was defined as “a group of activities which seek to improve the beneficial impact of loans as well as to incorporate lessons of experience into future lending operations.” As such, it was ADB’s method—and therefore that of the EAs concerned—for determining the development results of ADB-funded projects. There were three steps to BME: (i) collection of baseline data on a range of socioeconomic indicators via benchmark surveys (supposedly *ex ante* but frequently well into project implementation and sometimes not at all); (ii) conduct of follow-up surveys of the same socioeconomic indicators at fixed points—typically at the project midpoint (to contribute to the MTR) and at completion (to contribute to the project completion report [PCR]); and (iii) evaluation studies such as the PCR and postevaluation studies. All loans included provision for BME, to varying levels of detail.

22. The next major advance was development of the project performance report (PPR) in 1998. For the first time, ADB created a single process for tracking and reporting on the achievement of development objectives as well as implementation progress and compliance with covenants (para. 36). A significant upgrade to the PPR became operational on 1 July 2001. This added an early warning tracking system for emerging problems among other enhancements.

23. A comprehensive update was carried out of ADB’s project administration instructions (PAIs), which were reissued in January 2002. Among other enhancements, these elevated TA administration to the same level as loan administration; provided guidance on the project-at-risk concept in the PPR; and made significant improvements to the project administration memorandum (PAM), PCR (paras. 37 and 38) and TA completion report. Many of the advances in these areas were designed to create a more coherent and consistent evaluative framework for assessing project performance at various stages of the project cycle.

24. Another response is performance-based allocation (PBA) of Asian Development Fund (ADF) resources (ADB’s concessional lending window). In 2001, ADB introduced a PBA system for the allocation of scarce ADF resources.<sup>18</sup> This was a landmark decision in that for the first time a formal system was introduced to “strengthen the link between allocations and a rigorous performance assessment based on measurable indicators.” This has the potential to motivate

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<sup>17</sup> ADB. 1992. *Benefit Monitoring and Evaluation: A Handbook for Bank Staff, Staff of Executing Agencies, and Consultants*. Manila.

<sup>18</sup> ADB. 2000. *Performance Based Allocation of ADF Resources*. Manila. This system is applied to the 24 borrowers eligible for ADF funds.

those DMCs that qualify for ADF borrowing to maximize their access by achieving improved project performance. Pilot testing of PBA has taken place over the last 2 years, with two rounds of country assessments now complete. PBA began affecting ADF allocations in 2002. Improvements are being made to the process.

25. The final and most recent initiative designed to improve project performance is the adoption of business processes for the reorganized ADB, which were adopted concurrently with the recent reorganization (para. 19).<sup>19</sup> Many changes were introduced that have the potential to impact positively on project design (commonly expressed as quality at entry). The intent was to provide greater staff input to the design stage and interdepartmental input earlier in the process through creation of project teams, and sector and thematic committees; to increase delegation of responsibility; and to streamline business processes. The need for ADB to be a learning organization was confirmed; and knowledge management was considerably strengthened. Also, the intent was to strengthen the role of the project administration unit (PAU) in each sector division of the RDs, with heads of PAU network created in order to give greater emphasis to project administration. However, resource constraints (para. 46) may have reduced rather than increased the importance given to project administration.

#### **4. Oversight Enhancement**

26. A new committee of ADB's Board of Directors, the Development Effectiveness Committee (DEC), started work in January 2001. Its general mandate is to assist the Board in ensuring that ADB's programs and activities are achieving the intended development objectives and that resource use is efficient. Responsibilities of DEC include (i) review of the Operations Evaluation Department's (OED) annual work program; (ii) review of selected OED reports, including annual reports on evaluation activities and portfolio performance, and actions taken by ADB on these; and (iii) reporting to the Board on high priority operations evaluation issues. DEC has been instrumental in ensuring that important evaluation findings are brought to the attention of the Board of Directors.

#### **5. DMC Capacity Building for Project Performance Management**

27. The Project Coordination and Procurement Division (COPP) of COSO has responsibility for building EA and DMC capacity in project administration, particularly in ADB procedures. Three types of seminars are run on a regular basis: (i) project implementation and administration (25 conducted in 16 DMCs over the last 3 years); (ii) use of consulting services (20 conducted in 16 DMCs over the last 3 years); and (iii) development of domestic consultants (13 conducted in 10 DMCs over the last 3 years). Presentations on topics such as the PPR are often made during country portfolio review missions (CPRMs). ADB's Human Resources Division also has an annual program for training DMC officials on these and related topics. In addition, TAs are provided to DMCs to help improve their portfolio performance.

28. OED's mandate includes responsibility for building evaluation capacity in DMCs. Since 1990, OED has implemented 14 TAs for this purpose in seven DMCs (Bangladesh, People's Republic of China, Nepal, Papua New Guinea, Philippines, Sri Lanka, and Thailand). Seven TAs aimed to establish a postevaluation capability, while seven others in five DMCs helped to institute PPM-type systems. A technical assistance performance audit report (TPAR) prepared

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<sup>19</sup> ADB. 2001. *Business Processes for the Reorganized ADB*. Manila.

in 2001 evaluated 6 of the 14 TAs.<sup>20</sup> The performance of the TAs was found to vary significantly. The overall conclusion was that building evaluation capacity in DMCs is more complex, difficult, and time-consuming than first envisaged. High-level commitment, a formal mandate, and budget support are all required for success. The TPAR also concluded that PPM by central agencies should be built on sound EA management information system (MIS). Aggregate information on results must be based on disaggregated data collection and recording systems. The other important finding was that, where monitoring and evaluation systems were producing information, this was often not effectively used. Thus, the benefits from the exercise were not being fully captured. This supported the findings of an earlier study.<sup>21</sup>

## **C. Definitions and Procedures**

29. The field of PPM suffers from multiple terms for the same concept and multiple definitions of the same term. Further, the activity usually takes place in a multicultural environment. As a result, there is frequently a lack of shared understanding as to the meaning of the words being used and the concepts behind them. This SES does not attempt to produce a standard glossary of terms for use in ADB. Nonetheless, a number of definitions and clarifications on procedures are provided to create shared understanding among readers.

### **1. Project Performance Management**

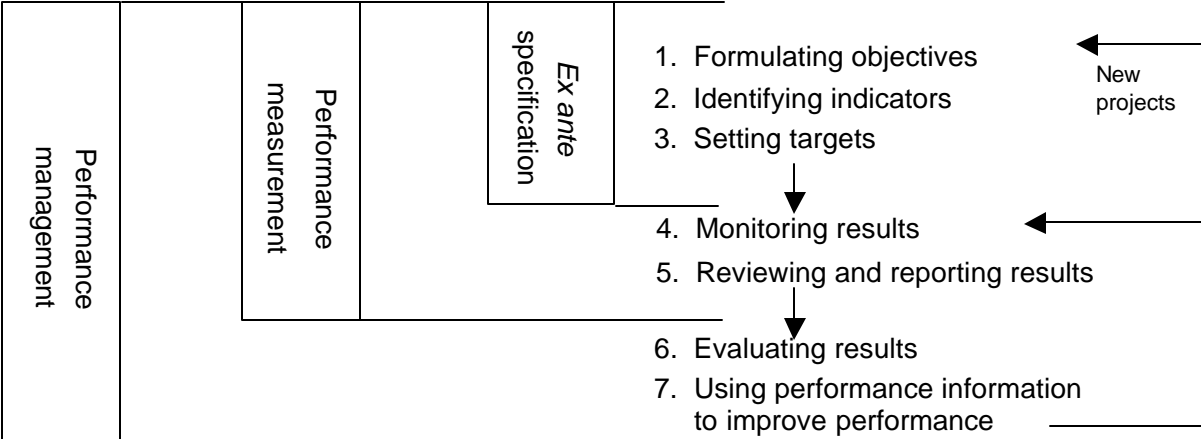
30. PPM is used as a generic term for project management that incorporates information on development results into the decision-making process. PPM can be viewed as a seven-step, largely iterative process (Figure 2). The first three steps take place during the formulation or design stage of projects, where performance is defined *ex ante* in terms of objectives, targets, and indicators. Project performance measurement includes *ex ante* performance specification, along with monitoring and reporting on results during project implementation and beyond. PPM takes place when the results of project performance measurement are used to improve the performance of ongoing and future projects. The importance of information use cannot be overstated. The benefits of expected performance specification and performance measurement are only realized when the information generated is used to make performance-enhancing decisions.

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<sup>20</sup> ADB. 2001. *Technical Assistance Performance Audit Report: Selected Technical Assistance for Strengthening Evaluation Capacity in Developing Member Countries*. Manila.

<sup>21</sup> ADB. 1996. *Evaluation of Bank Assistance to Developing Member Countries for Benefit Monitoring and Evaluation*. Manila.

**Figure 2: Project Performance Management**



Source: Based on Binnendijk, A. 2000. *Results-Based Management in the Development Cooperation Agencies: A Review of Experience*. Paris.

**2. Project Performance Management System**

31. The PPMS is ADB’s term<sup>22</sup> for its process of specifying, measuring, and improving project performance. The PPMS comprises five components: (i) the PF, (ii) the PPR, (iii) the PCR, (iv) the project performance audit report (PPAR), and (v) borrower monitoring and evaluation.

32. The PPMS was conceptualized in ADB in the late 1990s. As can be seen from its components, it is an umbrella term for five elements, most of which were in use before the emergence of the PPMS as a concept. This has led to some confusion as to what the difference is between PPMS and its constituent elements. The difference is four-fold. First, the PPMS incorporates a greater emphasis on the development results or impacts of projects. Second, the PPMS brings forward the assessment of development results, or the likelihood of attaining these, to the implementation period (formerly, this was only considered after project completion). Third, it aims to provide a coherent framework for assessing performance during implementation and after completion such that the main variable is the time at which performance assessment takes place rather than the targets and indicators used. Fourth, it has established an objective system for rating project performance, which allows for comparison across dimensions such as time, sector, and country.

33. In 2002, the PPMS was formally approved by Management as ADB’s project performance assessment framework, although the concept had been around for 5 years or more. With its approval, ADB replaced BME with the PPMS as the basis for impact assessment for new projects. Like the PPMS, BME measured outcomes or impacts (identified as benefits). BME sought to do this by measuring changes in a range of socioeconomic indicators (para. 21). Often, the indicators were not clearly linked to project objectives and targets. Therefore, relating changes in indicator data to project interventions was difficult, if not impossible. Further, because BME focused only on changes in general socioeconomic indicators, it provided little or

<sup>22</sup> Terms used by other agencies include results-based management and results monitoring and evaluation.

no information of immediate value to project managers. As such, the results of BME usually did not contribute to improving project performance. In addition, the responsibility for BME was usually outsourced to consultants, thus further marginalizing the results for key decision makers.

#### a. Project Framework

34. In ADB, and most other development agencies, *ex ante* project performance expectations are summarized in a PF.<sup>23</sup> Use of the PF became mandatory for public sector loans from 1995 and for advisory and regional TAs from 1998, although it was widely used by some departments of ADB from the early 1990s. At the time of its adoption, it was decided not to require a PF for private sector operations. An internal staff instruction issued in 1999 (updating a 1998 version) and guidelines on operational procedures issued in 2002 provide guidance to staff on the preparation of the PF. A PF is included in each loan and TA document, except for small-scale and project preparatory TAs.

35. It is important to note that the PF is more than an *ex ante* performance specification. It is also a design tool that is expected to improve quality at entry. It does this by forcing project designers to demonstrate a logical progression and linkages among inputs, activities, outputs, purpose, and goal. It also requires them to specify results in measurable terms and to make explicit the assumptions and risks inherent in the project. It should be prepared in an iterative process from project concept to final design, being progressively developed in more detail and refined as part of a participatory process. It can and should act as a convenient design summary to more easily communicate the proposed nature of the project as this emerges.

#### b. Project Performance Report

36. The second element of ADB's PPMS is the PPR. Modeled on the World Bank system, the PPR was introduced in 1998. The PPR is a database tool for recording and reporting on a range of project performance indicators during implementation and, through aggregation of these, the performance of the portfolio as a whole. Its purpose is to improve individual project performance and hence that of the portfolio. It aims to do this by focusing attention on those projects where remedial action is required. It has four types of data: (i) "static" data, taken from the PF, which provides the basis for assessing progress; (ii) financial data sourced from other ADB databases; (iii) progress information entered regularly by RD staff; and (iv) system-generated ratings. Each loan project has a PPR, and soon an equivalent TA performance report will be launched. Loans are rated separately for implementation progress (IP) and the likelihood of achieving development objectives (DOs).<sup>24</sup> Problem projects are identified—defined as those with a partly satisfactory or unsatisfactory rating for either IP or DO. As part of the 2001 PPR upgrade, potential problem projects are also identified—those having a highly satisfactory or satisfactory rating but showing signs of emerging problems through a system of early warning

<sup>23</sup> In ADB's format, it is a four column by five-row matrix. The left-most column provides a narrative description of the project at five levels: (i) the development goal to which the project is expected to contribute, (ii) the project purpose (the reason for doing the project and expected end-of-project result), (iii) project outputs (specific "products" that collectively will lead to purpose attainment), (iv) activities required to produce the outputs, and (v) inputs required for the activities. The second column provides targets and indicators for each of the five levels of the narrative description. The third column describes the sources of data for measuring target achievement. The fourth column spells out the assumptions and risks in moving from inputs to activities, outputs, purpose, and goal, that is, conditions that must hold true and external threats that must not occur or be successfully mitigated if inputs are to result in the activities being carried out, activities producing the desired outputs, outputs leading to purpose attainment and this contributing to the goal.

<sup>24</sup> Using rating categories of highly satisfactory, satisfactory, partly satisfactory, and unsatisfactory.

“flags” for important performance parameters. Problem and potential problem projects are collectively classified as “at risk” projects that require remedial action.

### **c. Project Completion Report**

37. PCRs are prepared for all projects separately by the EA and ADB 1–2 years after the end of implementation. PCRs make an assessment of achievements—necessarily preliminary for some projects—against targets and using the indicators established in the PF. PCRs also identify lessons and make recommendations for follow-up actions by the governments, EA, or ADB that will improve the performance, impact, and sustainability of the completed project, as well as ongoing and future ADB-financed projects. Guidance on the content and format of EA and ADB PCRs is contained in an internal PAI issued January 2002, which aligned PCR evaluation methodology with that of the PPAR.

38. Being prepared for all projects, PCRs provide a more complete coverage and earlier assessment of performance than PPARs, which are prepared for around 40% of project loans and 100% of program loans some 3–4 years after completion. In addition to the harmonization of PCR and PPAR evaluation methodology reflected in the revised PAIs, OED conducts in-depth reviews of PCRs to improve their quality. For 2 years (1999 and 2000), this involved validating PCR ratings for a sample of PCRs after their finalization (para. 75 presents results). In 2001, the in-depth review process was modified to provide input to PCR preparation with subsequent rating validation, again for a sample of PCRs. The change was introduced to more directly improve PCR quality. This is expected to enhance the effectiveness of performance management by bringing forward evaluation findings.

### **d. Project Performance Audit Report**

39. The final element of the PPMS is the PPAR. Again, the targets and indicators contained in the PF, as modified during implementation, provide the basis for the performance assessment. Guidelines for the preparation of PPARs were most recently revised in 2000. Both PPARs and PCRs rate project performance on a four-category scale (replacing an earlier three-category scale).<sup>25</sup> To ensure consistency in the evaluative framework, the same basic criteria are used for PCRs and PPARs—relevance, efficacy, efficiency, sustainability, and institutional development and other impacts.

## **3. Use of PPMS Information**

40. As previously noted (para. 30), a key distinguishing feature of PPM over general project management is the use of information on the results of projects by decision-makers to improve project performance. ADB’s PAIs cover the use of information generated by PPRs. Three levels of project performance review are mandated: (i) PPR meetings, held quarterly or more frequently by RDs, review the performance of their projects and portfolios, with minutes of these meetings recorded and circulated; (ii) operations review meetings, chaired by the operational vice-president and held at least quarterly, are a management tool with a special focus on key performance indicators for reviewing ADB’s entire operational program; and (iii) management committee meetings, chaired by the President, take an ADB-wide perspective on performance

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<sup>25</sup> The current rating categories are highly successful, successful, partly successful, and unsuccessful. The former three categories were generally successful, partly successful, and unsuccessful. The change was made as part of efforts to harmonize the evaluation methodology of multilateral development banks.

matters.<sup>26</sup> In addition, PPMS output is discussed in a variety of other regular and *ad hoc* meetings—both within ADB and in the DMCs. Resident missions (RMs) play an important role in the latter. PPMS information is also an important input to the CPRMs. PPM information is used in CSP development and the design of new projects.

#### **D. Remaining Issues**

41. The preceding sections show that ADB has made substantial and sustained efforts since the early 1990s to improve the definition of key result areas, design quality and *ex-ante* performance specification, performance measurement and impact assessment, and the administration of the projects it funds. Nevertheless, the SES found that there are at least seven challenging issues, which affect PPM: (i) organizational objectives that may sometimes not be compatible, (ii) an organizational culture that may not always be supportive, (iii) perceived lack of alignment with personnel incentives, (iv) adherence to an annual planning cycle, (v) resource issues, (vi) impact of continually evolving targets, and (vii) lack of assigned responsibility for the PPMS as a whole.

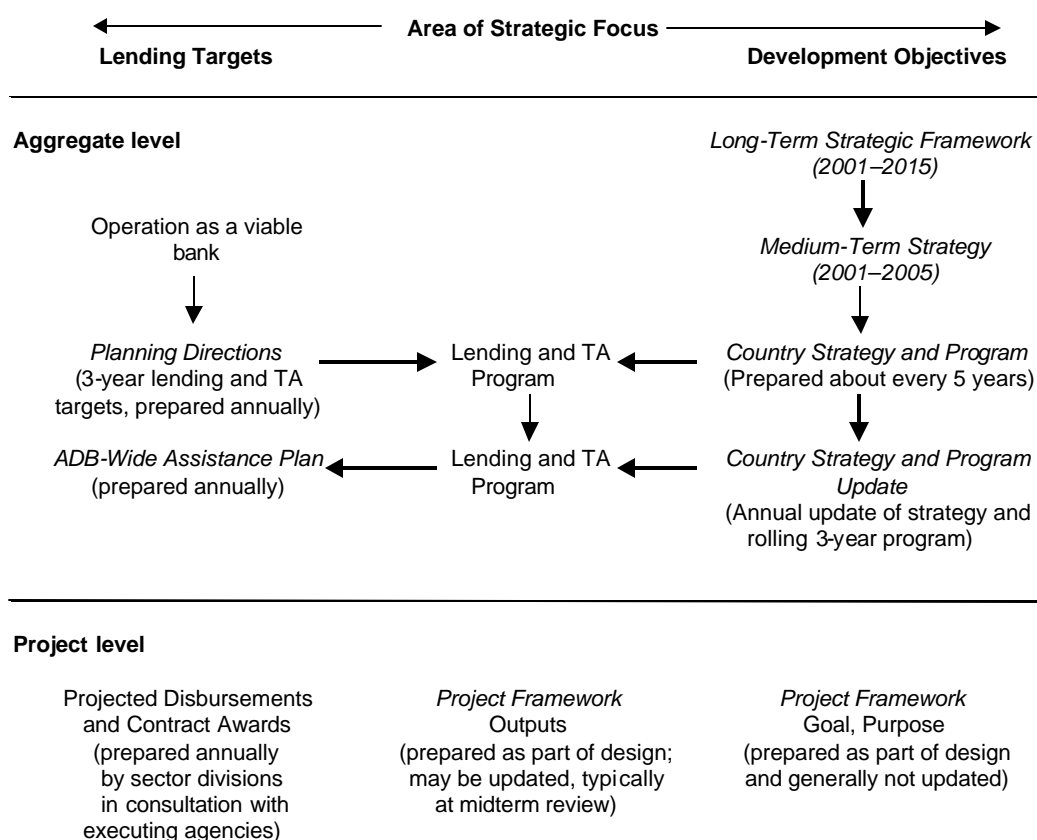
42. A number of these issues are not directly related to the PPMS but they are part of the context within which it operates. It is necessary to be aware of this contextual environment to understand the range of factors influencing PPMS use and impact. Improving the environment will improve the effectiveness of the PPMS, but generally this will require broader actions over the medium-term. In terms of recommendations, the SES focuses on short-term actions to improve the PPMS within the existing environment.

##### **1. Multiple Organizational Objectives**

43. ADB promotes itself as a broad-based development institution. However, it is also a bank, and banking and development objectives are not always compatible. The comprehensive strategic framework described above may convey the impression that ADB has a single-minded focus on achieving development objectives and that its lending and grant funding are simply two of the inputs needed. In fact, ADB's planning framework has two sides—banking objectives and development objectives (Figure 3). The figure shows that the lending and TA program is a product of the CSP (development objectives) and the lending targets (banking objectives). It is perfectly logical that the program reflects both strategy and funds availability. However, the funding levels are not simply cast in terms of funds available but are taken as actual targets that should be met. Given that achieving development objectives is an uncertain business, it often does not fit neatly with meeting short-term lending targets. In the event, one or the other has to take precedence. At the project level, the same conflict may occur between meeting annually set disbursement projections and the need to adjust the pace of implementation to maximize the likelihood of achieving development objectives, particularly for policy-based loans.

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<sup>26</sup> The Strategy and Policy Department (SPD) prepares submissions to the ORMs and circulates minutes from these. The management committee generally meets weekly, and at least quarterly with the heads of RDs, OED, RSDD, and SPD to review ORM findings and to consider the ADB-wide status of the portfolio.

**Figure 3: ADB's Planning Framework**

Source: Special Evaluation Study.

## 2. Organizational Culture

44. Recognition of the importance of organizational culture received prominence in the 1994 report of the task force on project quality (para. 17). Management accepted that there was a need to shift to a new corporate culture.<sup>27</sup> However, as many staff consider that meeting lending and disbursement targets is given greater priority than achieving DOs, further change to the organizational culture may be required (para. 92).

## 3. Staff Incentives

45. During consultations with staff, the view that incentives were not aligned with the achievement of development results was commonly expressed—in other words, some staff believe that success in project processing is rewarded more than good project administration. The SES was not able to determine the validity of this perception. However, it is reasonable to surmise that the use of PPM would be enhanced when personnel incentive systems are aligned with the results orientation. Given the frequency with which the view is expressed, it should be rebutted or addressed as appropriate.

<sup>27</sup> ADB. 1995. *Project Quality: An Agenda for Action*. Proceedings of the Regional Workshop on Improving Project Quality. Manila.

#### 4. Resource Issues

46. The inadequacy of resources available for project administration was recognized as a problem by the 1994 project quality task force. It is widely perceived that priority is given to processing rather than administration because of scarce staff resources. The impact of the reorganization on the availability of staff for administration versus processing is unclear. While the exercise was expected to be resource neutral in aggregate, taking experienced people out of operations to create RSDD may have reduced resources available for loan and TA processing and administration. It is expected that the issue of resource adequacy will be addressed to some extent by the ongoing review of the progress made in the reorganization and more fully by the independent assessment scheduled for 2004. In the meantime, current resource allocation to project administration is a part of the context within which PPM is expected to take place. Also, it is important to remember that PPM itself requires resources. Thus, recommendations need to consider resource implications.

#### 5. Changing Targets

47. ADB now takes a broader view of development than previously. Many more dimensions and crosscutting issues are considered in project design. As a result, projects have tended to become more complex, and the process of designing them more time consuming and demanding. Also, the thematic areas of focus include areas where success may be harder to come by compared with earlier projects. Further, the adoption of poverty reduction as the overarching goal brings with it the need for robust measures of poverty. This, together with the greater emphasis on other higher order development results, leads to difficulties in attribution—that is, whether development results can be linked to specific interventions. Consequently, PPM is being improved in the context of changing and more challenging goals and targets. Given this, improvements have to be made simply to maintain project success ratios, while changing targets makes it difficult to determine if performance is improving over time. Performance assessment consists of both absolute and relative performance. Relative performance is the extent of achievement against targets set. Partial achievement of ambitious targets may have more absolute impact than substantial achievement of more limited targets.

#### 6. Lack of Assigned Responsibility for the PPMS

48. The development and refinement of the PPMS has been driven by a group of key individuals committed to PPM. Consequently, departmental responsibility has tended to follow the individuals. In the early days, staff in some operational departments took a lead in promoting the use of the PF. In more recent times, COPP and OED have provided the main initiative. Ownership has three dimensions of responsibility: (i) for system design and integrity, including refining its elements periodically and issuing new and updated guidelines; (ii) for oversight of key (quality) controls—both internal quality assurance by the originating department and quality control by others, as appropriate—to ensure that the system is operating as intended;<sup>28</sup> and (iii) for accountability for the quality of information in each of the PPMS elements. The third area is relatively clear-cut. RDs are accountable for the PF, PPR, and PCR content quality, while OED is accountable for PPAR quality. With respect to system design and integrity, COPP has responsibility for the PPR and PCR format. OED has responsibility for postevaluation design and integrity. However, a significant gap is that no department has ownership of the PF design,

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<sup>28</sup> Key controls may include internal (within department) controls on quality, external (by other departments) verification of PF quality, validation of PPR data, PCR/PPAR quality assessment, and verification that the feedback loop is operating as intended.

development, and integrity. Because of its importance for subsequent evaluation, COPP and OED have assumed responsibility for PF integrity. Importantly, no one has been clearly allocated responsibility for operation of key external controls over the PPMS.<sup>29</sup>

#### **E. Experience Elsewhere from Adopting Project Performance Management<sup>30</sup>**

49. Development aid agencies are increasingly being required—and have moved—to pay much more attention to the impact or results of the projects they fund. There is also a considerable degree of similarity among agencies in the approaches adopted to carry out PPM. For example, the starting point for most agencies is the PF. There is also agreement that PPM systems serve two main purposes—accountability for results and performance improvement. Within the public sector in general, a third purpose is commonly mentioned—namely, as an input to policy and strategy development.

50. While designed to improve performance, results-based management (RBM) systems can give rise to perverse outcomes. For example, too much emphasis on performance measurement for accountability can result in the presentation of favorable or misleading indicators or “results.” Also, a sole focus on quantifiable targets can also give rise to the misplaced view that only that which can be measured is important. Another potential problem can be resistance from staff because they perceive a link between project performance and personnel performance assessment. The latter problem has led some to question whether the twin roles of accountability and performance enhancement may, in fact, work against each other. On the other hand, there is a view that without accountability there is no incentive to learn.

51. While PPM in development aid agencies draws on a rich experience in the implementation of such systems in other public sector agencies, there are special features of their work that cause additional problems. For example, ADB funds projects in over 30 DMCs in Central, South, East and Southeast Asia as well as in Pacific Island states, across seven main sector groupings and seven thematic areas. It has a multicultural workforce of around 2,000 from around 50 countries. Implementation of PPM in this context is certainly more challenging than in a more homogeneous environment and in one with a less diverse range of key result areas.

52. Various reviews of RBM in a variety of entities have drawn out lessons learned for its effective adoption and implementation. The main lessons learned are summarized in the box (for details on selected lessons, see Appendix 1). The staff perceptions survey (Appendix 2) was used to assess how ADB measures up against seven of these factors (para. 87).

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<sup>29</sup> It needs to be stressed that external quality control does not dilute accountability or ownership. Quality control simply verifies that those with ownership are fulfilling their obligation to be accountable for quality.

<sup>30</sup> This section summarizes a literature review, which is given in full as Appendix 1. References are not given in the main text but can be found in the appendix. The literature deals much more extensively with results-based management (RBM), which is a wider concept than PPM. PPM can be viewed as a subset of RBM. Therefore, the literature review sought lessons from the adoption of RBM and assessed these in terms of their relevance to ADB's use of PPM.

## Lessons Learned from Adoption of Results-Based Management

### 1. Creating a favorable implementation context

#### **Organizational factors**

- A customized results-based management regime is critical
- Adoption takes time but it is important to maintain momentum
- Linking performance measures to the policy or strategic framework is essential
- Management systems should be aligned with results-based management to support implementation
- Provision of adequate financial and human resources is critical
- Location of stewardship of the performance measurement process is important
- Pilot projects can be a useful approach

#### **Human factors**

- Developing a performance management culture is critical
- A practical understanding of accountability is needed
- Senior level leadership and involvement is essential
- Full participation fosters support for implementation
- Training and education are key ingredients for success
- Existing expertise should be used to support implementation
- The purpose of performance measurement system must be clearly communicated

### 2. Developing performance measurement systems

- A manageable number of indicators should be used
- Key terms and concepts must be clearly defined
- Use of the project framework can be very helpful
- Performance measures should be aligned with accountability and decision-making authority
- Credible performance information is essential
- Performance standards and targets are essential for measurement
- Baseline data should be used to set targets

### 3. Using performance information

- Demonstrated use of performance information is essential
- Evaluation and performance measurement are complementary
- Incentives can be used to foster support

### III. FINDINGS ON THE STATUS OF PPM IN ADB

#### A. Lack of Consistency in Key Documents and Terminology

53. The PF is included as an appendix of the report and recommendation of the President (RRP) prepared for every public sector project approved by the Board. A draft of the RRP forms the basis for negotiations with the DMC. For successful negotiations, the output is a loan agreement and, in some cases, a project agreement.<sup>31</sup> An important issue is the frequent lack of consistency of the documentation. The SES analysis revealed five problems that might limit the effectiveness of the RRP and the loan agreement (and/or project agreement) as the basis for subsequent PPM. These are (i) the use of different terminology in the main text of the RRP and its appendixes; (ii) the inclusion of different information in the main text and the PF and, sometimes, other appendixes; (iii) variable treatment of monitoring and evaluation arrangements; (iv) differences between the loan agreement and the RRP; and (v) variation in the relative importance attached to loan or project agreements and RRP by DMC officials.

54. The main text of the RRP uses the terms “project objectives” and “scope,” while the PF terminology is “goal,” “purpose,” “outputs,” and “activities.” This is confusing and often results in statements that do not match each other. The recent addition of a poverty impact assessment matrix has often created further confusion by introducing a third interpretation of the intent and expected impacts of a project. An added complication for policy-based loans (known in ADB as program loans) is the requirement to have a policy matrix. This can introduce a fourth interpretation of the intent of the program. A common terminology needs to be adopted. Recently, staff attending a training session were given guidance on ways to reconcile these four documents. However, this was advisory rather than mandatory, which illustrates the problem of a lack of ownership of the PPMS as a whole (para. 48). Yet another set of terms is used in the PPR, where the goal becomes the long-term development objective (LTDO) and the purpose is called the immediate development objective (IDO). There is no rational reason for the use of so many different terms, and the consequences of this are serious for the integrity of the PPMS (para. 69).

55. As well as differences in terminology, statements of intent and expected results, different information is sometimes included in different parts of the RRP and its appendixes. For example, there is usually a section in the main text on risks (but not assumptions). Sometimes, risks identified in the main text are not reflected in the PF and *vice versa* (see paras. 66–68 for an analysis on assumptions and risks). As the PF is the main source of static data in the PPR, this means that important risks may not be used for rating performance on DOs. Another example is that sometimes a separate appendix is included on indicators, which may not match those given in the PF.

56. There is a wide variation in the extent to which RRP (including supporting appendixes and loan/project agreements) detail monitoring and evaluation arrangements. The SES reviewed a sample of 52 RRPs to determine the extent to which specific provision was made for monitoring and evaluation (further details in Appendix 3, section V). Only 30% of projects had a budget that at least in part could be associated with monitoring and evaluation, training in this area, and/or data collection and surveys. The average identifiable budget for monitoring and evaluation represented 0.2% of total project cost. In part, this may reflect a reluctance to borrow

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<sup>31</sup> Loan agreements are between the state and ADB. Project agreements are between the EA (if it has a legal personality separate from the government) and ADB. Where there is a loan agreement and a project agreement, the content of each is guided by who is assuming the obligation.

for activities such as monitoring and evaluation, which is often seen as an ADB requirement and of little value to the borrower. However, funding for monitoring and evaluation was often subsumed under other budget headings such as project management. Also, 70% of the sample projects had attached or related TA, which often explicitly provided support for monitoring and evaluation. For a third of the projects, it was not possible to determine whether any institutional assessment of monitoring and evaluation capacity had taken place. Of the balance, capacity constraints were identified in 60% of the cases. By far, the most common way of addressing constraints was to use consultants—this was included in 90% of the cases where constraints were identified and addressed, while provision was made for staff training in 48% of cases. A comparison was made between projects approved up to 1994 and those approved subsequently. The more recent group contained more assessment of monitoring and evaluation capacity constraints and made greater provision to address these. A requirement to report on impacts during implementation as opposed to after completion was included in 67% of the more recent projects as opposed to only 30% of the earlier group.

57. Loan and project agreements typically do not provide much detail on what monitoring and evaluation is to take place. There is no reference to the PF or PAM in these agreements. Often, vague phrases like “monitoring and evaluation arrangements acceptable to ADB” are the only description given in loan and project agreements. Thus, they do not give an adequate basis for holding EAs to account. This can be problematic, because DMC officials commonly give more credence to the loan and project agreements (as legal documents) than to the RRP, the legal status of which is ambiguous, at least in the minds of many DMC officials. Without clear and detailed specification of monitoring and evaluation requirements in the loan agreement, it is difficult to enforce compliance.

## **B. Status of the Project Performance Management System**

### **1. Expected Performance Specification**

#### **a. In the Project Framework**

58. A soundly designed PF is the most critical part of the PPMS as it provides the foundation upon which the rest of the evaluation system is built through its *ex ante* performance specification. In the first instance, it provides static data for the PPR. If the PF lacks integrity, evaluation based on it may lack validity. Within ADB, ownership, and therefore accountability for quality assurance, rests with the originating department. However, the regular reviews of PFs in draft RRP documents by OED and by the PF/PPR help desk consultant over the last 3 years show that the majority of PFs do not provide a sound basis for subsequent performance assessment. Given this, quality assurance by originating departments is not working effectively in many cases. ADB does not have a formal PF quality control system. COPP, OED, and RSDD pay special attention to PFs in draft project documents but their role is only advisory.

59. This section provides the results of four quantitative assessments of the quality of *ex ante* performance specification in the PF and PPR, namely (i) quality of goal and purpose statements in 50 PFs (25 approved in 2000 and 25 approved in 2002); (ii) quality of goal, purpose, and output statements in PPRs as of October 2000 and October 2002; (iii) quality of goal, purpose, output, and assumption and risk statements, as recorded in PPRs, for 52 loans approved in 2002; and (iv) an assessment of the accuracy of transfer of goal, purpose, targets and indicators, and assumptions and risks from the PF to the PPR for 50 projects (25 approved in 2000 and 25 approved in 2002). Results follow, with further details in Appendix 3.

60. PF goal and purpose statement quality was assessed on the basis of five criteria: (i) statement at the right level, (ii) clarity and conciseness, (iii) specification and measurability of indicators, (iv) specification and measurability of targets, and (v) specification of a time frame for achievement. For the 50 projects in the sample, only 24% had a goal statement that was rated satisfactory or better, while 35% had a purpose statement that was satisfactory or better (Table 1). The average quality declined somewhat from 2000 to 2002—at the goal level, 28% of projects had a rating of satisfactory or better in 2000, but this declined to 20% in 2002. At the purpose level, 36% of projects were satisfactory or better in 2000, which declined to 32% in 2002. At the goal level, all areas were problematic (the highest rating was only 64% for having the goal at the right level), but the main problem areas were a general failure to set targets, whether measurable or not, and the lack of a time frame (or having an incorrect time frame such as project completion) for goal achievement. Purpose statements tended to suffer from weaknesses across the five criteria.

61. The average results hide some interesting observations. First, there were a few very good PFs. Second, a lot of work had gone into a number of PFs, but the quality was low because the various statements were at the wrong level—this could be very easily fixed, but it shows a lack of understanding of the terms used. Third, there was a large group of PFs that were simply just deficient at the goal and purpose level. Finally, it should be noted that the underlying project may still be very sound, notwithstanding a poorly prepared PF. However, it will be more difficult to assess whether performance is on track or whether remedial measures are required, and to measure the impact of such a project.

**Table 1: Quality of Goal and Purpose Statements in a Sample of Project Frameworks**

<b>PF Level/Criteria</b>	<b>2000</b> (% of statements rated satisfactory or better)	<b>2002</b> (% of statements rated satisfactory or better)	<b>Combined</b> (% of statements rated satisfactory or better)
<b>Goal statement (overall)</b>	<b>28</b>	<b>20</b>	<b>24</b>
Level	64	44	
Quality	56	52	
Indicators	36	36	
Targets	12	16	
Timing	16	16	
<b>Purpose statement (overall)</b>	<b>36</b>	<b>32</b>	<b>35</b>
Level	64	32	
Quality	40	44	
Indicators	36	52	
Targets	40	36	
Timing	32	40	

PF = project framework.

Source: Special Evaluation Study research.

## b. In the Project Performance Report

62. The SES assessed the goal, purpose, and output statement quality as recorded in the 397 PPRs active in October 2000.<sup>32</sup> This showed that 70% of output statements were satisfactory or better and only 14% were rated as unsatisfactory (Table 2).<sup>33</sup> In other words, it was generally clear what outputs the project was expected to produce. The situation was not as good at the goal level, where 58% of statements were judged to be satisfactory or better and 36% were assessed as unsatisfactory. The substantial partly satisfactory or worse group (42%) is of concern, as a soundly formulated goal statement is an important measure of strategic alignment. That is, it should demonstrate clearly the way the project will deliver on ADB and DMC strategy.

**Table 2: Quality of Goal, Purpose, and Output Statements in 2000  
Project Performance Reports**

<b>Project/Program Framework Element</b>	<b>Highly Satisfactory (%)</b>	<b>Satisfactory (%)</b>	<b>Partly Satisfactory (%)</b>	<b>Unsatisfactory (%)</b>
Goal	37	21	6	36
Purpose	8	16	38	39
Output	60	10	17	14

Note: Totals may not add due to rounding.

Source: Special Evaluation Study research.

63. Only 24% of purpose statements were rated as satisfactory or better, while the remaining ones were evenly distributed between the unsatisfactory and partly satisfactory categories. In other words, the reason for doing the project and the development problem that should be alleviated by it were not clear in three quarters of the projects. Further, few, if any, measurable targets and indicators were given. Thus, there was no solid basis for subsequent performance assessment in these PPRs.

64. The update of the 2000 assessment was based on 475 PPRs. The results were similar at the goal and output level (Table 3). However, there was a statistically significant deterioration in the quality of purpose level statements over the last 2 years (from 24% satisfactory or better in 2000 to 16% in 2002), notwithstanding the training, mentoring, and document commenting that took place over the period (Figure 4). This is of concern.

<sup>32</sup> For ease of understanding, the SES uses the term goal and purpose for the assessment of PPR statement quality. However, the PPR itself does not use these terms. Rather, the goal becomes the LTDO and the purpose, the IDO. There appears to be no rationale for this, and it has unfortunate consequences (para. 68).

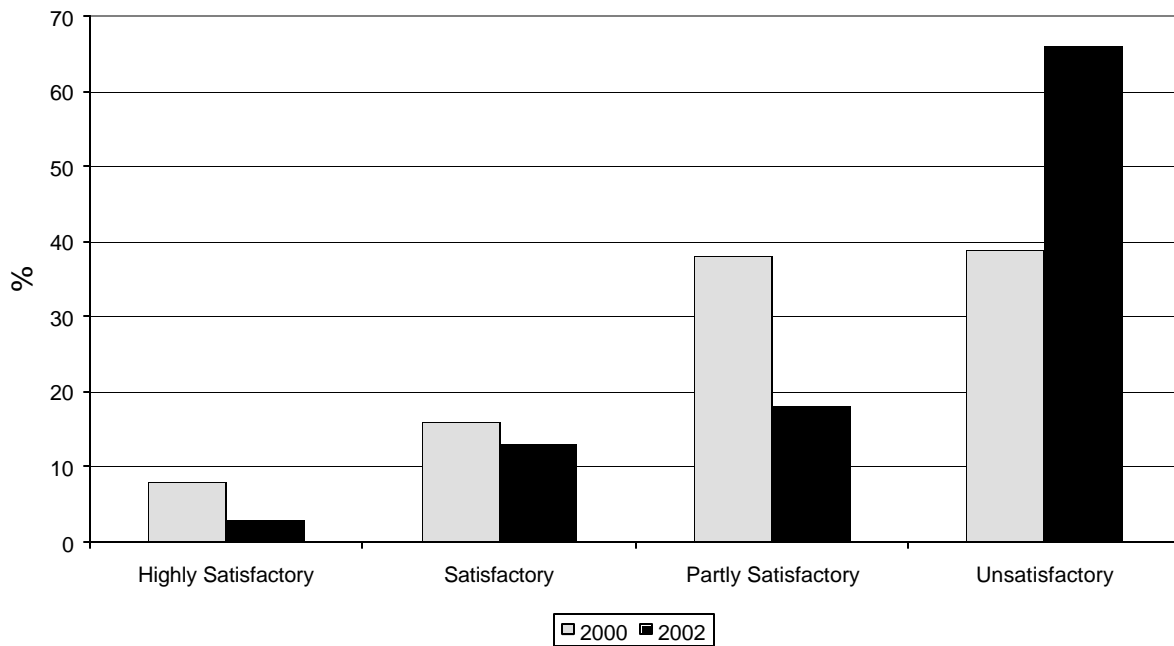
<sup>33</sup> The results presented in Table 2 are not directly comparable to those in Table 1. Table 1 shows results for a sample of PFs for projects approved in 2000 or 2002, while Table 2 (and Table 3) show results for all projects with PPRs in those 2 years. As targets and indicators are not required at the goal level in PPRs, the assessment focused on the quality of the goal statement. This may account for the higher rating.

**Table 3: Quality Assessment of Goal, Purpose, and Output Statements**  
(November 2002)

Project/Program Framework Element	Highly Satisfactory (%)	Satisfactory (%)	Partly Satisfactory (%)	Unsatisfactory (%)
Goal	32	27	5	36
Purpose	3	13	18	66
Output	62	8	17	13

Note: Totals may not add due to rounding.  
Source: Special Evaluation Study research.

**Figure 4: Rating of Purpose Statement Quality in 2000 and 2002**



Source: Special Evaluation Study research.

65. Because the 2002 assessment covered all active loans, many of which had been approved quite some time ago, a separate assessment was made of performance statement quality in PPRs for the 52 loans approved in 2002 (up to late October). This showed that only 6% of those loans had satisfactory or highly satisfactory purpose statements, significantly less than for the previous two assessments. Thus, it would appear that the downward trend in quality of purpose statement is continuing. On the other hand, the proportion of unsatisfactory statements, at 48%, was much less, with a corresponding increase in the partly satisfactory category (46%).

### **c. Assumption and Risk Quality**

66. The extent of achievement of purpose should be reported in the PPR and a performance rating given against the targets and indicators taken from the PF. However, the PPR rating for the likelihood of achieving DOs is based only on an assessment of assumptions and risks.<sup>34</sup> Given this, the study also assessed the quality of purpose-level assumptions and risks for the same 52 loans.<sup>35</sup> In terms of quality, 38% of projects had good quality assumptions and risk statements, while a further 6% had some assumptions and risks in the partly satisfactory category (but none that were unsatisfactory). Thus, 44% of projects were deemed to have satisfactory assumptions and risk statements, while the balance (56%) were unsatisfactory. In terms of the transition of assumption and risks statements from the RRP, 64% of projects showed good continuity, although many statements were of poor quality.

67. In addition to their quality, the number of assumptions and risk statements is also important to ensure that all those likely to affect project outcomes are identified. The 52 loans averaged 4.8 assumptions and risks each. Fifty-six percent of loans had four or fewer assumptions or risks, while 13% had two or fewer. In terms of quantity, over half of newly approved loans probably have an inadequate number of assumptions and risks to provide a robust assessment of the likelihood of achieving the DOs, notwithstanding the quality of these statements. Having said this, there is no rational basis for deciding what an adequate number might be. However, in the case study projects as few as one assumption or risk provided the basis for rating the likelihood of achieving the DOs.

### **d. Accuracy of Transfer of Project Framework Data to the Project Performance Report**

68. Given the generally poor quality of static data in the PPRs, the SES assessed the comparability of this with the source PF for 25 projects approved in 2000 and a further 25 approved in 2002. Results showed that around 70% of PF goal statements had been copied accurately into the LTDO box of the PPR, with 2002 projects showing a greater degree of accuracy than those of 2000. Currently, there is no requirement to include targets and indicators at the goal level in the PPR, and none did so. At the purpose level, the situation was worse, with only about 50% of PF purpose statements matching those in the IDO section of the PPR, the result being similar for both years. Although the PPR requires that targets and indicators at the PF purpose level be included in the PPR, this was not done in 60% and 68% of cases for 2000 and 2002, respectively. Eighty-eight percent of PPRs had one or more assumption/risk that had been copied from the PF to the IDO level. However, many PF purpose level assumptions and risks were not transferred. For 2002 projects, this was the case for 68%. Conversely, in 50% of all cases, assumptions and risks not included in the PF had been added. While the PPR should be a living document, which means static data should be improved as required, the SES assessment did not indicate that the lack of consistency was a result of improvements being made. One other subjective observation is that putting information in the wrong box was a

<sup>34</sup> For many projects, benefit flows do not start until after completion, or they may occur only to a limited extent prior to this. Therefore, direct reporting of results or impacts against targets as a measure of development performance may not be feasible during implementation. Given this, monitoring assumptions and risks are used as a leading indicator for assessing the likelihood of achieving the project purpose. The rationale for this is that if essential assumptions continue to hold true and preidentified risks do not materialize, then the prospect for eventual success will be high. On the other hand, if the assumptions do not hold true, and identified risks occur and are not successfully mitigated, then the likelihood of achieving the project purpose will be lower, regardless of the outputs delivered.

<sup>35</sup> Criteria were right level, outside of project control, ability to verify or detect occurrence, actor identifiable, and risk mitigation demonstrated.

common error—a mistake almost certainly predominantly caused by the use of nonmatching terms.

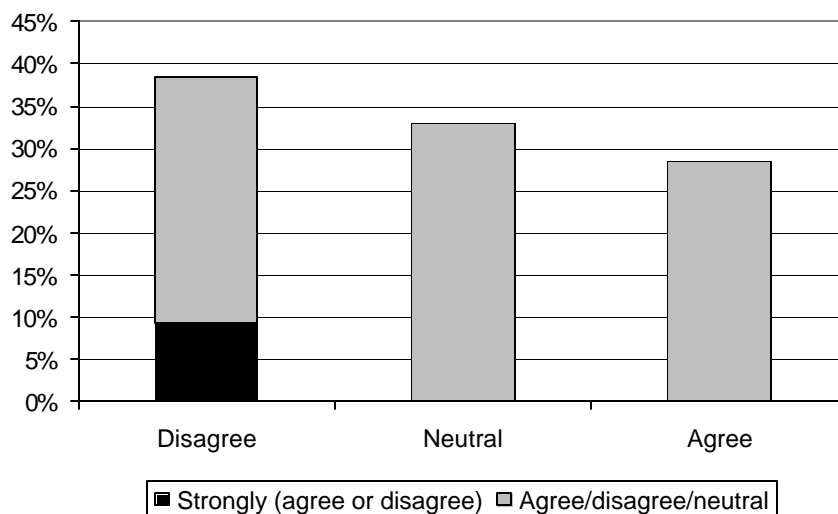
69. These findings show that substantial progress is still required to ensure that the PF and corresponding PPR static data provide a sound basis for ADB's performance assessment framework, particularly in terms of goal and purpose statements (LTDO and IDO in the PPR) and purpose assumption and risk statement quality and number. One cause of error and confusion is the use of multiple terms for the same concept. This is an easy problem to fix and is one that should be addressed in the very short term.

## 2. Project Performance Report Monitoring Data

70. The quality of dynamic data in the PPR was assessed primarily through the staff perception survey. The consistency and robustness of the PPR assessment process was determined on the basis of (i) the disconnect ratio between final PPR rating and subsequent PCR rating,<sup>36</sup> and (ii) the staff perceptions survey.

71. The staff perceptions survey sought views on the credibility of information in the PPR. Fewer than a third of respondents believe that information in the PPR accurately reflects the situation on the ground, 38% believe it does not (with 9% holding this view strongly), while a third were neutral (Figure 5). A higher proportion of directors and above (a key information user group) and those with less than 5 years employment with ADB disagreed with the statement that PPR monitoring information accurately reflects the actual project situation.<sup>37</sup> Over 40% of respondents did not think that independent validation of the information in the PPR is adequate, 30% thought it was, while the balance were neutral.

**Figure 5: Response Pattern to Statement on the Extent to Which Information in the PPR Reflects the Situation on the Ground**



Source: Special Evaluation Study research.

<sup>36</sup> For the purposes of this study, the disconnect ratio is defined as the difference between the percentage of projects in each rating category at each evaluation point—final PPR and PCR in this case. Results were further differentiated into the percentage of upgrades and downgrades.

<sup>37</sup> Appendix 2 provides further details on the differing views of various categories of staff.

72. It is important to identify the sources of the information and the responsibility for its entry into the system. PPRs are updated at least quarterly. The information comes from a variety of sources. Interviews confirmed that EA and consultants' reports are important sources. However, because of deficiencies in content or timeliness, recourse frequently has to be made to informal requests for information to update the PPR. Importantly, EA progress reports rarely provide information on development results—if available, this is generally included in separate impact assessment reports submitted much less frequently. Project review missions provide an opportunity for ADB staff to directly check project progress and performance. Nonetheless, even review missions rely to quite a large extent on the adequacy of EA-provided information. In terms of data entry, support staff generally have responsibility for the PPR update, although the project officer signs off on it.

73. The consistency of the PPR rating with the subsequent PCR rating was evaluated on the basis of a disconnect ratio (footnote 36) for the 50 most recent PCRs. In terms of the ability of the PPR to act as a predictor of performance, both upgrades and downgrades reveal a lack of successful prediction. The PPR provides separate ratings for DOs and IP. These are then used to produce a combined rating.<sup>38</sup> Disconnect ratios were calculated for both DO and combined ratings. Results showed a 28% disconnect based on final DO PPR rating versus PCR rating, and 31% for the combined rating (Table 4). A certain level of disconnect is inevitable, as the evaluations take place at different times when circumstances may have changed. However, the fact that downgrades outnumber upgrades by around two to one may indicate that the PPR rating is not providing a robust enough assessment of likely DO attainment.

**Table 4: Disconnect Ratios between Final PPR Rating and PCR Rating**  
(Based on the 50 most recent PCRs)

<b>PPR Rating Category</b>	<b>Upgrades (%)</b>	<b>Downgrades (%)</b>	<b>Total (%)</b>
Development objective rating	10	18	28
Combined rating	24	7	31

Source: Special Evaluation Study research.

74. The PF/PPR help desk consultant and the SES judged that the PPR is a robust and sophisticated tool for tracking project performance and for identifying those projects performing below expectations. However, not all staff shared this view. Forty-three percent of respondents to the staff perceptions survey did not believe that the benefits gained justify the time spent on the PPR, with 15% of the total holding this view strongly. On the other hand, over a third of respondents held the opposing view. There was a more neutral average response to a statement of general satisfaction with the PPR. Notwithstanding that just over 60% of respondents expressed satisfaction with the PPR or were neutral, the same proportion favored trying to find better alternatives, with 18% holding this view strongly. Thus, staff are ambivalent as to whether the PPR currently provides a satisfactory and value-for-money basis for measurement of project performance measurement. This finding is almost certainly related to other perceived problems such as a lack of clarity on the purpose of the PPR (para. 102) and a lack of perceived credibility of the PPR data (para. 70). It is important to note that the criticism was in most cases constructive. There is support for PPM among staff and a desire to see ADB do it better. This provides a sound basis for improvement of the PPMS.

<sup>38</sup> Defined as the lower of the DO and IP ratings.

### 3. Project Completion Report

75. An indication of PCR quality can be gained from the in-depth review of PCR ratings by OED (para. 38).<sup>39</sup> Results show that the credibility of PCR ratings was quite high, particularly in 2000, when ratings were confirmed for 82% of PCRs reviewed (Table 5). Nonetheless, OED is continuing to work with operational departments to further improve PCR quality and to align the evaluation methodology with that used for PPARs.

**Table 5: Results of PCR In-Depth Review 2000 and 1999**

Item	2000		1999	
	Number	%	Number	%
Rating confirmed	23	82	15	62
Rating upgraded	1	3	0	0
Rating downgraded	3	11	4	17
Insufficient evidence to rate	1	4	5	21
<b>Total</b>	<b>28</b>	<b>100</b>	<b>24</b>	<b>100</b>

Source: ADB. 2001. *Annual Review of Evaluation Activities*. Manila.

### 4. Project Performance Audit Report

76. OED is also continuing to refine evaluation methodology used in PPAR and other evaluation products by (i) a more rigorous internal review of proposed methodology, and peer review of draft reports; (ii) incorporation of good practice derived from participation in the multilateral development bank evaluation cooperation group; and (iii) development and refinement of evaluation guidelines.<sup>40</sup>

#### C. Other Findings Related to Project Performance in ADB

##### 1. Project Administration Memorandum

77. The PAM is a compendium of information provided by ADB to EAs to guide and expedite project management. It contains details on all ADB procedures that EAs need to follow. Discussions during 2001 on the revision to ADB's internal PAIs seriously considered dropping a requirement for a PAM, as some questioned the utility of simply compiling information already available in other forms. In the event, a decision was made to retain and strengthen the PAM. An important change was to make it a guide for monitoring project implementation and evaluating impact. Also, it is now expected to be a "living document" where changes in the project can be recorded through the incorporation of revisions to the PF.

78. Revised guidelines for PAM preparation came into force in January 2002, so all case study projects had PAMs prepared in earlier times (apart from one loan that did not have a PAM at all). PAMs played very little role in guiding project monitoring, evaluation, and reporting for the case study projects. They are not referred to in loan agreements, so they lack legal status.

<sup>39</sup> Although the in-depth review process continues, more recent results are not comparable because OED now provides advice during PCR preparation.

<sup>40</sup> ADB. 2000. *Guidelines for the Preparation of Project Performance Audit Reports*. Manila. These guidelines are scheduled for revision in 2003 together with preparation of new guidelines for the conduct of TPARs and PPARs.

Some project implementation unit (PIU)<sup>41</sup> staff, including project directors, were unaware of the existence of the PAM (staff turnover having erased institutional memory). Certainly, PAMs prepared before the 2002 PAI revision appeared to add little value to PPM. It is too soon to tell if the PAI revision will improve its utility. Another means of raising its profile would be to make reference to it in loan agreements.

## 2. Midterm Review

79. The MTR is an established part of ADB's project administration process. According to an internal PAI, it is carried out to assess whether the purpose of the project is still likely to be attained, to recommend adjustments to improve its chances of doing so, and/or to suggest modifications to its objectives in light of changed circumstances. Notwithstanding this, the MTR is not part of the PPMS. A 1998 SES of the MTR process made the point that with the introduction of the PPMS, and more effective use of the PF, there may be a lesser need for MTRs, the rationale being that, with use of the PPMS, problem identification and resolution should become an ongoing process rather than a result of a one-off review at a single fixed point.<sup>42</sup> However, the SES also noted that as this reality would take time to achieve, the MTR process should be retained and strengthened. The recommended strengthening measures have been included in ADB's PAIs.

80. Since MTRs had taken place for almost all case study projects, the opportunity was taken to question ADB and EA staff about the value added by them. In all cases, ADB and EA staff believed that the MTR added value, although in some cases it was noted that BME data were not available for the MTR. One reason for the positive view was that governments often attach more importance to an MTR than to a regular review. Therefore, key issues and constraints can more easily be discussed with high-level decision makers, and remedial actions or changes in scope can be agreed upon. Also, there is often a greater sense of partnership in the conduct of the MTR, including participation by central agencies, than for regular reviews. Best value was obtained from an MTR when additional resources were available to allow a more in-depth assessment. Also, another point of view from someone not directly involved in the project generally added value to the exercise.

## 3. Delegation of Project Administration to Resident Missions

81. The SES did not carry out a comparative assessment of project performance of RM- and non-RM-administered projects. However, RMs are much better placed to interact with EAs and central agencies on a more frequent basis and are better able to use more efficient and more effective informal communication channels. Given this, their ability to contribute to timely identification and resolution of problems is self-evident. It is also clear that implementation delays usually occur in the early years of implementation. In light of this, it is counterproductive that projects are generally not delegated to RMs until around their midpoint, by which time start-up delays have often occurred. It would be more sensible to delegate projects at inception as a means of avoiding problems rather than delegating after these have occurred. On the other hand, this would go against the norm that the mission leader responsible for processing a loan administers it for at least 1 year. This was adopted as a means to help improve quality at entry by enhancing accountability.

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<sup>41</sup> PIU is used as a general term for a range of unit names commonly adopted by EAs. Others include project management office or unit.

<sup>42</sup> ADB. 1998. *Special Evaluation Study on the Midterm Review Process*. Manila.

#### **IV. FINDINGS ON THE STATUS OF PPM IN ADB PROJECTS IN DMCs**

##### **A. Executing Agency Progress Reporting**

82. Project progress reporting by EAs has always been mandated as part of loan agreements. Each loan agreement includes standard covenants regarding maintenance of records and accounts, and a requirement to provide ADB with regular reports.

83. Revised guidelines for EA reporting were issued in January 2002, although the broad framework for reporting contained in standard loan covenants was maintained. However, the intent of EA progress reporting was clarified as being to assess whether the project's purpose would be met, thus creating a closer alignment with the PPR. The revised guidelines indicate that the progress report to be sent to ADB should be in a summary form that allows information capture for the PPR. Detailed reports are now to be held at the PIU and made available to ADB missions upon request. However, the format and content are not mandatory, thus permitting considerable variation. The disadvantages of allowing variability are that not all required information may be provided; or too much information may be provided, thus reducing the visibility of important issues; and/or reports may not focus sufficiently on required actions.

84. The SES carried out a quantitative and qualitative assessment of EA monitoring, evaluation, and reporting in 25 ADB-supported projects (Appendix 3). The quantitative assessment was carried out on the most recent progress report for each project. A rating was calculated for report comprehensiveness and quality. The average rating was 4 (ranging from 2 to 7 on a scale of 0 to 10), which indicates there is substantial room for improvement in EA progress reports. Key results are given below and in Table 6.

- (i) The median report length was 35 pages. The longest was 180 pages and the shortest was 5 pages.
- (ii) In 28% of cases, consultants' reports were submitted as the EA report.
- (iii) Reporting of implementation progress was the mainstay of all reports. Yet 36% of the reports gave current status only, without enabling a comparison with the target for the period, or even allowing an assessment of the progress made since the start of the quarter.
- (iv) Compliance with covenants was not reported adequately in 56% of reports.
- (v) Seventy-two percent of reports had an executive summary, but only a little over half of these clearly identified problems or issues for action.
- (vi) Fewer than 50% of reports contained a section on conclusions, project issues, and problems.
- (vii) Over 50% of reports did not detail plans for the next reporting period.
- (viii) Only 8% of reports had a section on results or benefits from the project, although 28% did contain some information on outcomes and impacts.
- (ix) Twenty percent of reports included a copy of the PF, but in 40% of these cases no monitoring data was presented against PF targets.

**Table 6: Assessment of Executing Agency Progress Reports**

No.	Item	Presence	Absence	Qualitative Rating (0–10)
<i>Implementation monitoring</i>				
1	Executive summary	72%	28%	4.6
2	Utilization of funds chapter	96%	4%	5.7
3	Implementation progress chapter	100%	0%	
4	Discussion on planned versus actual expenditure	88%	12%	5.5
5	Discussion on planned versus actual physical progress	88%	12%	6.0
6	Discussion on performance of suppliers and contractors	92%	8%	6.4
7	Discussion on performance of main consultants	72%	28%	5.2
8	Compliance with covenants	60%	40%	5.0
9	Major project issues and problems	88%	12%	7.8
10	Section on next reporting period	44%	56%	
11	Recommendations on required actions	48%	52%	
<i>Benefit monitoring</i>				
12	Project purpose chapter	8%	92%	
13	Review of status of scope/implementation arrangements	36%	64%	1.7
14	Review of likelihood of meeting immediate DOs	28%	72%	2.0
15	Assessment of key assumptions/risks	16%	84%	0.6
16	Discussion of environmental and social requirements	40%	60%	2.6
17	Presence of PF in the report	20%	80%	
18	Adaptation of PF for reporting of progress (where present)	60%	40%	
19	Quantitative information on outcomes and impacts	28%	72%	
20	Use of socioeconomic or other type of outcome indicators	20%	80%	
21	Quantitative beneficiary specific information	16%	84%	
22	Quantitative comparison with nonbeneficiaries	0%	100%	

DO = development objective, PF = project framework.

Source: Appendix 3.

85. In addition to the assessment in Table 6, a number of other observations can be made on EA progress reporting.

- (i) Some reports used charts to illustrate various aspects of progress. These were helpful in some cases, but in others, highly specialized charts were only understandable to a technical expert. In these cases, no value was added for the general reader. Some reports also included color photos. These were helpful in illustrating progress and/or problems.
- (ii) Most projects involved multiple implementation sites and frequently more than one implementing agency. Given this, and the need to track inputs, expenditures, and physical progress, EAs and their PIUs need relatively sophisticated MIS as a basis for progress reports. The overriding impression from the case study projects was that a lot of resources (usually in the form of international and domestic consultants) are used to develop MISs from a zero base for each project. This is inefficient.
- (iii) Frequently, MISs are located in the PIU rather than the EA itself, or worse still, on consultants' computers. Consequently, the MIS may not continue after project completion and, in these cases, the EA's MIS will not be strengthened.

- (iv) Similarly, capacity building for monitoring, evaluation, and reporting is usually directed to PIU personnel, many often employed on contract. Therefore, EA institutional capacity may not be strengthened.<sup>43</sup>
- (v) Duplication of reporting requirements for multiple end users is an often-stated problem faced by EAs. In the view of the SES, it is somewhat overstated. The same basic required information can be presented in many ways to meet different needs. Problems in producing a variety of reports are likely to reflect deficiencies in the underlying MIS rather than a lack of harmonization of output formats.
- (vi) There was a clear relationship between the extent of impact assessment and the rigor with which this was detailed in the RRP. This usually took one of two forms. The first, and unfortunately more common, was to leave the specific details to be agreed upon between ADB and the EA at some future date (sometimes time-bound). This generally resulted in less effective, delayed, or even no impact assessment occurring. The second, and much better, approach was for the RRP to clearly spell out details of how impact assessment was to take place, what skills were required and available, and what funding was required, together with budget provision, training, and consultant input as required.
- (vii) EA interest and commitment to impact assessment was variable. Social sector agencies generally had a high level of interest and hands-on involvement, while the opposite was true for those EAs responsible for infrastructure projects. Those in the agriculture and related sectors fell in between.
- (viii) The likelihood that impact assessment would be sustained following project completion was generally low because of a combination of a lack of interest and a lack of funds.
- (ix) Two EAs had already realized benefits, or could identify potential benefits, from using the results of impact assessment. This is important, as impact assessment will be carried out more effectively if agencies derive benefits and are not simply carrying out the activity to fulfill an ADB requirement. Benefits identified by these EAs included provision of guidance on how best to use loan savings, incorporation of more effective elements in new project design, provision of information for policy development, improved ability to attract incremental resources because of being able to demonstrate results, and favorable publicity generated.

## **B. Executing Agency Project Completion Reports**

86. EA PCRs are an important part of the PPMS. The SES was not able to conduct an assessment for the case study projects, as none yet had a PCR. Various informants indicated that EAs rely heavily on consultants to prepare “their” PCR. If consultants were no longer present, the EA PCR was often substantially delayed or not submitted at all. Clearly, many EAs have problems in preparing their PCRs. New guidelines were issued in January 2002. It is too soon to tell if these will result in better EA performance but in any case, it is likely that training for PIU staff will be needed in PCR preparation as part of overall skills development in PPMS.

## **V. FINDINGS ON THE CONTEXT FOR PPM**

### **A. In the Asian Development Bank**

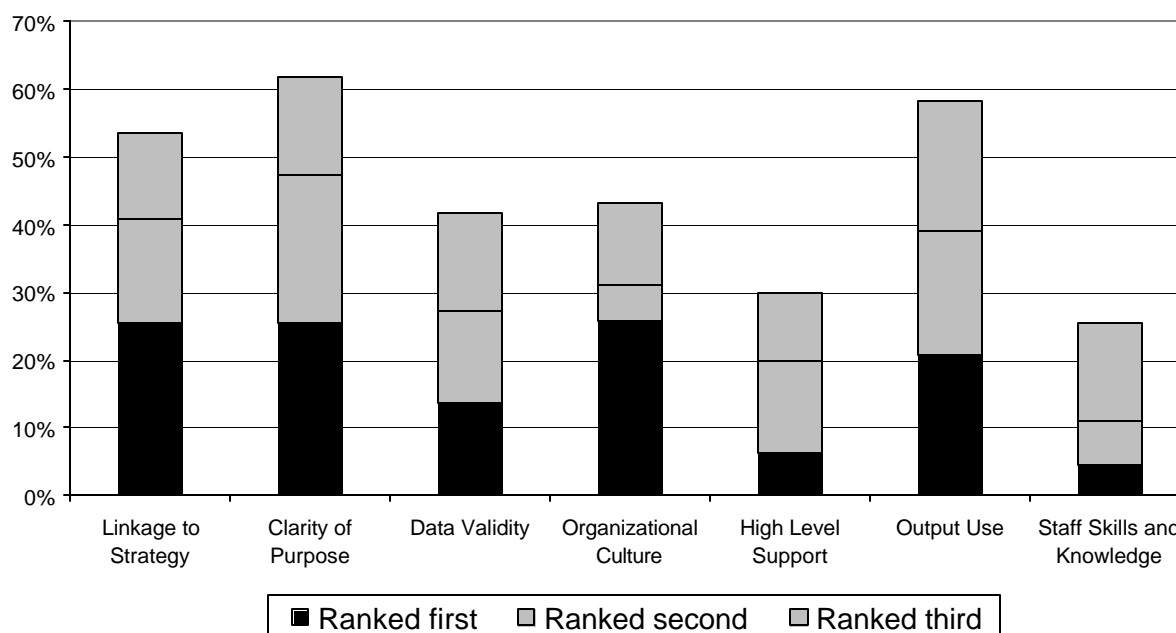
87. Seven factors were selected from among those shown to be important in determining effectiveness in the adoption of RBM systems (see box on page 17) for further investigation

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<sup>43</sup> Issues related to the use of PIUs will be the subject of an SES scheduled for 2003.

through a staff perceptions survey. Most questions used a five-point Likert scale (“strongly disagree,” “disagree,” “neither agree nor disagree,” “agree,” and “strongly agree,” plus a “don’t know” option) for respondents to react to a series of statements on PPM (for details, including the survey questionnaire, see Appendix 2). The seven factors were selected on the basis of their relative importance (based on the literature review) and their potential to influence behavior (based on evaluator judgment). Only staff in RDs and selected knowledge departments were surveyed. The overall response rate was 20% with directors and above and other professional staff having a higher response rate (26% and 24%, respectively). The distribution of respondents by department and position was reasonably representative of their share in the population. Thirty-five percent of respondents had worked in ADB for 5 years or less. As almost 50% of professional staff in RDs have 5 years or less experience in ADB, it can be surmised that the tendency to respond increased with length of service. This adds to the credibility of the survey as those with more experience have greater knowledge of ADB and its procedures. However, surveys such as this do have a number of limitations. Important among these are that the characteristics of non-respondents are not known (therefore, the sample may be biased) and that a “strongly disagree” or “disagree” response to a particular statement may not reflect an overall negative attitude by the respondent. On the other hand, there can be a tendency to give socially desirable, and thus more favorable answers. The survey was notable for the range of views held, which were often split into “strongly disagree”/“disagree” and “strongly agree”/“agree” groups of roughly equal size. This polarization of views was supported by the findings of individual consultations. On this basis, the survey was deemed to be a credible and useful exercise although its results should not be generalized to all staff. Appendix 2 provides further information on limitations to the survey. The seven factors and their ranking by respondents are shown in Figure 6.

**Figure 6: Respondent Ranking of Factors Influencing the Effectiveness of the PPR**  
(% of respondents assigning ranking)



Note: First ranking percentages total more than 100% as some respondents gave equal first ranking to more than one factor.

Survey: Survey results.

88. In terms of first ranking, a supportive organizational culture was narrowly ahead of clarity of purpose and linkage to strategy. Combining the first, second, and third rankings shows that clarity of purpose is the main factor that affects the successful adoption of PPM in ADB, followed by output use and linkage to strategy. High-level support and staff skills and knowledge were seen as relatively less important.

### **1. Strategic Alignment and Coherence**

89. Effective RBM is predicated upon an organization having clearly articulated objectives and strategies for achieving those objectives, with monitoring and evaluation providing the means by which progress is tracked and strategies refined, along with periodic resetting of objectives. If stated strategy and the results the organization values are not aligned, those working in the organization are likely to become cynical and demotivated.

90. Those that disagreed with each of the three statements on strategic alignment (link between performance assessment and country strategy, the MTS, and ADB's overarching goal of poverty reduction) outnumbered those that agreed by more than two to one (there were a large number of "don't know" answers—23%, 10%, and 5%, respectively—which may reflect a lack of awareness among some staff as to how ADB goes about strategy setting). Directors and above were more likely to agree than the average, while RM national officers (NOs) were more likely to disagree by a similar margin. There was a wide variation among departments, which may indicate that some are doing a better job than others in creating a link between country strategy and the PPR.

### **2. Organizational Culture**

91. Research has shown a strong link between organizational culture and organizational performance (Appendix 1). Six questions (paras. 92–95) in the staff perceptions survey sought views on key dimensions of culture shown to be important for PPM.

92. Views were polarized to some extent as to whether ADB is a results-oriented organization—49% agreed, 34% disagreed, and the balance were neutral. A higher proportion of staff with 2–5 years' experience disagreed. When asked whether achieving development results was more important than meeting lending and disbursement targets, those that disagreed outnumbered those that agreed by a ratio of three to one.

93. On the issue of whether decision-making was effectively delegated in ADB (another cultural dimension positively associated with effective RBM), responses disagreeing outweighed those agreeing by a ratio approaching two to one. A higher proportion of directors and above and RM NOs disagreed, the conclusion being that these two groups may believe more responsibility should be delegated to them. Delegation and increased discretion are essential preconditions for PPM.

94. Encouragement to innovate is also a cultural dimension favorable for PPM. Again, views tended to be polarized, with a slightly higher proportion disagreeing than agreeing with the statement. Directors and above were relatively more positive, while departments showed considerable variation. This latter finding, along with similar results on other dimensions, may indicate that departmental/divisional managers are able to create a miniculture within the prevailing organizational culture.

95. Being an effective learning organization and having effective quality improvement processes are further cultural dimensions positively associated with success in adopting PPM. The two questions on these areas yielded contradictory results. Views were evenly divided as to whether ADB is an effective learning organization (42% agreeing and the same proportion disagreeing). A higher proportion of staff of knowledge departments and staff with 2–5 years' experience disagreed.<sup>44</sup> There appears to be a perception among knowledge department staff that the RDs are not taking on board the advice they provide. On the other hand, almost half of respondents believe that quality improvement is an effective part of ADB's business processes, with around a quarter disagreeing. Perhaps staff perceive that ADB has the processes for quality improvement but that these are not as effective as they might be in contributing to ADB being a learning organization in practice.

### 3. Senior Level Leadership

96. Support by senior staff has been found to be critical for successful adoption of RBM. Experience in development aid agencies has shown that “without strong advocacy from senior managers, RBM systems are unlikely to be institutionalized broadly or effectively within an agency.”<sup>45</sup>

97. More respondents agreed than disagreed that there is support among senior staff for the PPR although there was a relatively high percentage of “don't know” responses (19% and 12% for the two questions). A higher proportion of directors and above and RD NOs agreed, while staff from knowledge departments tended to disagree. Those agreeing outnumbered those disagreeing by more than two to one, but about one third of respondents with a view were neutral.

98. Notwithstanding this favorable view, it is important that senior managers uniformly support the PPR because of their influence on staff under their control. Across the two questions, 20% of respondents disagreed that there was support, thus indicating that there is still room for improvement in this area.

### 4. Training and Skills

99. A key lesson from establishing RBM systems is that all those involved must receive training. Experience has shown that training is likely to be needed on two levels: (i) awareness of the concepts and underlying principles (particularly for output users), and (ii) detailed training on all aspects of the system (for those operating the system). Internal reports by the PF/PPR help desk consultant identified that ADB staff still lack the knowledge and skills to prepare quality PFs and to operate the PPR. However, the average score from the staff perceptions survey across the three questions on skills and training was positive, although the results were contradictory. Almost 70% of respondents indicated that they had the knowledge and skills to use the PPR or its output, while the same number said they understood the terms in the PPR and PF. On the other hand, almost half indicated the need for further training. When asked to rank the relative importance of skills and training as a factor influencing the effectiveness of the PPR, respondents ranked skills and training last (Figure 6).

<sup>44</sup> Knowledge departments have responsibility for generating and disseminating the information that creates the learning organization. Knowledge departments are the ADB Institute, the Economics and Research Department, OED, Office of External Relations, Regional Economic Monitoring Unit, RSDD, and the Strategy and Policy Department. The Economics and Research Department, OED, and RSDD were included in the survey.

<sup>45</sup> Binnendijk, A. 2000. *Results-Based Management in the Development Cooperation Agencies: A Review of Experience*. Available at <http://www.oecd.org/dac/evaluation>.

100. The conclusion is that, based on self-assessment, skills and knowledge are generally adequate. However, it is important to remember that a self-assessment that one has the necessary skills does not make this a fact. Nonetheless, if attendance at training is on a voluntary basis, which it has been to date, the results indicate the groups more likely to attend (support staff, RM NOs, and staff with less than 2 years service). Other evidence (for example, from the help desk consultant) indicates that training is still required for most staff preparing PFs and using the PPR. However, RD staff, who largely determine PF and PPR quality, tend to indicate they do not require further training. Which groups actually need training would need to be determined on the basis of training needs assessment involving a competency test. If those groups that perceive they do not need training do in fact need it, they will have to be persuaded of this (for example, through the rejection of poor PFs). Another important factor when considering the need for ongoing training in the PPMS is the rate of staff turnover. New staff appointed to RDs, RMs, and the knowledge departments should have an in-depth knowledge of the PPMS to ensure a high standard of operation. Given this, the training budget allocated for the PPMS may not be sufficient.

## **5. Clarity of Purpose**

101. Those responsible for implementing a performance measurement system as part of an RBM framework may not be the primary users of the information. For this reason, experience has shown that clear communication of the purpose and definition of terms are essential for commitment to be obtained.

102. Three quarters of respondents indicated they understood the purpose of the PPR. However, almost 40% gave a neutral response when asked whether improving project performance was more important than accountability to stakeholders. A lesser number (36%) saw improving project performance as being more important, while 25% believed accountability to stakeholders was the primary purpose. In other words, there is a degree of uncertainty as to the primary purpose of the PPR, notwithstanding its name of project performance report. These results are also contradicted by respondents' ranking of factors influencing the effectiveness of the PPR. They ranked clarity of purpose as the most important factor (Figure 6). Given this, respondents' perceptions of an understanding may not reflect reality. Therefore, any communication strategy to clarify the purpose of the PPR should start from the position that many staff may erroneously believe they already know it.

## **6. Credibility of Information**

103. Survey results on the credibility of information in the PPR were reported in a previous section (para. 71), showing some doubts in this regard.

## **7. Demonstrated Use of Information**

104. There is nothing to be served by collecting information for its own sake. Data has value only when it "provides timely, relevant, and concise information for use by decision-makers."<sup>46</sup> Information must not only be used, it must be seen that top-level managers are using it. When top-level managers are seen to actively seek and use the information, others are likely to follow the example. On the other hand, if performance information is not used, the system will lose its

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<sup>46</sup> National Performance Review. (1997). *Serving the American Public: Best Practices in Performance Measurement: Benchmarking Study Report*. Washington.

credibility. An upward spiral of confidence in the data can be generated as its use increases and benefits become apparent.

105. Survey results showed that overall, there was a predominantly neutral view on whether PPR results were used to make decisions. This was due to the fact that the two questions gave contradictory results. At an institutional level, more people disagreed than agreed that results were used. However, at a more personal level, use of the information by respondents' immediate supervisor, those agreeing outnumbered those disagreeing by a ratio of almost two to one. Interestingly, there was wide variation among departments. Also revealing is the fact that respondents ranked output use as the second most important factor influencing the effectiveness of the PPR (Figure 6).

106. The SES conducted a survey of PAU heads to gauge their views on the extent to which PPR information is used. The survey found that at the divisional and departmental level, PPRs play an important role in the overall monitoring system (Appendix 3, Section VI). Although PAU heads did not often consult individual PPRs, aggregate information was extensively used for meetings. PAU heads regarded PPRs as the second most important source of information on project progress, behind back-to-office reports of review missions. Divisional meetings on PPRs were usually held quarterly but in some cases, monthly. Departmental meetings were almost always held monthly. Sixty percent of respondents stated that these divisional and departmental meetings have considerable value added, with another 35% saying that they have some value. Although many respondents indicated that implementation problems are often beyond the power of ADB to influence, over 80% said that the preparation of action plans for at-risk projects helps to improve their progress. A majority of PAU heads felt that the sections of the PPR where information was most often missing were those on DOs and covenants. This is indicative of the nature of the meetings, which center around implementation issues rather than development results. From the survey, it is fair to conclude that the PPRs have significantly improved ADB's capacity to improve the implementation of its projects, but that, in terms of tracking and improving performance to achieve development results, much still remains to be done.

107. Another means of assessing the extent to which PPR results are used is through the proactivity index.<sup>47</sup> The proactivity index for ADB's portfolio rose from 39% in 2000 to 59% in 2001 and 68% in 2002. This rise is encouraging but there is significant scope for further improvement.

## **B. In Developing Member Countries**

108. The wider context for PPM in DMCs was peripheral to the SES research question. Nonetheless, it is important so the opportunity was taken to look at the DMC context in the five DMCs visited. The findings are presented in Appendix 4 along with some recommendations for performance management beyond the PPMS. Many recent initiatives in both overall performance management and PPM were witnessed. The overall context is thus becoming more favorable. In spite of this, many of these initiatives had not settled into functioning systems so far. In fact, even the more traditional implementation monitoring systems focusing on inputs and activities faced many problems. It was concluded that ADB should focus on improving existing systems, and gradually introduce a results focus in them. New systems focusing on results should, however, not discard input and activity management. New initiatives in PPM

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<sup>47</sup> Defined as the percentage of projects rated as problem projects (either partly satisfactory or unsatisfactory) 12 months earlier that have been upgraded (can include projects upgraded due to restructuring), suspended, closed, or partially or fully cancelled.

should be supported, especially if these emanate from the DMCs themselves—this because of the great need for government ownership. As part of the enabling environment for PPM, DMC capacity should be strengthened in the following areas: medium-term expenditure frameworks, public expenditure management, national statistics, sectorwide performance assessment by central agencies, auditing, EA performance management, procurement and contract law enforcement, contract arbitration systems, and accreditation and quality control systems.

## **VI. LOOKING FORWARD**

109. The SES sought to provide answers to the question of “what, if any, changes (in the short and medium term) can be made to improve the efficiency, quality, and use of ADB’s PPMS, and its alignment with DMC processes, with particular emphasis on the design and implementation stages of the project cycle?” The conclusions summarize the SES thinking on the priority issues.

### **A. Conclusions**

#### **1. General**

110. The first conclusion is that ADB has made substantial progress in improving the context for PPM and in developing and adopting specific processes for managing on the basis of results. It has also worked hard to promote this approach in its DMCs, albeit with limited resources for this activity. The PPMS is generating information on project performance, and this information is being used to make decisions to improve the performance of current and proposed projects. However, the findings show that the quality of *ex ante* performance specification and progress data needs to be improved, particularly in the area of development results. Strategic alignment also needs to be enhanced. ADB is not alone in this regard. In fact, most development aid agencies are struggling with the same issues. Nevertheless, the SES concludes that further progress toward more effective and efficient PPM can be made in the short term by addressing a limited number of key issues identified in paras. 111–125.

#### **2. Expected Performance Specification**

111. The SES concludes that a concerted effort is required as soon as possible to upgrade all deficient PFs and corresponding PPR statements for the active portfolio. To date, the emphasis has been on improving PFs for new projects. This needs to continue but a sole focus on new projects will produce only modest gains in portfolio performance in the short term, given the fact that there are around 500 loans in the active portfolio. Also, it is not efficient to continue performance assessment via the PPR and subsequent evaluation steps (PCR and PPAR) on the basis of inadequate specification of expected results and incomplete assumptions and risks. Therefore, in the view of the SES, substantial benefits would result from reviewing the static data of all PPRs and, where necessary, improving these as soon as possible. Of course, this will also require close consultation with and agreement from borrowers and EAs. This can take place during MTRs or other project administration missions.

112. Clearly, the quality of PFs for new projects also needs to be significantly improved. Evidence shows that it is getting worse rather than better, particularly at the important purpose level. The current system of quality assurance by originating departments and comment by other departments is not producing a demonstrable improvement. A number of factors outside the scope of the SES are likely to be influential in this—for example, resource constraints. The SES suggests that consideration needs to be given to requiring formal quality control of PF

integrity until such time that quality assurance by the originating department is producing a consistently good result. Quality control could be achieved through requiring a sign-off on PF quality by another department. While the SES is reluctant to suggest another layer of bureaucratic approval, it is hard to see what other alternative would bring about the needed quality improvement in the short term. In many ways, this would simply formalize and give more “teeth” to current informal review by the knowledge departments. RSDD is already required to provide a certificate of quality for all draft RRP’s prior to the management review meeting. This could easily be modified to include a specific sign-off on PF quality. Alternatively, OED could provide a sign-off as it already pays close attention to PF quality in its review of project documents. The bottom line is that no loan or TA should be approved that does not have sound statements of goal and purpose, clear performance indicators, and complete assumptions and risks, because the ability to manage these on the basis of results, and to subsequently evaluate them, will be seriously compromised. An independent sign-off of quality would probably require the appointment of suitable PPMS specialists.

113. The other way to influence PF and PPR quality in the short and longer term is to significantly increase staff training and mentoring. This is particularly important, given the large number of new staff entering ADB each year and regular transfer of staff. In light of the growing need, the current level of funding available for training on the PPMS is insufficient. In 2001, a set of training modules was developed covering the main elements of the PPMS. One presentation was made in ADB headquarters to trial these, with further courses run in Bangkok, Beijing, and Jakarta for RM staff. The intent was to use the modules in a train-the-trainer program to create a pool of trainers in headquarters and RMs so that ADB could become more self-sufficient in providing the PPMS training and so that training could be provided on a regular basis. However, this is yet to occur, and the training modules are not used in any regular training program. Further, ADB has no dedicated internal expertise in the PPMS. There would be considerable benefit from creating an internal capacity to provide an advisory service on PF preparation. This could be achieved by recruiting PPMS specialists to work in one of the knowledge departments.

114. An easy-to-resolve issue that would have a significant impact on soundness of *ex ante* performance specification is to eliminate the use of multiple terms for the same concept. The standard PF terms of goal, purpose, outputs, activities, inputs, targets, indicators, assumptions, and risks, should be used in the RRP, PF, and PPR. Further, other documents such as policy and social impact matrices should also use standardized PF terms, along the lines proposed during a recent training course (para. 54).

115. A number of other measures can be taken to improve PF and PPR static data quality in the short term:

- (i) Along with increased training, the manual on the PPMS needs to be updated and finalized. A draft was prepared in 1999.
- (ii) PFs need to be produced earlier in the project processing cycle, albeit in partial and tentative form, to make it easier to incorporate significant changes to improve design integrity and the “evaluability” of projects. Therefore, a preliminary and partial PF for the proposed project should be included in the preparatory TA document.
- (iii) PFs should be updated as changes in scope occur or new risks emerge, and these changes should be reflected in PPRs so that the evaluation framework remains current. However, a PPR archive function needs to be concurrently implemented so that changes can subsequently be tracked.

### **3. Improving Monitoring Data in the Project Performance Report**

116. PPR dynamic data—that is, information on progress and results inputted on a regular basis by RD staff—also need to be improved in the short term. While some of the data are very good, further efforts are needed to ensure that PPR data accurately reflect the situation on the ground. The main problem area is assessing the likelihood of achieving DOs. IP monitoring has a much longer history in ADB and is consequently more developed. Also, it can rely to some extent on information drawn from other ADB databases. As with PF quality, resource constraints are almost certainly influential. Nevertheless, improvements are needed. Better *ex ante* performance specification will help, as will improved EA progress reporting (paras. 118–121). The question is whether these moves will be sufficient to improve PPR dynamic data to the extent needed. The SES is of the view that independent field validation of a, probably small, sample of PPRs may be worthwhile—40% of respondents to the staff perceptions survey believed that independent validation of PPR data was inadequate. Certainly, such measure would be consistent with the MTS, which requires that “regular portfolio evaluation reviews will be undertaken by OED by 2005 to support assessment of development impact.” Perhaps this time frame needs to be shortened, and this activity could form part of the role of the portfolio evaluation specialist in OED.

### **4. Aligning Projects with the Country Strategy**

117. Assessment of CSP quality was beyond the scope of the SES. However, from examining project goal statements, it is clear that there is a need to create a better strategic alignment between projects and country strategy. Currently, CSPs/CSPUs are incorporating more specific, time-bound, and measurable goals, purpose, targets, and indicators, principally through adoption of the MDGs. Previously, the lack of specificity in CSP/CSPU objectives meant that project-level goal statements were not clearly linked to a measurable programmatic strategic agenda at the country level. Strategic alignment of projects with country strategy could be enhanced by requiring CSPs to have a country program framework (CPF) that contains program goals (based on MDGs as reflected in a PRS); purpose (the contribution that ADB’s program of loans, TAs, and other products and services will make to the achievement of the CPF goals over the program period); and outputs (the various products and services ADB expects to deliver over the period). This would enable the goal of each approved project to be linked to delivering on the CPF purpose. Thus, project-level goal attainment would be assessed at the country level only through periodic evaluations for the CPFs. Project performance would be assessed only to the purpose level. This is the *de facto* situation anyway, but currently goal statements are left “hanging,” and when attempts are made to assess project performance in attaining project goals, difficulties of measurement and attribution emerge.

### **5. Executing Agency Progress Reporting**

118. At the DMC level, the most important immediate need is for improved EA progress reporting. The most rapid gain would come from ensuring that EAs are familiar with and following ADB’s revised PAI on EA reporting (issued in January 2002). This clearly indicates that the EA progress report is to be a summary report that allows the borrower, EA, and ADB to monitor the latest progress, become aware of current problems, and assess whether the project’s purpose will be met. More detailed reports, including reports by consultants and contractors, are to be held in the PIU for ADB review missions, the MTR, and PCR missions. The PAI also indicates that the report format should allow clear communication of key information, using easy-to-understand charts to illustrate progress. To this, the SES would add that the reports should have an up-front action orientation—identification of problems, proposed

solutions, responsibility for action, and time frame for action—and they should include commentary on the analysis of assumptions and risks, including the identification of new risks as necessary. EAs should be provided a hardcopy of the PPR (until this can be accessed via the Internet) as this is updated. For new projects, the current requirement for EA reporting should be clearly reflected in the PAM.

119. Since early 2002, BME is no longer ADB's method of monitoring and reporting on the development impact of new projects (it continues to be the monitoring and evaluation framework for projects approved before the change). During this transition phase, there is a need to merge BME reporting and EA implementation progress reporting into a single progress report that covers both aspects. This will require discussion with EAs in the context of introducing the new reporting format required under current guidelines.

120. Other measures to improve EA progress reporting can only be achieved over the medium to longer term. EA progress reports need to be built on sound MIS. Currently, MISs are usually developed from a zero base on a project-by-project basis. It is essential that the best of these systems be captured and made available on a wider basis. ADB can play a role in gathering the best of these systems from its projects and making them more widely available. MIS systems will probably need to be grouped by sector and country. For example, one project supported by ADB has developed a comprehensive dual language MIS that can produce a variety of reports and report formats to meet different stakeholder needs in either English or the local language. ADB should also develop software to facilitate standard project accounting and financial reporting.

121. In many cases, provision of revised guidelines and reporting software will not be sufficient to improve EA reporting. Training is also required. As a first step, more in-depth training should be provided to RM NOs so that they can become trainers of EA staff. Training budgets for this purpose will need to be established.

## **6. Promotion of the Benefits of Project Performance Management**

122. It is clear that many borrowers see little benefit for themselves in fulfilling ADB's reporting requirements, particularly with respect to reporting on the achievement of DOs. There is no quick fix for this. However, in concert with other development aid agencies and domestic stakeholders, ADB should adopt an advocacy role for PPM and, in the context of public sector reform initiatives, the wider concept of RBM. Examples of successful PPM, and the benefits that have accrued to EAs as a result, need to be promoted.

123. Perhaps as a consequence of the borrower perception noted in the preceding paragraph, it has proved difficult to persuade EAs or central agencies to allocate scarce resources to significant evaluation activity following project completion. In a number of DMCs, this view is changing (Appendix 4). In such circumstances, ADB should continue to provide TAs for developing postproject completion monitoring and evaluation. In doing so, it should link this more closely to policy development, the new project approval process, and the debt repayment function (to ensure that maximum benefit flows are being obtained from previous investments). Achieving this linkage will provide a clearer rationale for such evaluation.

## **7. Assigning Responsibility for PPMS Integrity and Development**

124. To an extent, the PPMS in ADB has been developed in an *ad hoc* manner, driven more by motivated individuals rather than departments with assigned responsibility. This needs to change. Given the nature of the PPMS, it is difficult to see that any one department can have sole responsibility. Therefore, the SES concludes that an interdepartmental entity should be mandated with the responsibility.

## **8. Other Conclusions**

125. Other conclusions reached by the SES are:

- (i) While refinements to the PPR software, format, and content are already being developed (for example, through a more accessible archiving function and Internet access) and further enhancements are possible, the SES makes no suggestions in this regard. The PPR is a good tool, which is not yet realizing its full potential because of data deficiencies. Therefore, in the view of the SES, the priority should be to improve PPR static and dynamic data while continuing to refine its structure.
- (ii) Staff perceive that the output of the PPR is not fully used by ADB to make decisions. In fact, the output is widely used particularly to address implementation issues. However, the utility of PPR output, and that of subsequent evaluations, will be greatly enhanced by better PF specification of expected results and better progress monitoring and evaluation. The SES believes that the priority should be given to improving the quality of PFs and PPR dynamic data before seeking to improve information use.
- (iii) Consideration should be given to making loan agreements more explicit with respect to EA obligations for monitoring and evaluation.
- (iv) The decision not to include private sector operations under the PPM framework should be revisited.
- (v) Earlier delegation of projects to RMs should be assessed against the benefits from the current requirement for project processing mission leaders to administer projects for at least 1 year after approval.

## **9. Resource Requirements**

126. It is clear from the above discussion that additional resources will be required to implement the actions that logically flow from the conclusions. The SES accepts the view that resource constraints are already negatively impacting on ADB's ability to operate the PPMS. The conclusion that more resources need to be directed to project administration and to training in the PPMS is inescapable.

## **B. Recommendations**

127. There are some measures that are straightforward and do not require further consultation. For these, specific recommendations are made below (para. 128). Other measures require further deliberation and interdepartmental consideration to generate a consensus on the best path to follow. These are outlined in para. 129. To address these issues, the SES recommends formation of a working group (para. 130).

128. The following recommendations are made for immediate action:

- (i) All project performance terms should be standardized on those used in the PF, namely, goal, purpose, outputs, activities, inputs, targets, indicators, assumptions, and risks. Specifically, the section in the RRP currently termed “objectives and scope” should become “goal, purpose, outputs, and activities,” while in the PPR “long-term development objectives” should become “goal” and the “immediate development objectives” should become “purpose.” The RRP section on “project benefits, impacts, and risks” should become “project benefits, impacts, assumptions, and risks.”
- (ii) Resources should be provided to update and finalize the PPMS manual, including a web-based guide.
- (iii) A preliminary PF covering goal and purpose should be part of every project preparatory TA paper.
- (iv) ADB’s revised PAI on EA progress reporting should be provided to all EAs and implementing agencies, with assistance offered to ensure that reporting follows this format.
- (v) EAs should be given a copy of the PPR every time this is updated.

129. The following issues, based on SES conclusions, need further consultation to generate a consensus:

- (i) Review, and, where necessary, improve statements of expected performance in all active PPRs (in terms of project goal, purpose, outputs, targets, indicators, assumptions, and risks) to provide a sounder basis for performance assessment of the active portfolio, particularly with respect to the achievement of DOs.
- (ii) Require an independent sign-off (quality control) on PFs prior to approval of new loans and TA grants to ensure quality at entry and a credible basis for subsequent performance assessment.
- (iii) Extend the training program for ADB and EA staff in all aspects of the PPMS. The large numbers of new staff entering ADB and the high staff turnover in many EAs highlight the need for training and mentoring in the PPMS to be ongoing and in-depth.
- (iv) Adopt an advocacy role for the PPMS in DMCs. Most borrowers see results-based monitoring and management of development projects as being an external requirement rather than a productive and value-for-money exercise from the country’s perspective. This needs to change for the PPMS to be fully effective.
- (v) Provide ongoing support to strengthen EA progress reporting. Effective performance measurement and management require good data. In many cases, the underlying MISs available to EAs are inadequate to provide the quality of information needed. ADB should play a role in developing and extending the use of good project MISs.
- (vi) Appoint PPMS specialists to a knowledge department to undertake independent quality control of PFs and to provide training and mentoring in all aspects of the PPMS. Currently, PPMS expertise in ADB resides in individuals who have other primary areas of responsibility. The SES sees the need to appoint specialists who will work full-time on PPMS improvement and enhancement.
- (vii) Conduct a regular independent sample assessment of the quality of monitoring data in PPRs. A significant proportion of staff believe that the progress report information in PPRs does not accurately reflect the situation on the ground and that independent validation is inadequate. Accordingly, the SES suggests that a

- random sample of PPRs be independently checked to validate the performance assessment information contained therein. This should be an ongoing activity.
- (viii) Create a permanent standing body on the PPMS and PPMS training to be responsible for overseeing system integrity, its further development, and all training related to this. Currently, no one has mandated responsibility for the ongoing development of the PPMS as a whole or the exercise of key quality controls to ensure that it is working as intended. Accordingly, the SES sees the need to create an interdepartmental body that will fulfill these roles.
  - (ix) Relax the rule that mission leaders be responsible for projects for their first year of implementation so that earlier delegation to RMs becomes possible. It is not efficient to delegate responsibility to RMs at project mid-point or even later, when implementation delays and other problems may already have occurred.
  - (x) Consider extending the PPMS to private sector operations. The PPMS provides for a common evaluative framework across sectors, DMCs, and time. The SES suggests that private sector operations should now be included under this evaluation framework to ensure that these are also contributing effectively to the achievement of ADB's overarching goal of poverty reduction.
  - (xi) Consider introducing a CPF (with measurable targets) as part of the CSP/CSPU. The aim is to generate improved strategic alignment between project goals and country strategy.
  - (xii) Provide adequate resources for the PPMS. Adoption of the actions arising from the above issues is unlikely to be resource neutral. Managing on the basis of results is likely to be more costly, but the benefits in terms of development impact will be much greater.

130. To address these 12 issues—along with others arising from the SES—and to provide for the needed consultation, the SES recommends that the President reconvene and reconstitute the interdepartmental Working Group on PPMS to produce, by end of 2003, a time-bound action plan that clearly identifies resource requirements.

## LITERATURE REVIEW

### A. Results-Based Management

1. There is consensus that development aid agencies are increasingly being required—and have moved—to pay much more attention to the impact or results of the projects they fund to promote development. There is also a considerable degree of similarity among agencies in the approaches adopted to carry out performance- or results-based management (RBM). These systems serve two main purposes—accountability for results and performance improvement or managing for results (Binnendijk, 2000; United Nations Development Programme [UNDP], 1999). Within the public sector in general, a third purpose is commonly mentioned—namely, policy and strategy development (Australian National Audit Office, 1996; National Audit Office, 2001).

2. While designed to improve performance, RBM systems have created some problems. An early adopter of RBM, the United States Agency for International Development has recently found that the balance has swung too far toward performance monitoring and day-to-day management at the expense of wider learning through more in-depth evaluations (Clapp-Wincek and Blue, 2001). Also, an excessive focus on performance measurement for accountability can cause a “moral hazard” response of presenting favorable or misleading indicators, what Wade (2001) calls the “politicization of performance measures.” Wildavsky (1972) goes as far as to suggest that the “self-evaluating organization” is a contradiction in terms, because organization implies stability, while evaluation implies change. In reviewing experience at the World Bank, Wade (2001) also points to the problems faced by organizations that “combine political functions with action functions.” Within such an organization “the professionals assume their job is to produce an action in the end, and the organization presents itself to the outside and to the inside as an action organization. They as well as the external entities expect an orderly alignment of ideology, goals, procedures, decisions, actions, and feedback. Yet the logic of the political organization makes it impossible to maintain this orderly alignment.” Another identified problem is that the introduction of performance measures into public sector organizations can “initially inspire some fear and resistance” (Popovich, 1998). This reality has led some to question whether the twin roles of accountability and performance enhancement may in fact work against each other (Binnendijk, 2000). This is further discussed under organizational culture below.

3. While performance-based management in development aid agencies draws on a rich experience in the implementation of such systems in other public sector agencies, there are special features of their work that cause additional problems (Binnendijk, 2000). Taking the example of the Asian Development Bank (ADB), it funds projects in over 30 developing member countries in Central, South, East, and Southeast Asia as well as Pacific Island states, across seven main sector groupings and seven thematic areas. It has 61 shareholding governments split between borrowing and nonborrowing member countries, developed and developing. It has a multicultural workforce of around 2,000 from nearly 50 countries. This makes the implementation of RBM more challenging than in a more homogeneous environment with fewer results areas. Notwithstanding these problems, RBM is likely to play an increasing role in development aid agencies.

### B. Lessons from Adopting Results-Based Management

4. Various reviews of RBM have drawn out lessons learned for its effective adoption and implementation. The Government of Canada has been a leading public sector user of RBM. The Office of the Auditor General of Canada (2000) conducted literature reviews on the

implementation of RBM in 1996 and 2000 to produce a synthesis of lessons learned. The 2000 review covered 35 publications from 1996 to 1999, while the earlier review drew on the findings of 24 publications produced between 1986 and 1996. The findings of the earlier review are summarized in the 2000 report. The 26 lessons were grouped into three main categories (Box). These are largely consistent with other reviews (for example, Binnendijk, 2000).

### **Lessons Learned from Adoption of Results-Based Management**

#### 1. Creating a favorable implementation context

##### **Organizational factors**

- A customized results-based management (RBM) regime is critical.
- Adoption takes time but it is important to maintain momentum.
- Linking performance measures to the policy or strategic framework is key.
- Management systems should be aligned with RBM to support implementation.
- Provision of adequate financial and human resources is critical.
- Location of stewardship of the performance measurement process is important.
- Pilot projects can be a useful approach.

##### **Human factors**

- Developing a performance management culture is critical.
- A practical understanding of accountability is needed.
- Senior level leadership and involvement is essential.
- Full participation fosters support for implementation.
- Training and education are key ingredients for success.
- Existing expertise should be used to support implementation.
- The purpose of a performance measurement system must be clearly communicated.

#### 2. Developing performance measurement systems

- A manageable number of indicators should be used.
- Key terms and concepts must be clearly defined.
- Use of the project framework can be very helpful.
- Performance measures should be aligned with accountability and decision-making authority.
- Credible performance information is essential.
- Performance standards and targets are essential for measurement.
- Baseline data should be used to set targets.

#### 3. Using performance information

- Demonstrated use of performance information is essential.
- Evaluation and performance measurement are complementary.
- Incentives can be used to foster support.
- Performance reporting is needed for decision-making.
- It is important to learn, review, and adjust performance measurement systems.

Source: Officer of the Auditor General of Canada. 2000. *Implementing Results-Based Management: Lessons from the Literature*. Available: <http://www.oag-bvg.gc.ca/domino/other.nsf/html/00rbme.html>.

5. While most of the lessons learned from RBM implementation are relevant to ADB, the effect of some would appear to be strongly influenced by staff perceptions, which give rise to attitudes and resultant behavior. It is in these areas where further investigation may yield useful information on the context for RBM in ADB, namely the following:

- (i) Linking performance measures to the policy or strategic framework is key: If staff perceive that RBM neither measures the delivery of stated strategy nor contributes to strategy development, its utility is likely to be questioned.
- (ii) Developing a performance management culture is critical: Staff may perceive a contradiction between the culture associated with a results orientation and the prevailing organizational culture.
- (iii) Senior level leadership is critical: Staff are likely to be demotivated if they perceive a lack of senior staff commitment.
- (iv) Training and education are essential: Staff may not understand the requirements of RBM.
- (v) Clarity about the purpose of the performance measurement system is needed: Staff may be unclear as to the purpose or may have negative views on its purpose.
- (vi) Credible performance information is essential: Staff who input the information to the project performance report or use the results may realize its limitations and thus be skeptical about the value of the output.
- (vii) Demonstrated use of performance information is essential: If staff perceive that the information is not used, they will have little enthusiasm for supplying good data (staff need to see that what they do “makes a difference”).

6. Interestingly, six of these areas are among the nine for which the words “critical,” “key,” or “essential” are used in the review by the Auditor General of Canada. Each of these seven areas is explored in more depth in the remainder of this appendix.

### **C. RBM Needs to be Seen to be Linked to Strategy**

7. Effective RBM is predicated upon an organization having clearly articulated objectives and strategies for achieving those objectives, with monitoring and evaluation providing the means by which progress is tracked and strategies refined along with periodic resetting of objectives (National Audit Office, 2001; Office of the Auditor-General, 2002; Scott, 2001). “Performance measurement systems succeed when the organization’s strategic and business performance measures are related to—that is, are in alignment with—overall organizational goals” (National Performance Review, 1997).

8. If there is a disconnect between strategy and results, those working in the organization are likely to become cynical and demotivated unless corrective action is taken to bring strategy and action and results into line (National Performance Review, in Office of the Auditor General of Canada, 2000).

### **D. The Link Between Organizational Culture and RBM**

9. Research has shown a strong link between organizational culture and organizational performance (Rollins and Roberts, 1998; Peters and Waterman, 1982; Kotter and Heskett, 1992). The claim of Peters and Waterman that strong cultures were more effective than weak ones was tested in a study reported by Hofstede (1997). By defining a strong culture as a homogenous culture, a significant correlation was found between culture strength and a results orientation. To the extent that a results orientation actually delivers better results, the Peters and

Waterman contention was supported by this study. The study itself identified six organizational culture dimensions, the first of which (process oriented versus results oriented) is of interest in the context of ADB. In process-oriented cultures, risk avoidance was strong. Traditionally at least, ADB would appear to be process rather than results oriented. Overall, Hofstede concluded that one of the practical uses of assessing organizational culture is to test whether strategies are feasible given cultural constraints—an important observation for ADB.

10. In adopting RBM, UNDP identified six areas (Table A1.1) where change to management culture was required (UNDP, 1999). This provides a framework for assessing the context for RBM in ADB.

**Table A1.1: Management Culture Changes Associated with Adoption of RBM**

<b>From</b>	<b>To</b>
Entitlements	Results
Control	Delegation
Inputs	Outputs/outcomes
<i>Ex ante</i>	<i>Ex post</i>
Bureaucratic	Speed
Risk averse	Opportunity driven

Source: UNDP. 1999. *UNDP Results Framework*. Available: <http://www.undp.org/eo/methodology/methodology.html>.

11. Other cultural factors identified by Popovich (1998) in the makeup of high performance organizations included the existence of multiskilled team players, continuous training, and performance-based remuneration and incentives systems. While culture impacts on performance, the reverse can also be true—namely, one way of changing an organization's culture is to focus on performance.

12. The possible contradiction between performance measurement for accountability and for performance improvement was mentioned earlier. Potentially, this is an important factor that may constrain the adoption of RBM. The twin objectives may at times be in conflict. The two roles are associated with different organizational cultures (Binnendijk, 2000) as shown in Table A1.2.

**Table A1.2: Cultures Associated with Performance Measurement for Accountability and for Results**

<b>Accountability for Results</b>	<b>Managing for Results</b>
Emphasizes meeting targets	Emphasizes continuous improvement
Focus pushed down to outputs	Focus shifted up to outcomes and impacts
Requires independent assessment or verification	Emphasizes self-assessments and participation
Greater concern with attribution	Less concern with attribution
Implies rigorous methods and high quality data	Favors rapid, low-cost methods
Encourages conservative behavior	Encourages risk taking, experimenting, learning

Source: Binnendijk, A. 2000. *Results-Based Management in the Development Cooperation Agencies: A Review of Experience*. Available: <http://www.oecd.org/dac/evaluation>.

13. The bureaucratic and centralized structure of ADB, the duality of being both an action and a political organization (Wade, 2001), the need to be both accountable and performance-improving, and the influence of the many national cultures within the organization would all indicate that the culture of ADB may not be fully consistent with that required for adoption of a RBM approach.

#### **E. Senior Level Leadership must be Committed to RBM**

14. Leadership at a senior level has been found to be critical in supporting the adoption of RBM systems (Binnendijk, 2000; National Performance Review, 1997; Popovich, 1998). Leadership for performance management should be “clear, consistent, and visible” (National Performance Review, 1997). The review conducted by Binnendijk (2000) found that “without strong advocacy from senior managers, RBM systems are unlikely to be institutionalized broadly or effectively within an agency.” The literature review by the Office of the Auditor General of Canada (2000) also found widespread support for the view that leadership is an essential component of successful RBM implementation.

#### **F. Training is Required for Successful RBM**

15. High performance is associated with continuous learning, which requires that substantial resources be allocated to education and training (Popovich, 1998). Popovich provides the example of Baldrige Award<sup>1</sup> winners, who on average spend 10% or more of their payroll than other firms on education and training. Lack of experience in operating performance management systems needs to be overcome by training. Training is not just about skills acquisition, it can also help change the organizational culture in favor of a results orientation. A key lesson is to provide training to all those involved (Office of the Auditor General of Canada, 2000). Other findings show that training is likely to be needed on two levels—awareness of the concepts and underlying principles and detailed training on all aspects of system operation. A sustained effort is needed to attain the latter (Poate, in Office of the Auditor General of Canada, 2000).

<sup>1</sup> The Baldrige Award is a national competition in the United States administered by the Department of Commerce, primarily for the private sector.

## **G. The Purpose of RBM Must Be Communicated**

16. Those responsible for implementing performance measurement systems as part of an RBM framework may well not be the primary users of the information. For this reason, experience has shown that clear communication of the purpose is essential. To be effective, the purposes of the measurement system must be known and understood throughout the organization. If the purpose is not well communicated, it has been found that definitional errors may look like problems associated with the measurement system itself (Popovich, 1998).

17. It is those within the organization entrusted with and expected to achieve performance goals and targets who must clearly understand how success is defined and what their role is in achieving that success (National Performance Review, 1997). Part of this clarity of communication must involve a clear definition of terms (McKay, 1998).

## **H. The Information on which RBM is Based must be Credible**

18. The credibility of the RBM system relies on the perceived validity of the data that is used. However, because data gatherers and users may be different groups, as mentioned above, problems with data validity can easily arise. Experience has shown that where data collection is not readily agreed to, the data will be suspect or possibly useless. The RBM landscape is littered with ill-advised attempts to get field personnel, who are legitimately more worried about service provision than reporting, to provide accurate data. If they do not see the relevance of the reporting to their own lives, data collection may break down (Popovich, 1998). For this reason, data validation procedures are often built into performance measurement systems (National Audit Office, 2001).

19. Another aspect of data credibility is that RBM systems tend to favor quantitative over qualitative data. However, such hard data can have serious limitations as identified by Mintzberg (1994). Specifically, he identifies (i) the often limited scope of hard data that does not capture important elements; (ii) excessive aggregation, which reduces use of the data for strategy making; (iii) quantitative data often being too dated to be use in decision-making; and (iv) a lot of so-called quantitative data often being unreliable.

## **I. The Information Emanating from RBM must be seen to be Used**

20. There is nothing to be served by collecting information for its own sake. Data has value only when it “provides timely, relevant, and concise information for use by decision-makers” (National Performance Review, 1997). Information must not only be used, it must be seen that top-level managers are using it. When top-level managers are seen to actively seek out and use the information, others are likely to follow the example (Newcomer and Downy, in Office of the Auditor General of Canada, 2000). On the other hand, if performance information is not used, the system will lose its credibility (Poate, in Office of the Auditor General of Canada, 2000). People need to see that the performance information collected is useful and that it is likely to make a difference (Gibson and Boisvert, in Office of the Auditor General of Canada, 2000). An upward spiral of confidence in the data can be generated as its use increases and benefits become apparent (Gibson and Boisvert, in Office of the Auditor General of Canada, 2000).

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## STAFF PERCEPTIONS SURVEY: METHODOLOGY AND FINDINGS

### A. Problem Investigated

1. The research question investigated by the staff perceptions survey was:

Do selected conditions, which have been shown to be necessary for effective project performance management, exist within the Asian Development Bank?

2. Seven conditions were assessed: (i) the linkage between stated strategy and performance measurement; (ii) organizational culture; (iii) senior leadership; (iv) skills and training; (v) clarity of purpose; (vi) credibility of performance information; and (vii) demonstrated use of performance information.

### B. Method

#### 1. Participants

3. Only staff members of the Asian Development Bank (ADB) were surveyed. The survey was restricted to those staff who either are (i) directly involved in using the project performance report (PPR); (ii) were users of information produced by the PPR; and/or (iii) have a mandated responsibility to improve project quality (through ensuring quality at entry, effective monitoring and reporting on performance, or project evaluation). These criteria provided 670 potential participants in five regional and four nonregional departments. The four nonregional departments are among a group known as “knowledge departments.” Their role is to ensure effective knowledge management within ADB to enhance the quality of new project design and the results and impacts of those under implementation. As such, staff in these departments have a vital interest in project performance management (PPM). The participants can be grouped into four categories: (i) directors general (head of departments) and directors (heads of divisions); (ii) other professional staff; (iii) resident mission (RM) national officers (NOs); and (iv) project analysts.

4. The first two categories are professional staff. They may come from any of ADB’s 61 member countries, both developed and developing. RM NOs are also of different nationalities, but all are citizens and residents of the developing member countries where their RM is located. Analysts, on the other hand, are all citizens of the Philippines, the country where ADB’s headquarters is located.

#### 2. Survey Sample

5. Virtually the entire target population of around 670 staff members was surveyed.<sup>1</sup> The breakdown of the survey sample of 663 is shown in Table A2.1.

#### 3. Questionnaire

6. The questionnaire was purposely kept short (fewer than 30 questions) to minimize the time taken to complete it, with the aim of producing a better response rate. Twenty questions using a five-point Likert scale (“strongly disagree,” “disagree,” “neither agree nor disagree,” “agree,” and “strongly agree,” plus a “don’t know” option) aimed to determine staff perceptions

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<sup>1</sup> Those not surveyed were not present during the survey period.

on the seven factors under investigation. A further four questions, using the same Likert scale, sought staff perceptions on the project framework (PF), time spent on the PPR in relation to benefits gained, general satisfaction with the PPR process, and whether better alternatives should be identified. The latter question provided an opportunity to suggest what alternatives might exist. Respondents were then asked to rank the seven factors in terms of their perceived importance. A single question asked if participants would like to discuss the topic further (with a request to e-mail confirmation to the researcher). The final three questions collected demographic information (staff position, department, and length of employment in ADB in one of three categories—less than 2 years, 2–5 years, and more than 5 years)—the questionnaire is attached to this appendix.

**Table A2.1: Sample Size and Response Rate by Department and Position**

<b>Group</b>	<b>Number in Sample</b>	<b>Share of Sample (%)</b>	<b>Number of Responses</b>	<b>Response Rate (%)</b>
<b>By Department</b>				
East and Central Asia	124	19	25	20
Mekong	103	15	24	23
Pacific	33	5	10	30
South Asia	177	27	30	17
Southeast Asia	89	13	11	12
Knowledge Departments	137	21	26	19
Not given			9	
<b>Total</b>	<b>663</b>	<b>100</b>	<b>135</b>	<b>20</b>
<b>By Position</b>				
Directors General and Directors	43	7	11	26
Professional Staff	373	56	90	24
Resident Mission National Officer	105	16	11	10
Analyst	142	21	18	13
Not given			5	
<b>Total</b>	<b>663</b>	<b>100</b>	<b>135</b>	<b>20</b>

Source: Survey results.

#### **4. Procedure**

7. The survey questionnaire was distributed by e-mail during August 2002. Surveys were returned either in hard copy using the internal mail system or via e-mail.

#### **5. Limitations**

8. Self-administered surveys have a number of advantages because they (i) are a useful way of describing the characteristics of a population, (ii) allow a bigger sample to be covered, (iii) are anonymous (judged to be important in this instance), and (iv) are a simple and fast way of gathering a relatively large amount of data. Surveys are a particularly useful tool for studying attitudes, values, beliefs, and motives because people may be reluctant to be frank about these without anonymity. On the other hand, surveys do have their limitations. These include inflexibility (no follow-up is possible); superficiality (“one size fits all”); artificiality (for example, in this case answers of “strongly disagree” or “disagree” do not mean that the respondent is negative); and problems with validity (people usually do not fit neatly into the categories of “strongly agree,” “agree,” etc.). In addition, the characteristics of non-respondents are not known, misunderstandings of questions may not be detected, and there may be a problem of

respondents giving answers that are seen as socially desirable rather than personally-held views.

9. An important consideration for this survey is whether those that responded are representative of the 80% majority that did not. This cannot be answered with certainty. However, discussions with individual staff showed similar views to those revealed by the survey. It is also important to consider the range of views expressed and not to focus solely on group averages. Notwithstanding the possibility that average figures cannot be generalized to all staff, it is clear that there is a wide range of views. This shows that ADB has work to do to achieve a greater unanimity of views. However, it is also important to remember that constructive criticism is the precursor to positive change.

10. Table A2.1 shows that the response is reasonably representative of the population in terms of department and position. "Representativeness" is one measure of the credibility of a non-random or purposeful sample (only departments involved in project performance management were included in the survey). By department, the response rate from East and Central Asia, Southeast Asia, and knowledge departments is representative of their share in the sample. On the other hand, the Pacific and Mekong Departments are over-represented while South Asia is under-represented. The sample is somewhat less representative in terms of position. Directors General and Directors are over-represented, while the other groups are under-represented. That 35% of respondents had worked in ADB for 5 years or less also reflects the reality of large numbers of new staff entering ADB over the last few years. In fact, almost 50% of professional staff in regional departments (RDs) has been with ADB for 5 years or less. The higher proportionate response from longer-serving staff members adds to survey credibility because this group has greater knowledge of ADB and its systems and procedures. Overall, it is concluded that the sample provides a credible basis for describing staff perceptions in regional and knowledge departments of ADB.

11. There are some problems associated with surveying perceptions, as these may not reflect reality. However, people's perceptions of reality are important as these often account for behavior. Therefore, they are an important consideration in determining performance.

## **C. Results**

### **1. Response Rate and Characteristics of Respondents**

12. The overall response rate was 20%. The breakdown is shown in Table A2.1. A significant feature of the response rate is the better response rate from professional staff and from directors and above (26% and 24%, respectively). Conversely, the response rates from RM NOs and analysts were low (10% and 13%, respectively). A likely explanation is that the degree of relevance of the survey was much higher for professional staff and above, as all have direct involvement. The same is not the case for RM NOs (many of whom do not have project responsibilities). The lower response rate from analysts may reflect a degree of reticence on the part of some support staff to question ADB's processes, even anonymously. Around 60% of the respondents had worked in ADB for more than 5 years, while 13% had spent less than 2 years in ADB (Table A2.2). Fifteen percent of the respondents indicated an interest in discussing the topic further, while 30% made comments or suggestions.

**Table A2.2: Employment Period of Respondents**

<b>Group</b>	<b>Number of Respondents</b>	<b>Percentage<sup>a</sup> (%)</b>
Less than 2 years	18	13
From 2 to 5 years	30	22
More than 5 years	80	59
Not given	7	5

<sup>a</sup> Total does not add up to 100% due to rounding.

Source: Survey results.

## 2. Descriptive Statistics

### a. General Observations

13. There were substantial differences among groups in terms of the extent to which the average response for their group showed disagreement, agreement, or was neutral (Tables A2.3 and A2.4).<sup>2</sup> Professional staff (both directors and above and other professional staff) showed the highest level of disagreement. Other professional staff disagreed with 83% of the statements and agreed with 17%. At the other end of the scale, support staff analysts agreed with 67% of statements. RM NOs disagreed with 54%, agreed with 42%, and were neutral on 4%.

14. By length of service, staff with 2–5 years service had the highest level of disagreement. This group disagreed with 88% of statements on average. Those with 2 years or less employment disagreed with 67% of the statements, while those with over 5 years of employment disagreed with 58%. These figures provide a challenge to managers. An important group in terms of operating the various elements of the PPM system—other professional staff with 2–5 years service—overwhelmingly disagree that a number of factors shown to be important to success in adopting PPM systems are present in ADB.

**Table A2.3: Frequency of Disagreeing, Agreeing, or Neutral Responses by Staff Position Group**

<b>Staff Position Group</b>	<b>Frequency with which Average Response was</b>		
	<b>Disagreeing</b>	<b>Neutral</b>	<b>Agreeing</b>
	(% of questions)		
Directors and above	63	0	38
Other professional staff	83	0	17
Resident mission national officers	54	4	42
Project analysts	29	4	67

Source: Survey results.

<sup>2</sup> Disagreement was denoted by an average score of less than 3.0 on the five-point Likert scale, agreement by a score of greater than 3.0, while a neutral position was indicated by an average score of 3.0 (the midpoint of the range).

**Table A2.4: Frequency of Disagreeing, Agreeing, or Neutral Responses by Period of Service**

Length of Service Group	Frequency with which Average Response was		
	Disagreeing	Neutral	Agreeing
	(% of questions)		
Less than 2 years	67	0	33
2–5 years	88	4	8
Over 5 years	58	8	33

Note: Totals may not add up to 100% due to rounding.

Source: Survey results.

15. Care is needed in interpreting these results for the reasons given under the section on survey limitations (paras. 8 and 9). However, they appear to be consistent with the variety and strength of views held by staff as revealed through numerous discussions carried out by the Special Evaluation Study. Given this, the results may be broadly indicative of the range of perceptions among ADB staff in the departments surveyed. However, it is also important to consider the range of views, which is masked by average figures.

#### **b. Linkage to Strategy**

16. Three questions sought staff perceptions on the linkage between strategy and project performance assessment. Over the three questions, there was an average score showing overall disagreement (2.6 compared with a neutral score of 3.0). Each of the questions produced a score below 3.0 although the extent of disagreement varied among questions and among groups of respondents within questions.

17. One third of respondents with an opinion agreed with the statement that PPR ratings were used in formulating the country strategy and program, while 41% did not (Table A2.5). However, 23% of overall survey respondents gave a “don’t know” response to this question, probably reflecting the fact that they are not involved in developing country strategy. There was widespread variation among groups on this question. Directors and above scored 23% above average, while RM NOs scored 23% below the average. There was also wide variation among departments, with one RD scoring 32% below the average while another was 18% above the average.

18. There was little support for statements that sought to establish a clear linkage between the PPR and ADB’s medium-term strategy and its overarching goal of poverty reduction. Between 50% and 60% of staff believe there is a “disconnect” between stated organizational strategy and what is being measured in terms of project performance. This may operate in two directions: (i) what is being measured does not indicate if ADB is delivering on its strategy, or (ii) the results achieved are not contributing to strategy development. Either way, this is of concern. Despite the overall disagreement, some RDs were more positive than the average on the linkage with organizational strategy. Directors and above scored 13% below the average on the statement regarding a linkage between use of the PPR and achievement of ADB’s overarching goal of poverty reduction.

**Table A2.5: Response Rates to Statements on the Linkage to Strategy**

Statement	Frequency with which Average Response was		
	Disagreeing	Neutral	Agreeing
	(% of responses)		
PPR ratings are used in formulating country strategies.	41	26	33
I see a clear link between the medium-term strategy and use of the PPR.	54	31	15
I see a clear link between use of the PPR and achievement of ADB's overarching objective of poverty reduction.	57	28	15

ADB = Asian Development Bank, PPR = project performance report.  
Source: Survey results.

### c. Organizational Culture

19. There were six questions exploring staff perceptions on dimensions of ADB's organizational culture. Over the six questions, the average score was 2.9 compared with a neutral score of 3.0 showing slight disagreement. However, there was no consistent pattern across the questions with some showing strong polarization into agree and disagree groups and others showing a majority holding either of the two views.

20. There was a polarization of views as to whether ADB is a results-oriented organization (Table A2.6). More respondents considered that ADB is a results-oriented organization (49%) than did not (34%). Staff with 2–5 years experience scored 23% below the average for this question, while one RD scored 19% below the average. The pattern on innovation was reversed, with more disagreeing (44%) than agreeing (37%). Directors and above scored 17% above the average on encouragement to innovate, while departments were above or below the average by amounts ranging from 10% to 14%.

21. There were three times as many disagreeing as agreeing (60% and 20%, respectively) to the statement that achieving development objectives was more important than achieving disbursement targets. This view was fairly uniformly held across the various groups of respondents. Support staff, as in most instances, agreed more (22% above the average score), while staff with less than 2 years service disagreed more (9% below the average score). This is an important finding, because in recent years ADB has tried strongly to portray itself as a broad-based development institution rather than simply a development financing institution. Nevertheless, only 20% of the respondents appear to believe this, 20% are neutral, and 60% do not perceive this to be the case.

**Table A2.6: Response Rates to Statements on Organizational Culture**

Statement	Frequency with which Average Response was		
	Disagreeing	Neutral	Agreeing
	(% of responses)		
ADB is a results-oriented organization.	34	17	49
Achieving development objectives is more important than disbursement targets.	60	20	20
Decision making is effectively delegated.	48	24	28
I am encouraged to innovate.	44	19	37
ADB is an effective learning organization.	42	16	42
Quality improvement is an effective part of ADB business processes.	26	25	49

ADB = Asian Development Bank.

Source: Survey results.

22. More disagreed (48%) than agreed (28%) regarding effective delegation in ADB. Directors and above and RM NOs both scored 7% below the average on this question. Departments also showed considerable variation above or below the average on the effectiveness of delegation. Views were polarized as to whether staff are encouraged to innovate, with more disagreeing than agreeing.

23. Views were also quite strongly polarized as to whether ADB is an effective learning organization. Just over 40% agreed and the same proportion disagreed, with similar numbers holding those views strongly. Interestingly, the knowledge departments, which are most concerned with organizational learning, had a score some 14% below the average. Similarly, staff with 2–5 years service scored 14% below the average for this question.

24. On the other hand, those agreeing outweighed those disagreeing by a ratio of about 2:1 on the statement that quality improvement is an effective part of ADB's business processes (49% positive versus 26% negative). Staff with 2–5 years experience disagreed more (a score of 19% below the average), while RM NOs were the most in agreement (22% above the average score).

#### **d. Senior Staff Support**

25. Two questions sought perceptions on whether there was high-level support for use of the PPR. One question asked whether there was support among directors and above and the other whether the respondent's immediate superior supported use of the PPR; understandably, there was a relatively high "don't know" response (19% and 12%, respectively). Among those who did have an opinion, there was overall agreement on the existence of high-level support (average score of 3.3 compared with the neutral score of 3.0). There was a higher level of agreement for the statement on support from respondents' immediate superiors (Table A2.7). Directors and above agreed more to both statements. RDs were generally more in agreement (up to 20% above the average score), while knowledge departments disagreed more (17% below the average).

**Table A2.7: Response Rates to Statements on Senior Staff Support**

Statement	Frequency with which Average Response was		
	Disagreeing	Neutral	Agreeing
	(% of responses)		
There is strong support among staff at the director level and above for use of the PPR.	26	34	40
My superior strongly supports use of the PPR.	14	33	53

PPR = project performance report.  
Source: Survey results.

### e. Skills and Training

26. The three questions on skills and training needs gave contradictory results, although the overall score was on the agreement side (average score of 3.4 compared with the neutral mean of 3.0). On the one hand, around 70% of staff said that they have the skills and knowledge required to use the PPR or its output and that they clearly understand the terms used in the PPR and PF (Table A2.8). On the other hand, almost half indicated a need for further training. Support staff, RM NOs, and staff with less than 2 years of service were more likely to indicate the need for more training. Two RDs were more strongly of the view that they did not need further training (scores of 15% and 23% below the average).

27. These results need to be interpreted with some care. That 70% of staff claim to have the required knowledge and skills and to fully understand the terms does not necessarily mean that they do. This would need to be determined by individual testing. However, it does mean that if training is deemed to be necessary and attendance is voluntary, a very significant number of staff may not be motivated to attend. Focusing training on staff in their first 2 years of employment would direct skills development to a more receptive group.

**Table A2.8: Response Rates to Statements on Skills and Training**

Statement	Frequency with which Average Response was		
	Disagreeing	Neutral	Agreeing
	(% of responses)		
I have the knowledge and skills to use the PPR or its output.	13	18	69
I need further training in use of the PPR and project framework.	30	21	49
I understand the terms in the PPR and project framework.	12	18	70

PPR = project performance report.  
Source: Survey results.

### f. Clarity of Purpose

28. Two questions probed staff perceptions on the purpose of the PPR. Almost three quarters of respondents claimed to understand the purpose of the PPR (Table A2.9). However, if, as its name suggests, the primary purpose of the PPR is to improve project performance, then staff perceptions were ambivalent as to whether in fact this is a more important purpose than accountability to stakeholders (Table A2.10). The highest response category was the

neutral position of neither agree nor disagree (the only question where this was the case). This probably suggests that many respondents (39%) see both as equally important. Of the rest, more see improving project performance as a more important purpose than accountability to stakeholders (36% and 25%, respectively). On both questions, staff with 2–5 years experience disagreed more than the average (14% and 17%, respectively). Directors and above scored 14% above the average on the statement that improving project performance is more important than accountability to stakeholders.

**Table A2.9: Response Rates to Statements on Clarity of Purpose**

Statement	Frequency with which Average Response was		
	Disagreeing	Neutral	Agreeing
	(% of responses)		
I clearly understand the purpose of the PPR.	7	19	74
Improving project performance is a more important reason for using the PPR than accountability to stakeholders.	25	39	36

PPR = project performance report.

Source: Survey results.

### g. Credibility of Information

29. Two questions sought staff perceptions on the credibility of information in the PPR. The average score showed overall disagreement (2.8 compared with the neutral mean of 3.0). Less than a third of respondents believed that information in the PPR accurately reflects the situation on the ground (Table A2.10). A third were neutral, while 38% believe that the PPR does not reflect the situation on the ground, with 9% holding this view strongly. On average, directors and above and those with less than 5 years employment with ADB were more skeptical.

30. A similar pattern existed for the statement that independent validation of the information in the PPR is adequate: More than 40% thought not, 30% thought it was, while the balance were neutral. Whether this substantial group who thought independent validation was inadequate would, in fact, support such checking would require further investigation.

**Table A2.10: Response Rates to Statements on the Credibility of Data**

Statement	Frequency with which Average Response was		
	Disagreeing	Neutral	Agreeing
	(% of responses)		
Information in the PPR accurately reflects the situation on the ground.	38	33	28
Independent validation of information is adequate.	43	27	30

PPR = project performance report.

Note: Total may not add up to 100% due to rounding.

Source: Survey results.

## h. Demonstrated Use of Information

31. The two questions on use of the information from the PPR gave differing views. The net result was that the average for the two questions was on the neutral mean. More people disagreed (39%, with 10% of the total strongly disagreeing) than agreed (29%) that PPR ratings are used to improve project performance. Around one third were neutral (Table A2.11). On the other hand, 49% of respondents with a view (there were 22% that did not know) agreed that senior staff use PPR ratings to make decisions on the portfolio under their control. There was wide variation among some departments, with two scoring 24% above the average and one 24% below the average. Again, staff with less than 5 years in ADB disagreed more.

**Table A2.11: Response Rates to Statements on Use of PPR Results**

Statement	Frequency with which Average Response was		
	Disagreeing	Neutral	Agreeing
	(% of responses)		
ADB uses PPR ratings to improve project performance.	39	32	29
Senior staff use PPR ratings to make decisions on the portfolio under their control.	27	25	49

ADB = Asian Development Bank, PPR = project performance report.

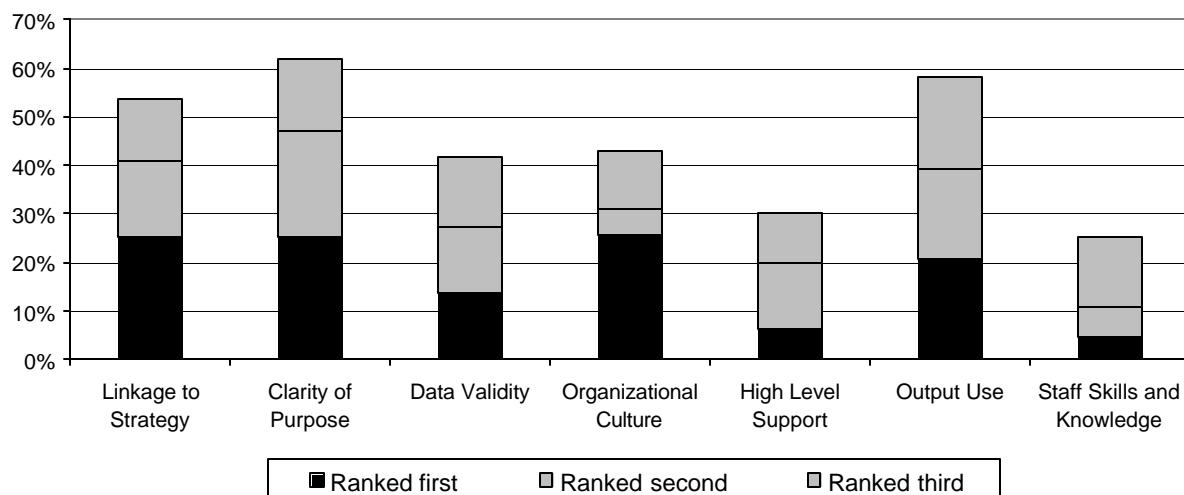
Note: Total may not add up to 100% due to rounding.

Source: Survey results.

## i. Respondent Ranking of Factors

32. Respondents were asked to rank the seven factors discussed in preceding sections in terms of their relative importance in influencing the effectiveness of the PPR. In terms of first ranking, the lack of a supportive organizational culture was narrowly ahead of a lack of clarity of purpose and a poor linkage to strategy (Figure A2). Combining the first, second, and third rankings shows that a lack of clarity of purpose is the main factor, followed by output not used effectively and poor linkage to strategy. A lack of high-level support and lack of staff knowledge and skills were seen as relatively less important.

**Figure A2: Respondent Ranking of Factors Influencing the Effectiveness of the PPR**  
(% of respondents assigning ranking)



Note: First ranking percentages total more than 100% as some respondents gave equal first ranking to more than one factor.

Source: Survey results.

## j. Overall Satisfaction

33. Forty-three percent of respondents do not believe that the benefits gained justify the time spent on the PPR, with 15% of the total holding this view strongly (Table A2.12). On the other hand, over a third of respondents held the opposing view. Analysis by group shows that this was one of the few questions where support staff disagreed more than the average. This is interesting, given their primary role in PPR data input and output and their generally strongly positive attitude.

34. There was a more neutral average response to a statement of general satisfaction. On this statement, support staff were once again had a higher level of agreement. Notwithstanding that just over 60% of respondents expressed satisfaction or were neutral on this statement, the same proportion favored trying to find better alternatives, with 18% holding this view strongly. On the other hand, almost 80% agreed or were neutral that the PF provides a sound basis for the PPR, with 12% holding this view strongly.

**Table A2.12: Response Rates to Statements on Overall Satisfaction with the PPR**

Statement	Frequency with which Average Response was		
	Disagreeing	Neutral	Agreeing
	(% of responses)		
The benefits gained justify the time spent on the PPR.	43	22	35
I am satisfied with the PPR process.	39	30	31
I favor trying to identify better alternatives.	16	25	59
The project framework provides a sound basis for the PPR.	21	24	55

PPR = project performance report.

Source: Survey results.

## k. Respondent Suggestions and Interest in Further Discussion

35. Thirty percent of respondents made brief suggestions or comments. Eight categories of suggestions could be identified where more than one person made the same or similar comments. An additional three comments were made by only one person. Forty-three percent of the suggestions/comments supported an evolutionary process of improving and simplifying the PPR format and process. The next biggest group (15% of suggestions/comments) questioned the usefulness of the PPR, or declared it useless, or stated that it had significant problems. A third group (13% of suggestions/comments) proposed further training. Other suggestions/comments included too time consuming (particularly when the PF was poorly prepared), the need for dissemination of “best practice” examples, identification of performance indicators, good and effective tool, independent and objective verification needed, much more remains to be done, and covenants idealistic and unachievable. Fifteen percent of respondents indicated an interest in discussing the topic further.

### 3. Significance Testing

#### a. Testing Method

36. The testing method involved the following steps:

- (i) Conduct of discriminate analysis to discard those questions with low discriminative power. A weighted average was calculated for each respondent to the 20 questions covering the seven factors under investigation.<sup>3</sup> Respondents were then ranked from highest to lowest. Three outliers who answered only a few questions were discarded. For the remaining 132 respondents, the average score was calculated for each question for the upper and lower quartiles of respondents based on their weighted average score. The difference between average score for the upper and lower quartiles revealed that two questions had low discriminative power, and these were discarded from further analysis.
- (ii) Questions were then grouped into their seven categories to calculate the overall average score for that group of questions. The standard deviation of the mean was calculated.
- (iii) The standard error of the mean was calculated and, using the normal distribution, confidence intervals above and below the hypothesized mean of 3.0 were determined for the 5% and 1% levels of confidence.
- (iv) The sample means were compared to the confidence intervals to determine if the null hypothesis should be accepted or rejected.

37. Given the variations between professional staff and others in the descriptive statistics, means testing was conducted for the whole sample (directors and above, other professional staff, RM NOs, and project analysts) and all professional staff only (directors and above and other professional staff).

#### b. Summary Results

38. Three factors produced a significant level of disagreement: linkage to strategy, organizational culture (professional staff only), and credibility of the information. Three factors had a significant level of agreement: senior level leadership, skills and training, and clarity of purpose. One of the seven factors—demonstrated use of the information—produced nonsignificant results. Organizational culture also produced nonsignificant results for the whole sample.

**Table A2.13: Summary of Means Test Results**

<b>Significant Factors</b>		<b>Nonsignificant Factors</b>
<b>Disagreement</b>	<b>Agreement</b>	
Linkage to strategy (both groups)	Senior staff support (both groups)	Demonstrated use of information (both groups)
Organizational culture (all professional staff)	Skills and training (both groups)	Organizational culture (whole sample)
Credibility of information (both groups)	Clarity of purpose (both groups)	

Source: Survey results.

<sup>3</sup> “Don’t know” and blank answers were excluded from all calculations of means .

39. The survey aimed to determine if seven conditions known to be necessary or influential in success of adoption of PPM systems existed in ADB. Results showed that three factors were not present (strategy, organizational culture, and credibility of the information); three were present (skills and knowledge, senior staff support, and clarity of purpose); and one was not significant (use of information). However, the findings show that there is cause for concern in all seven areas. Therefore, the opportunity exists to improve the context for PPM across all the areas investigated.

## Project Performance Management: Survey Questionnaire

**For each of the following questions, mark one (1) number only**

1. ADB is a results-oriented organization.
 

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neither Agree Nor Disagree</u>	<u>Agree</u>	<u>Strongly Agree</u>	<u>Don't Know</u>
1	2	3	4	5	0
  
2. ADB is an effective learning organization.
 

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neither Agree Nor Disagree</u>	<u>Agree</u>	<u>Strongly Agree</u>	<u>Don't Know</u>
1	2	3	4	5	0
  
3. I am encouraged to innovate even this means making mistakes sometimes.
 

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neither Agree Nor Disagree</u>	<u>Agree</u>	<u>Strongly Agree</u>	<u>Don't Know</u>
1	2	3	4	5	0
  
4. Decision-making is effectively delegated in ADB.
 

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neither Agree Nor Disagree</u>	<u>Agree</u>	<u>Strongly Agree</u>	<u>Don't Know</u>
1	2	3	4	5	0
  
5. In ADB, achieving development objectives is more important than achieving disbursement and lending targets.
 

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neither Agree Nor Disagree</u>	<u>Agree</u>	<u>Strongly Agree</u>	<u>Don't Know</u>
1	2	3	4	5	0
  
6. Quality improvement is an effective part of current ADB business processes.
 

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neither Agree Nor Disagree</u>	<u>Agree</u>	<u>Strongly Agree</u>	<u>Don't Know</u>
1	2	3	4	5	0
  
7. Project performance report ratings are used when formulating the country strategy and program (CSP/CSPU).
 

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neither Agree Nor Disagree</u>	<u>Agree</u>	<u>Strongly Agree</u>	<u>Don't Know</u>
1	2	3	4	5	0
  
8. I see a clear link between ADB's medium-term strategy and use of the project performance report.
 

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neither Agree Nor Disagree</u>	<u>Agree</u>	<u>Strongly Agree</u>	<u>Don't Know</u>
1	2	3	4	5	0

9. I see a clear link between use of the project performance report and the achievement of ADB's overarching objective of poverty reduction.

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neither Agree Nor Disagree</u>	<u>Agree</u>	<u>Strongly Agree</u>	<u>Don't Know</u>
1	2	3	4	5	0

10. Generally, there is strong support for use of the project performance report among staff at the director level and above.

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neither Agree Nor Disagree</u>	<u>Agree</u>	<u>Strongly Agree</u>	<u>Don't Know</u>
1	2	3	4	5	0

11. My superior strongly supports use of the project performance report.

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neither Agree Nor Disagree</u>	<u>Agree</u>	<u>Strongly Agree</u>	<u>Don't Know</u>
1	2	3	4	5	0

12. I have the knowledge and skills required to effectively use the project performance report (or use its outputs).

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neither Agree Nor Disagree</u>	<u>Agree</u>	<u>Strongly Agree</u>	<u>Don't Know</u>
1	2	3	4	5	0

13. I need further training in use of the project performance report and project framework.

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neither Agree Nor Disagree</u>	<u>Agree</u>	<u>Strongly Agree</u>	<u>Don't Know</u>
1	2	3	4	5	0

14. I clearly understand the terms used in the project performance report and project framework.

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neither Agree Nor Disagree</u>	<u>Agree</u>	<u>Strongly Agree</u>	<u>Don't Know</u>
1	2	3	4	5	0

15. Information in the PPR accurately reflects the situation on the ground.

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neither Agree Nor Disagree</u>	<u>Agree</u>	<u>Strongly Agree</u>	<u>Don't Know</u>
1	2	3	4	5	0

16. Independent checking of data used in the project performance report is adequate.

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neither Agree Nor Disagree</u>	<u>Agree</u>	<u>Strongly Agree</u>	<u>Don't Know</u>
1	2	3	4	5	0

17. ADB effectively uses project performance report ratings to improve project performance.

<u>Strongly Disagree</u>	<u>Disagree</u>	<u>Neither Agree Nor Disagree</u>	<u>Agree</u>	<u>Strongly Agree</u>	<u>Don't Know</u>
1	2	3	4	5	0

18. Senior staff use the project performance report ratings to make decisions on the portfolio under their control.
- |                          |                 |                                   |              |                       |                   |
|--------------------------|-----------------|-----------------------------------|--------------|-----------------------|-------------------|
| <u>Strongly Disagree</u> | <u>Disagree</u> | <u>Neither Agree Nor Disagree</u> | <u>Agree</u> | <u>Strongly Agree</u> | <u>Don't Know</u> |
| 1                        | 2               | 3                                 | 4            | 5                     | 0                 |
19. I clearly understand the purpose of the project performance report.
- |                          |                 |                                   |              |                       |                   |
|--------------------------|-----------------|-----------------------------------|--------------|-----------------------|-------------------|
| <u>Strongly Disagree</u> | <u>Disagree</u> | <u>Neither Agree Nor Disagree</u> | <u>Agree</u> | <u>Strongly Agree</u> | <u>Don't Know</u> |
| 1                        | 2               | 3                                 | 4            | 5                     | 0                 |
20. Accountability to stakeholders is a more important reason for using the project performance report than improving the project performance.
- |                          |                 |                                   |              |                       |                   |
|--------------------------|-----------------|-----------------------------------|--------------|-----------------------|-------------------|
| <u>Strongly Disagree</u> | <u>Disagree</u> | <u>Neither Agree Nor Disagree</u> | <u>Agree</u> | <u>Strongly Agree</u> | <u>Don't Know</u> |
| 1                        | 2               | 3                                 | 4            | 5                     | 0                 |
21. The project (logical) framework provides a sound basis for the project performance report.
- |                          |                 |                                   |              |                       |                   |
|--------------------------|-----------------|-----------------------------------|--------------|-----------------------|-------------------|
| <u>Strongly Disagree</u> | <u>Disagree</u> | <u>Neither Agree Nor Disagree</u> | <u>Agree</u> | <u>Strongly Agree</u> | <u>Don't Know</u> |
| 1                        | 2               | 3                                 | 4            | 5                     | 0                 |
22. Too much time is spent on the project performance report in relation to the benefits gained.
- |                          |                 |                                   |              |                       |                   |
|--------------------------|-----------------|-----------------------------------|--------------|-----------------------|-------------------|
| <u>Strongly Disagree</u> | <u>Disagree</u> | <u>Neither Agree Nor Disagree</u> | <u>Agree</u> | <u>Strongly Agree</u> | <u>Don't Know</u> |
| 1                        | 2               | 3                                 | 4            | 5                     | 0                 |
23. I am satisfied with the project performance report process.
- |                          |                 |                                   |              |                       |                   |
|--------------------------|-----------------|-----------------------------------|--------------|-----------------------|-------------------|
| <u>Strongly Disagree</u> | <u>Disagree</u> | <u>Neither Agree Nor Disagree</u> | <u>Agree</u> | <u>Strongly Agree</u> | <u>Don't Know</u> |
| 1                        | 2               | 3                                 | 4            | 5                     | 0                 |
24. I favor identifying better alternatives to the project performance report for improving project performance.
- |                          |                 |                                   |              |                       |                   |
|--------------------------|-----------------|-----------------------------------|--------------|-----------------------|-------------------|
| <u>Strongly Disagree</u> | <u>Disagree</u> | <u>Neither Agree Nor Disagree</u> | <u>Agree</u> | <u>Strongly Agree</u> | <u>Don't Know</u> |
| 1                        | 2               | 3                                 | 4            | 5                     | 0                 |

**Suggestions or comments**

25. Please rank the following factors in terms of their importance as factors influencing the effectiveness of the project performance report.

**1 = most important, 2 = second most important, ... 7 = least important  
(put one number in each box)**

- |   |                          |                                      |                          |
|---|--------------------------|--------------------------------------|--------------------------|
| ➤ Poor linkage to strategy              | <input type="checkbox"/> | ➤ Lack of high level support         | <input type="checkbox"/> |
| ➤ Lack of clarity on purpose            | <input type="checkbox"/> | ➤ Output not effectively used        | <input type="checkbox"/> |
| ➤ Data input lacks validity             | <input type="checkbox"/> | ➤ Lack of staff skills and knowledge | <input type="checkbox"/> |
| ➤ Organizational culture not supportive | <input type="checkbox"/> |                                      |                          |

26. I would like to discuss this subject further.

**YES**       No       If yes, please email [rkleonard@adb.org](mailto:rkleonard@adb.org)

<p><b>27. I am a: (tick one [1] box only)</b></p> <p>Professional staff member at director level or above <input type="checkbox"/></p> <p>Professional staff member below director level <input type="checkbox"/></p> <p>National officer in resident mission <input type="checkbox"/></p> <p>Analyst <input type="checkbox"/></p>	<p><b>28. I work in: (tick one [1] box only)</b></p> <p>ECRD <input type="checkbox"/> MKRD <input type="checkbox"/></p> <p>PARD <input type="checkbox"/> SARD <input type="checkbox"/></p> <p>SERD <input type="checkbox"/> Other <input type="checkbox"/></p>
<p><b>29. I have worked in ADB for the last: (tick or cross one [1] box only)</b></p> <p>Less than two (2) years <input type="checkbox"/></p> <p>Two (2) to five (5) years <input type="checkbox"/></p> <p>Five (5) years or more <input type="checkbox"/></p>	

Thank you for your time.

## **QUANTITATIVE QUALITY ASSESSMENTS OF SELECTED PROJECT PERFORMANCE MANAGEMENT SYSTEM ELEMENTS**

1. This appendix provides details on six quantitative assessments of selected elements of the Asian Development Bank's (ADB) project performance management system (PPMS). The studies reported in the sections that follow are:

- (i) Quality of goal, purpose, and output statements in project performance reports (PPRs)—as at October 2000.
- (ii) Quality of goal, purpose, and output statements in PPRs—as at October 2002.
- (iii) Quality of purpose statements and related assumptions and risks in PPRs—for 52 projects approved in 2002.
- (iv) Quality assessment of a sample of executing agency (EA) progress reports.
- (v) Coverage of monitoring and evaluation in selected projects at design, completion, and postevaluation.
- (vi) Use of the PPR by project administration units (PAUs)—a survey of PAU heads.

### **I. Quality of Goal, Purpose, and Output Statements (as of October 2000)<sup>1</sup>**

#### **A. Scope**

2. The ADB portfolio of active loans with a PPR was reviewed—excluding those completed or scheduled for completion in 2000. The review covered three aspects:

- (i) long-term development objective (LTDO)—the project framework (PF) goal,
- (ii) immediate development objective (IDO)—the PF purpose, and
- (iii) outputs.

3. The intent of the review was to assess the extent to which the PPR statements reflected a coherent rationale and sound basis for performance assessment.

#### **B. Methodology**

4. The review was confined to a documentary examination and subjective assessment of static goal, purpose, and output data.

5. Quantitative ratings were made for each project in terms of the attributes for each stated level, as follows:

- (i) LTDO and IDO—(a) appropriate level, (b) clarity, (c) indicators, (d) targets, (e) timing; and
- (ii) outputs: (a) appropriate level, (b) clarity, (c) indicators, and (d) targets.

6. The quality of 397 PPRs for ADB's portfolio as of 13 October 2000 was reviewed and rated on a four-point quantitative/nominal rating scale<sup>2</sup> with subjective criteria for each rating. The assessment was in terms of each PPR's stated objectives, performance indicators, and targets, and not the quality of the project or its implementation performance.

<sup>1</sup> Based on work carried out by Dr. Ken Smith, Help Desk Consultant.

<sup>2</sup> 3 = completely satisfactory, 2 = satisfactory, 1 = significant shortcomings, 0 = inadequate.

7. Aggregate scores for each level were then derived as follows:

- (i) **LTDO:** Appropriate level and quality were weighted equally, and the average was used. Although needed for subsequent performance evaluation, indicators, targets, and timing are not necessary for the PPR, so were only rated for future reference.
- (ii) **IDO:** All five items (appropriate level, quality, indicators, targets, and timing) were weighted equally, and the average used.
- (iii) **Output level:** The average of the four items, weighted equally, was used. Although required by the PF, timing of outputs was not considered in this assessment because in practice this is considered to be concurrent with the project completion date.

8. Appropriate portions of the then newly converted PPRs (the PPR system was still being phased in at the time), as well as the PPRs for loans that had not yet been updated and converted, were reviewed and rated based on the above criteria.

### C. Limitations

9. This study was a desk documentary review. No follow-up clarification was sought from those responsible for the projects. The assessment was conducted in its entirety by one consultant using a simplified checklist of qualitative nominal/ordinal criteria, and standard statistical techniques. While the variables have face validity, ratings were subjective; no independent verification was conducted to check rating reliability or accuracy.

### D. Findings

10. The findings showed that 42% of PPRs lacked a discernible strategic focus toward a goal; 77% did not have a clearly defined purpose, and 31% had poorly articulated outputs (Table A3.1).

**Table A3.1: Quality of Ex-Ante Performance Specification**  
(October 2000)

<b>Project Framework Level (PPR Terminology)</b>	<b>Completely Satisfactory (%)</b>	<b>Satisfactory (%)</b>	<b>Partly Satisfactory (%)</b>	<b>Inadequate (%)</b>
<b>Goal</b> (Long-Term Development Objective)	37	21	6	36
<b>Purpose</b> (Immediate Development Objective)	8	16	38	39
<b>Output</b>	60	10	17	14

PPR = project performance report.

Note: Totals may not add up to 100% due to rounding.

Source: Assessment findings.

11. Common defects included the following:

- (i) Terms were used interchangeably.
- (ii) A lack of measurable indicators and targets was evidenced at each level.
- (iii) Stated assumptions and risks were frequently within the control of the project and so by definition should not have been given as assumptions and risks.

## II. Quality of Goal, Purpose, and Output Statements (as of October 2002)<sup>3</sup>

### A. Scope

12. PPRs for ADB's portfolio of 475 active projects were assessed.

### B. Methodology

13. The same methodology was used as for the 2000 study (paras. 4–8). Appropriate portions of the PPRs were reviewed and rated, based on the same criteria that were used in the 2000 study. A total of 475 PPRs were reviewed and rated. The ratings were then analyzed to assess the current status as compared with the October 2000 study.

### C. Limitations

14. Limitations are the same as those for the 2000 study (para. 9).

### D. Findings

15. The main findings were (see also Tables A3.2 and A3.3) as follows:

- (i) Fifty-nine percent of PPRs had a strategic focus toward a goal, while 41% did not.
- (ii) Eighty-four percent of PPRs had no clearly defined purpose.
- (iii) Seventy percent of PPRs had well defined outputs, while 30% did not.
- (iv) The quality of purpose statements had declined over the previous 2 years.

**Table A3.2: Quality of *Ex-Ante* PPR Performance Specification**  
(October 2002)

<b>Project Framework Level (PPR Terminology)</b>	<b>Highly Satisfactory (%)</b>	<b>Satisfactory (%)</b>	<b>Partly Satisfactory (%)</b>	<b>Inadequate (%)</b>
<b>Goal</b> (Long-Term Development Objective)	32	27	5	36
<b>Purpose</b> (Immediate Development Objective)	3	13	18	66
<b>Output</b>	62	8	17	13

Note: Totals may not add up to 100% due to rounding.

Source: Assessment findings.

16. The October 2002 results at the goal and output levels were similar to those of 2 years earlier. However, purpose level performance specification had deteriorated and the decline is statistically significant at the 95% confidence level (Table A3.3).

<sup>3</sup> Based on work carried out by Dr. Ken Smith, Help Desk Consultant.

**Table A3.3: PPR Purpose Quality Ratings**  
(October 2000 versus October 2002)

<b>Project Framework Level (PPR Terminology)</b>	<b>October 2000 Satisfactory or Better N = 397</b>	<b>Oct 2002 Satisfactory or Better N = 475</b>	<b>Difference</b>	<b>Statistically Significant?</b>
<b>Purpose</b> (Immediate Development Objective)	24%	16%	- 8%	Yes

N = number of observations.

Source: Assessment calculations.

### III. Quality of Purpose Statements and Related Assumptions and Risks<sup>4</sup>

#### A. Scope

17. The PPRs for 52 projects that became effective in the 10 months up to 21 October 2002 were reviewed with a focus on two interrelated items:

- (i) the quality of their purpose statements and associated targets and indicators, and
- (ii) the quality of the assumptions and risks at the purpose level.

18. The study also examined the purpose-level assumptions and risks for their potential utility as leading indicators of the likelihood of attaining the project's purpose. In most projects, some of the necessary and sufficient conditions for attaining the purpose are not within the control of the project implementers. The rationale of assumptions and risks as leading indicators is that, if essential assumptions continue to be realized while pre-identified risks do not materialize, the prospect for eventual project success will be high. On the other hand, if the assumptions do not hold, and/or anticipated risks in fact occur without mitigation, then regardless of performance in delivering outputs, the likelihood of attaining success at the project's purpose level will be less.

19. Finally, the study traced the origin and continuity of purpose-level assumption and risk statements in order to determine the extent to which the report and recommendation of the President (RRP) and PF were the basis for PPR for a random subsample of 11 of the 52 projects. Specifically, an assessment was made to determine if the assumptions and risks (i) originated in the text of the RRP, (ii) were also contained in the PF, or (iii) were introduced in the PPR without reference to earlier documentation.

#### B. Methodology

20. The review was a desk study, confined to a documentary examination and subjective assessment of static data—IDO statements with their associated indicators and targets data, and related assumptions and risks statements.

21. For each project, a four-point quantitative nominal scale was adopted for rating the key statements, with subjective criteria for each rating developed specifically for the study.<sup>5</sup>

<sup>4</sup> Based on work carried out by Dr. Ken Smith, Help Desk Consultant.

<sup>5</sup> 3 = highly satisfactory, 2 = satisfactory, 1 = partly satisfactory, 0 = unsatisfactory.

22. The assumptions and risks for a subsample of 11 project loans were rated for both quality (that is, the extent to which they met the basic criteria for an appropriate assumption or risk), as well as continuity (the extent to which they were consistently identified throughout the various levels of documentation).

### **C. Limitations**

23. The variables examined were primarily narrative statements, with additional quantitative data in some instances. Consequently, the evaluation protocols for categorizing and rating the statements were necessarily subjective. No follow-up clarification or interpretation of intent was sought from those responsible for the projects. Although the rating structure has face validity and care was exercised to examine and rate each statement as objectively as possible with the rating upgraded where doubt existed, no independent verification was conducted.

24. Overall percentage ratings for the 52 projects are useful as descriptive statistics—even though not strictly amenable to statistical manipulation, since the measurement scale is ordinal rather than interval.

### **D. Findings**

25. The main findings of the assessment were as follows:

- (i) Only 6% of projects that became effective during 2002 had purpose statements, targets, and indicators that are either satisfactory or highly satisfactory in terms of suitability for performance assessment.
- (ii) Forty-six percent of the projects had appropriately stated purpose statements but are only rated as partly satisfactory because they lacked adequate indicators and targets.
- (iii) The balance of 48% had unsatisfactory purpose statements and supporting targets and indicators.
- (iv) Sixty-four percent of the projects had good continuity between the assumptions and risk statements in the earlier documents and the PPR.
- (v) A higher percentage (79%) of the projects had potentially useful assumptions and risks in the PPRs, indicating that additional ones had been added in some cases.

## **IV. Quality Assessment of a Sample of EA Progress Reports**

### **A. Scope**

26. The special evaluation study conducted a review to quantitatively assess the quality of EA progress reports of the 25 ADB-supported projects used as case studies.

### **B. Methodology**

27. A questionnaire of 46 items was developed based in large part on the revised internal instructions on EA progress reporting. Other questions were included on report readability, action orientation of the report, and clarity of accountability. Questions on the report structure in relation to current internal instructions were given a rating of between 0 and 10 according to predetermined criteria. Other questions (for example, number of pages) required a figure or a yes/no answer.

## **C. Limitations**

28. The review had certain limitations, not least of which was that the information, in spite of the field visits, could not be sufficiently counterchecked against the actual situation in the field. The small number of reports reviewed is another limitation in generalizing the findings.

## **D. Findings**

29. The average score across all 46 questions on quality and comprehensiveness was 40 (ranging from 20 to 70 on a scale of 0 to 100). This shows that there is substantial scope for improvement in EA progress reports. Further details follow.

### **1. Nature of Progress Reports**

30. Progress reports were generally submitted quarterly between 1 and 2 months after the end of the quarter. Twenty-eight percent were drafted by international consultants, and then sent to ADB as EA reports. In some cases, ADB would receive both consultant reports and EA reports. Reports averaged 51 pages, the longest being 180 pages and the shortest 5. The median size of the report was 35 pages. Reports generally had from two to six appendixes, although 32% had no appendix, while at the other extreme, one had 19. None seemed to follow up the new internal instruction of required submission of a summary report to ADB with more extensive information available for review missions. The new structure was rarely followed completely, although most of the chapters were recognizable to some extent in the tables of contents of the reports.

### **2. Implementation Focus**

31. The reports were mostly adequate in terms of recording the progress of project implementation. However, there were some deficiencies, particularly in terms of the comparative reporting of actual achievements against plans. Most reports did not facilitate such comparison, with 36% only reporting progress in general terms without indicating targets for the period or the project as a whole. No report indicated that it was based on an annual work plan, although many of the projects do prepare such plans. Sometimes annual targets were reflected in tables, but without including further explanation of the targets or the exact period that they applied to. The lack of linkage to annual work plans is regarded as an important deficiency, given the obvious need for targets to confirm annual budget figures.

### **3. Accountability and Financial Focus**

32. In terms of accountability, ADB's revised instructions suggest that detailed information on progress does not need to be included in the summary report, although it should be available on request. As most reports did not follow the revised instructions, the reports were assessed on the level of detail included. Most reports (around two thirds) did not include much evidence on such matters as progress with procurement and contracts either in clear tables or appendixes, which suggests that this information might not be readily available.

33. Information on the financial status of the project was usually included, although in one case it was not. Planned expenditure for a particular period versus actual expenditure incurred was a weak area. Usually, the expenditure could be compared only with project budget lines, and sometimes not even this. Performance over the quarter could, therefore, often not be assessed. In 20% of the cases, financial progress was not reported in tables.

34. Compliance with covenants has remained a requirement in the revised instructions for the summary EA progress report. Although 60% of the reports referred to covenants, only 44% discussed the full range of such covenants adequately in a section or appendix.

#### **4. Action Orientation of the Report**

35. This is a long-standing requirement for the progress report. A main determinant of the action orientation of the EA progress report was the presence of an executive summary; 28% of the reports did not have a summary, and of the summaries available, almost half did not raise problems or issues for action. Only one case made concrete recommendations to any party (ADB or EA senior management). The EA progress report instruction calls for a section on conclusions, project issues, and problems; this was followed by less than half of the reports. This clearly shows that EAs view the purpose of the quarterly reports as compliance with reporting requirements of ADB and as a static account of progress only. Although not included in an up-front summary, problems could sometimes be identified in other sections of the report. However, the coverage was patchy, and it required active reading to identify problems.

36. The revised instructions do not specifically require a section on plans for the next period, but the loan agreements usually include such a requirement. Plans for the next quarter were briefly reported in less than half of the cases. A requirement for inclusion of problems/issues, actions required, responsibility, and a time frame on the first page of a report would greatly increase their action orientation.

#### **5. Performance Management Focus**

37. The last issue looked at is the way important performance management issues are addressed in the reports. In terms of ADB's new performance focus, the reports almost uniformly score very badly. Clearly, this is an area where major changes are needed. Executive summaries do not report on use of outputs, outcomes, impacts, and assumptions and risks. The recommendation for a new section on project purpose in the revised instructions was not followed although 2 of the 25 reports did have a chapter on results or benefits of the project. New features such as a review of the relevance of the scope of the project, implementation arrangements, the likelihood of meeting IDOs, and an assessment of risks and assumptions are crucial for results management, and are also needed for regular update of the PPR. As is apparent from the progress reports submitted, EAs do not provide such information unless it is specifically requested. Environmental and social requirements issues also seemed to be underreported, while there was generally a lack of information on outcomes and impacts of the project (only 28% of the reports included something on this).

38. Twenty percent of the reports included a copy of the PF, but in 40% of the cases this was simply appended with no effort at reporting against the targets it contained. Only one project had so far included a draft PPR as an appendix (not a requirement but very helpful for ADB project management). Some reference to ongoing benefit monitoring and evaluation (BME) work or experiments with the PPMS was, however, made in almost 60% of the reports. Baseline, outcome, and impact information is often only reported on in separate reports, and is not mainstreamed in the progress reports.

## V. Coverage of Monitoring and Evaluation in Selected Projects at Design, Completion, and Postevaluation<sup>6</sup>

### A. Rationale and Scope

39. The extent and rigor of monitoring and evaluation (M&E) is likely to be determined by the level of detail in project design documents and the extent to which needed resources are identified and provided for. Therefore, the SES carried out a study of RRP to determine the coverage of M&E arrangements. The robustness and sufficiency of M&E arrangements were also assessed by reviewing project completion reports (PCRs), and project performance audit reports (PPARs) in terms of lessons learned and recommendations on M&E.

### B. Methodology

40. A questionnaire of 46 items was developed allowing for the assessment of the following issues, related to M&E in the various documents:

- (i) provision of budget,
- (ii) clarity in specification of responsibility and management arrangements,
- (iii) assessment of institutional capacity and provision of technical assistance (TA),
- (iv) the extent of coverage of M&E in the RRP, and
- (v) the extent to which the PCR and PPAR contained lessons and recommendations on M&E.

41. All ADB projects and programs were included which were the subject of PPARs in the period November 2001 to November 2002, except for those in five developing member countries (DMCs) mentioned below. This ensured recourse to full sets of information for 32 projects and programs. In addition, the sample drawn contained all 25 cases of ongoing projects and programs, which were also selected for field visits in the five case study DMCs—Bangladesh, People’s Republic of China, Papua New Guinea, Philippines, and Viet Nam. The exclusion of projects with PCRs and PPARs for the five DMCs ensured that there would be no undue weight of these DMCs in the overall sample, which contained 57 cases.

42. The sample consisted of 52 projects and 5 programs, with 30% in the agriculture/natural resources sector, 26% in the social infrastructure sector, 23% in the transport and communications sector, 14% in the energy sector, and 7% in other sectors such as industry, finance, and multisector. The sample was representative of ADB’s overall portfolio.

43. The average approval date of the projects in the sample was March 1994, and the average duration was 6 years from approval to completion. The duration of projects ranged from 2 to 12.5 years.

### C. Limitations

44. The sample size is too small to allow conclusions at the DMC level. Given that 32 of the 57 cases concern fully completed and evaluated projects, the sample is biased toward representing a situation regarding M&E and performance management that may not apply fully any longer.

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<sup>6</sup> Based on analysis carried out by Agnes Anabo, Senior Evaluation National Officer, and Ma. Olive Nuestro, Evaluation National Officer.

However, the presence of 25 more recent projects in the sample enables the capturing of developments in the system, if any.

## **D. Findings**

### **1. Financial Issues**

45. Projects' budgets as estimated at the time of the preparation of the RRP ranged from \$3 million to \$734 million, the median size being around \$95 million. The ADB financing in these projects ranged from \$3 million to \$220 million, with a median loan size of \$60 million; the median contribution by the government was \$15.5 million. Given the presence of some very large projects, the averages for the three categories are, however, much larger. Contributions by agencies other than ADB were made to 44% of all projects, and the overall average contribution was \$13.6 million. Significant other types of contributions were also made, for instance by commercial banks or beneficiaries, to one quarter of all projects, the average for the whole sample being \$18.6 million. The portfolio of ADB projects relying in part on other contributions than those of ADB and the government was 54%. The large size of many projects, and the wide range of stakeholders involved in funding, is likely to increase the burden of project management offices on compliance with reporting requirements for each stakeholder.

46. The project budget as stated in the RRP was studied. Specific attention was paid to aspects related to performance management, such as the budget reserved for project management, M&E, and the related training and studies and surveys. Unfortunately, the current budget classifications of projects used in RRPs do not allow for exact determination of the costs of such arrangements, as they are usually subsumed under a variety of budget categories. RRPs use input classifications primarily for their cost estimates rather than being output-based. Therefore, it is difficult if not impossible to distinguish the resources devoted to general management as opposed to M&E, studies and surveys, and M&E-related training. At best, the cost estimate was an amalgam of input budgets and output budgets. If ADB is to move to a greater orientation on performance management, a greater effort needs to be made to include an output-based budget in the RRP.

47. Notwithstanding the above problem, some inferences can be drawn. Only 30% of projects had a budget that at least in part can be associated with M&E activities, M&E training, and/or data collection surveys and studies. The highest budget for M&E was \$3.2 million, while the average was \$0.3 million. This represented only 0.2% of the overall project cost. If the cost of training and studies is excluded, the average resources devoted were only \$0.2 million. This may understate the actual allocation, as some M&E funding may be included under consultants and project management unit operating costs. However, 29% of the projects (not counting the five programs in the sample) did not have these costs in the estimates. It was found that, on average, the project management cost was \$4.4 million (2.6% of total project amounts and 5.8% of ADB loan amounts), with a highest value of \$23.6 million and a median value of \$1.2 million.

### **2. Management Issues**

48. Management arrangements were often difficult to interpret in the RRPs even beyond the context of the cost estimates. Overall, there was a great variety of arrangements with implementing agencies (IAs)—44% of projects had identified only one IA (often also the EA), 30% between two and five, and 26% over five IAs. Sometimes these IAs had their own project implementation units, so that monitoring and reporting requirements were specifically addressed by each IA, but this was no means evident in all cases. The complexity of projects in terms of IAs must have an impact on monitoring arrangements and, thereby, on project performance management.

49. Seventy percent of the projects had either attached or related TA. These often provided support to M&E. Around two thirds of the projects were based on a preparatory TA before their start, which often generated baseline data for subsequent evaluation of development results.

### **3. Assessment of M&E Needs in RRP**

50. The RRP's assessment of existing and needed M&E capacity was reviewed. This proved to be difficult in at least one third of the projects in the sample. It was then not possible to verify whether a separate assessment had been made, so that conclusions would have to be drawn based on whether M&E budgets had been made available in the loan. This is demonstrative of a larger finding that institutional assessments usually remain implicit in RRP.

51. M&E capacity constraints, found in 61% of the projects, were usually addressed by consultants (in 90% of cases where the constraints were addressed), but also through training of local staff (in 48% of cases) or other provisions (design of software, etc.). In addition, in 44% of projects, a benchmark or baseline survey of socioeconomic or environmental data was planned, while 32% envisaged a follow-up survey, either during or at project completion. In half of the projects, a requirement for a midterm review (MTR) was specified. Reporting on development results and impacts during project implementation was required in 47% of the projects; in the other cases it was specified as part of EA's PCR, or as part of survey requirements after project completion. Eighty-seven percent of RRP included a covenant regarding monitoring and/or evaluation (usually regarding BME). In all, it was clear that the projects had very variable, and sometimes substantial arrangements for M&E, although this was not easily traceable in the project documentation and, therefore, not easily assessed.

### **4. M&E Discussions in PCR and PPAR**

52. All 32 PCR and PPAR in the sample were studied with respect to their lessons and recommendations regarding (i) M&E, and (ii) studies and surveys related to results-oriented data collection. It was found that 77% of all PCR contain lessons and/or recommendations in these areas, indicative of the importance of M&E to project success and the need for improvement. More than a third of PPAR conducted for the same projects also contained lessons and/or recommendations on these areas.

53. At the sector level, it was apparent that agriculture and natural resource management, with the smallest average size of projects, had the highest budgets for M&E; greatest involvement of consultants in M&E; and greater number of implementing agencies, supporting TAs, surveys, MTRs, and M&E covenants. Social infrastructure came a close second, followed some distance back by energy and by transport and communications projects. In terms of lessons and recommendations in PCR and PPAR, the agriculture, energy, and social sectors had similar averages. On the other hand, transport and communications had the highest number, indicative perhaps of deficiencies in M&E in these sectors in the past.

### **5. Trends in Specification of M&E**

54. A comparison was made between projects approved between 1986 and 1994, and those approved afterwards (up to 2001). Average project size had gone down slightly from \$178 million for projects approved up to 1994 to \$164 million for those approved subsequently, although the average amount of the ADB loan remained constant at \$75 million. On the other hand, external contributions went down from an average \$16.1 million to \$11.2 million per project, while other contributions, for

instance from banks and beneficiaries, rose steeply from \$10 million to \$28 million. The proportion of projects with external contributions and other types of contributions went up from 40% to 70%, and the number of IAs rose from 3 to 4.7, which indicates that more recent projects are more complex. The recent RRP's contained more assessment of M&E capacity and contained greater provisions to address weaknesses in these areas—for example, use of consultants, which rose from 33% to 78% of the cases). Provision for benchmark surveys and MTRs also rose, from 37% to 52% and from 17% to 85%, respectively.<sup>7</sup> The requirement on reporting on impacts during implementation as opposed to afterwards had gone up from 30% to 67% of all projects. All of this confirms that there are learning processes in this area, and that M&E is regarded as increasingly important to ADB's project management.

## **VI. Use of the PPR by Project Administration Units**

### **A. Scope**

55. The SES carried out a survey of PAU heads on the use of PPR reports.

### **B. Methodology**

56. A questionnaire of 15 items was emailed to all 18 heads of PAUs in the four regional departments in ADB headquarters, and to the heads in five of the larger resident missions (Bangladesh, India, Indonesia, Pakistan, and Viet Nam). Fifteen heads of PAUs in ADB headquarters responded, and three in resident missions.

### **C. Limitations**

57. The survey focused on use of the PPR in departmental and divisional PPR meetings, but the PPRs also have other uses (such as for country portfolio review missions).

### **D. Findings**

#### **1. Frequency and Length of PPR Meetings**

58. Both divisional and departmental level meetings were held, departmental usually among directors and PAU heads, divisional meetings among heads and project administration staff. Divisional meetings were held usually quarterly, sometimes regularly, sometimes irregularly. A fourth of all divisions held the meetings more frequently, on a monthly basis. Departmental meetings, however, were held almost invariably monthly, with great regularity. The average duration of both types of meetings was a little over 1 hour, ranging between 30 and 90 minutes.

#### **2. Subject of the Meetings**

59. The PPR was only one of the information sources for the meetings, with the principal focus on projects rated "at risk." Apart from the PPR, divisional summaries, contract award statements, occasional mission back-to-office reports (BTORs), and other tables were also used. The average rankings of the most discussed sections of the PPRs were as follows (from rank 1 as most discussed, to rank 7 least discussed): potential problem rating (average ranking of 2.5), financial utilization of the loan and implementation progress rating (both 2.6), and implementation progress

<sup>7</sup> Although a practice in some projects before that time, the concept of the MTR of loans was introduced in 1992/1993 and formalized in June 1995.

summary (3.2). Less often discussed were covenants (4.0), IDOs (4.6), and key assumptions and risks/recent developments (5.3). There was, however, no uniform ranking of the issues, with one or two divisions reporting the likely achievement of development objectives was the most frequent topic of discussion.

### **3. Perceived Quality of the PPR Information**

60. This aspect was measured in a variety of ways. An indirect measure was the number of times per month the PAU head consulted an individual PPR in the database. Most PAU heads did not consult the database more than once per month, although some reported that they consulted the database almost every day. Half of all PAU heads felt that the PPR sections on development objectives and covenants were relatively the weakest (with missing, wrong, or biased information), while 28% felt that the financial and implementation progress sections were relatively weak. However, most PAU heads did not contact their project officers more than once or twice per month regarding the lack of update, or improper update, of the PPR. Another measure of the quality of the PPR is the source of information on progress deemed most important by PAU heads. By far, the highest average ranking was given to review mission BTORs, and the subsequent discussion with these officers (average ranking of 1.4). Other sources were approximately equal—the PPR (3.2), various meetings with staff (3.2), e-mail communication with various stakeholders (3.6), and EA reports or consultant reports (3.8).

### **4. Usefulness of the Meetings**

61. One measure of the usefulness of the PPR meetings was taken to be whether minutes were kept. The survey showed that around 63% of the meetings had minutes. More than 80% of the respondents answered that the most useful aspect of the meetings was the discussion of problems and decisions regarding specific project action plans. In a number of cases, reservations were still expressed, such as (i) the flagging process in the PPR that leads to identifying at-risk projects still misses out certain projects that are in fact at risk, and (ii) certain implementation delays or other problems cannot easily be addressed even through action plans or other attention by ADB.

### **5. Conclusion**

62. The survey shows that the PPR is an integral part of the information base for PAU heads, and plays a particular role separate from the mission BTORs and other information. It probably does not in practice replace the role of the BTOR, which still seems to be the principal source of information for management. Further conclusions are that the PPR has become an action-oriented document, and that it is more useful in highlighting immediate issues regarding implementation progress than it is for tracking and addressing development objectives and assumptions and risks.

## COUNTRY CONTEXT FOR PROJECT PERFORMANCE MANAGEMENT

### A. Introduction

1. This appendix focuses on the wider context of performance management (PM) and project performance management (PPM) in the Asian Development Bank's (ADB) developing member countries (DMCs). PM is here defined as results-based operational management at the level of an organization, whereas PPM relates more particularly to such management at the level of individual projects (i.e., public investments) in organizations. The appendix pays attention to the preconditions that must exist for the development of both types of management, and discusses actual developments in five DMCs. As such, the appendix does not limit the discussion to ADB projects. It ends with some conclusions and makes recommendations for further study by ADB.

### B. Contextual Factors

2. ADB's pursuit of results is matched by the attempts of its DMCs. Key results of DMC development policies are no easier to define and pursue, as the policies have typically included such wide-ranging targets as increased national income, an improved employment situation, price stability, more equal distribution of income, balanced regional economic development, a sustainable environment, and nation building. DMCs frequently moved earlier than ADB in setting quantitative targets for development results. These targets have usually been set as part of 5-year development plans. On the other hand, ADB's PPM capability is probably more advanced. However, DMCs, like ADB, feel the increased pressure for results from projects, not only from their development partners, but also from their populace.

3. In terms of PPM in the five DMCs visited,<sup>1</sup> perhaps with the exception of the People's Republic of China (PRC), the budgetary resources available for government-funded projects are generally very limited in comparison to the often ambitious development results targeted.<sup>2</sup> In such a situation, it is more difficult to establish a firm "purpose to goal" link with the targeted development of the country. Similar to the situation in ADB, PPM is hampered by a conflict between funding and development objectives, although for different reasons. The scramble for highly scarce resources by government departments and by elected representatives of political constituencies leads to a focus on committing such resources by starting up new projects rather than first completing ongoing projects. A more genuine desire to speed up development or just to show that many needs are addressed may also play a role. The consequence is that a project portfolio is kept afloat for which the available resources are insufficient to enable completion as per the original schedule. In addition, in many DMCs, development aid agencies have overloaded public investment programs beyond DMCs' PM capacity and with inadequate counterpart resources. During this special evaluation study (SES), overloaded project portfolios were witnessed in all DMCs except the PRC. The effects are delays in the completion of many projects and a loss of economic returns. With a more disciplined approval process, a smaller number of projects could be completed without delays, and new projects could then start up.

<sup>1</sup> Bangladesh, People's Republic of China, Papua New Guinea, Philippines, and Viet Nam.

<sup>2</sup> In the PRC, more ample resources are achieved by the apparently easy access of provincial and municipal governments to extra budgetary resources such as loans from banks.

## 1. Performance Management Initiatives in the Countries Studied

4. Many governance agendas of DMCs contain the development of PM capability as one of the priorities. In all the DMCs studied for this SES, PM capability was being developed. Similarly, most DMCs were refining poverty reduction strategies, in line with the formulation of a new key results-based approach advocated by most of the DMCs' development partners. The level of capability reflected the current economic level of the particular DMC. PM capability was more developed in DMCs with decentralization initiatives. In the Philippines, PM initiatives are most prominent. In the PRC, the terminology used is different, but some interesting developments can also be seen as initiatives toward improved PM. In Bangladesh, Papua New Guinea (PNG), and Viet Nam, PM-related initiatives were less prominent, but also present.

5. In the Philippines, at least three initiatives can be mentioned. The first is the Medium-Term Philippines Development Plan for 2001–2004 and its National Anti-Poverty Action Agenda consultation. The Medium-Term Philippines Development Plan adopts an ambitious target to eliminate poverty by the end of this decade. Key administrative governance strategies will be implemented and monitored with the aid of *ex ante* performance indicators and benchmark standards. The Department of Budget and Management (DBM) through the Organization Productivity Implementation Bureau is responsible for managing this strategy. A main element of the strategy is that the Government will make output and performance “contracts” with agency heads.<sup>3</sup> These will specify *ex ante* outputs and related performance targets. Budget allocations through the medium-term expenditure framework, will be based on these contracts. A second main element is that the Government will formulate and implement a performance-based remuneration system. DBM has been working closely with other oversight agencies to formulate the first of the above systems. The Organization Performance Indicator Framework represents the work being conducted at the moment. Reviews of sector efficiency and effectiveness are to be carried out, but so far only a few line departments have done these. The definition of Major Final Outputs of agencies and related indicators for departmental development expenditures have been completed. The draft versions of these now have to be discussed with departments before they can be used. This is clearly a complex process, which, given the budget cycle, will take some time to develop.

6. A second initiative in the Philippines is that of the National Economic and Development Authority (NEDA), which is now incorporating results-based monitoring and evaluation (RME) for development projects into the approval process for all large and/or foreign-funded projects.<sup>4</sup> All new project proposals are to include a project framework (PF), which will become the basis for the subsequent PM process. Extensive training for this is ongoing. The technical assistance (TA) for RME developed a new monitoring and evaluation (M&E) system geared to performance measurement, but this component of the PPM is yet to be fully operationalized. The RME initiative is to be incorporated into the various output-based budgeting processing including the development of the Medium-Term Public Investment Program; Sector Efficiency and Effectiveness Reviews; Prioritizing Programs, Activities and Projects; and Major Final Outputs for each line department.

7. A third initiative in the Philippines is being undertaken by the Department of Interior and Local Government. A system of PM called the Local Productivity and Performance Management

<sup>3</sup> Note: These are not legally enforceable contracts as exist in the private sector. Rather, they are DMC institutions “contracting” with themselves. But the idea is to provide a sense of urgency to the delivery of certain outputs that is missing from earlier models of public sector management.

<sup>4</sup> Through assistance from an ADB-funded TA. ADB. 1999. *Technical Assistance for Strengthening Results Monitoring and Evaluation*. Manila.

System is being piloted in 20 local government units (LGUs). The system requires the setting of baseline performance indicators and annual measurement of results against these, as well as assessment of productivity levels and service delivery outcomes. The LLPMS has three main components: (i) measurement of the internal capability of the LGU in the areas of financial administration, local legislation, organization and management, and development planning; (ii) productivity measurement or evaluation of service delivery of the physical services of the LGU of social, economic, political, and environmental services; and (iii) the assessment of the outcomes of service delivery, that is, the socioeconomic condition or positive change in the quality of life of the inhabitants. In managing each of the three components, a detailed reporting format has been prepared. Performance of the LGU is assessed against 103 indicators: 43 input and process level indicators, 20 output level indicators, 15 intermediate level, and 23 high level indicators. Scores are assigned to each indicator through comparison of actual performance with national standards. A separate PM activity of Department of Interior and Local Government assists it to accredit nongovernment organizations (NGOs).

8. In the PRC, there are several initiatives relating to PM. One is a multi-agency supported initiative to assist the PRC reform fiscal and financial policy management as a framework for later PM. Another is the Social Service Commitment System. Government organizations and public utilities state their service commitments to allow citizens to know what services they can expect from the organization. In association with this, a “mayor’s hotline” on which complaints about service delivery can be made is being piloted in many places. The scheme was launched in 1994 in Yanai in Shandong province and applies to bus services and public utilities. The scheme was recognized in 1996 through the issuance of a circular that promoted its use nationwide. This was issued from the State Council, through eight ministries and commissions. This was the first large-scale campaign to improve public service based on an overseas model, and it was important in that it raised awareness of the need for efficiency and effectiveness in service delivery.

9. Related to the above scheme, the PRC has also encouraged the adoption of Quality Awards for service quality and customer satisfaction. Recent incentives utilized by the DMC include the bonus payments for high quality and timely project work. Since late 2001, public hearings have been initiated. At these, the DMC hears the views of customers, operators, and government administrators about public utility prices and other commodities. These hearings must be held before any changes can be made to prices.

10. PPM is a term and concept unknown in the PRC outside of the State Development Planning Commission (SDPC) and a few foreign-assisted projects. ADB has been helping to build capacity in SDPC’s Key Projects Inspectors Office (KPIO).<sup>5</sup> KPIO’s mandate is defined as “conducting inspections of ongoing projects,” and its recent reformulation includes a stipulation that the inspections should also determine whether or not “the social and economic efficiency has met the set targets in the feasibility report.” This suggests evaluation. KPIO has shown an interest in concepts of PM and has been active in building its own capability. The PRC model, however, has its own features, which emphasize performance. These include a focus on timely outputs, and extensive quality control through external expert panels arranged for major projects, as well as the elaborate “project acceptance routine” handled by the State Economic and Trade Commission at the time of project completion. Project implementation relies on several layers of contracted out supervision. These supervisors provide early warnings for technical problems, and their use increases flexibility. Arbitration of contractual disputes during

<sup>5</sup> TA 3375-PRC: *Project Performance Management Capacity Building*, for \$900,000, approved on 27 December 1999.

implementation follows pre-agreed arrangements, and is so efficient that there is seldom recourse to the more anachronistic legal system. The PRC enjoys budgetary stability because of a booming economy and the ample availability of loan funds from the national banking system, combined with the need for most executing agencies (EAs) to repay the loans for their projects. This all helps the focus on results.

11. In Viet Nam, PM initiatives have also been made. The famous “one stop, one stamp” which was pioneered in Ho Chi Minh City from about 1992 is perhaps the best example, and has now been copied in many other cities. The United Nations Development Programme (UNDP) have had two major programs with the Central Committee for Organization and Personnel. A Cabinet-level Committee, funded by UNDP and the Royal Netherlands embassy, has been carrying on experiments with PM in 12 local authority areas since 1991. Recent work by the World Bank with the Ministry of Finance is focusing on public expenditure management, decentralization of selected budgetary and operational controls, strengthening accountability within spending ministries and agencies, and improving the monitoring of state enterprises.

12. PPM initiatives in Viet Nam relate mainly to improving implementation progress of projects, rather than shifting the focus to results-based management (RBM). UNDP has occupied a significant role in supporting improvements in this area through TA. In 1993 and 1997, decrees were issued regarding reporting responsibilities of project management units.<sup>6</sup> However, there were no penalties for agencies that did not comply with reporting requirements, nor were budgets allocated for M&E activities. Moreover, many EAs and implementing agencies (IAs) did not have the skills to undertake M&E, and there was no mechanism for exchange of M&E information between government and aid agencies. The outcome was poor compliance of reporting for ADB projects, although the situation is improving. During 1995–1998, only around 15% of project management units submitted reports, while for the 1998-2000 period the figure rose to around 75%.

13. Since 2000, the Government of Viet Nam has attached even greater importance to M&E, due to the realization that inadequate management and utilization of overseas development assistance was a significant problem. As a result, M&E is being further strengthened, notably through the Australian Agency for International Development’s Viet Nam-Australia Monitoring and Evaluation Strengthening Project. In related areas, ADB TA has been strengthening capacity in project financial management. New legal frameworks such as Decree 17/2001 dated 4 May 2001 and Circular 06/2001/TT-BKH issued on 20 September 2001 have been launched. These clearly specify the content of M&E; frequency; budget allocation to M&E; and, since March 2002, the strengthening of monitoring of project implementation for key national projects. While PPM initiatives have not been made so far, there is a clear movement in this direction.

14. In PNG, the greater focus on results is visible in its adoption of the comprehensive ADB-supported public sector reform program and financial management improvement program. The Public Sector Program (Loan 1875-PNG) has as its first component the building of a performance-oriented public service; further components are also related to PM in a wider sense: the reorientation of personnel management systems and processes, the strengthening of probity and oversight agencies, and improving delivery of major services. ADB and others are supporting the Government’s Financial Management Improvement Program.<sup>7</sup> The Government realized that planning and budgeting had become increasingly unrealistic, often requiring severe

<sup>6</sup> Decree 20/CP issued in 1993 and Decree 87/CP issued in 1997.

<sup>7</sup> ADB. 1999. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Papua New Guinea for the Financial Management Project*. Manila.

emergency cutbacks at the expense of development and social services expenditures. Moreover, in recent years there had been increasing recourse to extrabudgetary expenditures, reducing the quality and transparency of public activities. The approved program consequently has a component on budget and planning, dealing with resource ceilings, a new national budget system with improved budget monitoring, and expenditure classifications. Other components deal with accounting, information systems, and human resources and training. At the stage of writing this report, the Government with the World Bank and ADB were in the process of organizing a public expenditure review.

15. The interest of the PNG Government in PPM is reflected in the work of ADB-funded TAs, which intended to bring in modern techniques of fiscal management to enable (i) linking inputs to outputs and performance, (ii) focusing on medium-term financial frameworks, (iii) improving analysis and presentation of information to focus on programs, (iv) moving away from incremental budgeting, and (v) decentralized decision making. A more recent TA on strengthening public sector management served to build capacity in personnel-related government agencies; and to assist in establishing and implementing service improvement plans in the health, education, agriculture, and public works sectors.

16. In Bangladesh, much experience has been built up with monitoring of implementation progress, and the Government has an Implementation Monitoring and Evaluation Division annually conducting a number of project evaluations on demand. Systemic problems described earlier (overloaded project portfolios and budgetary uncertainties) have prevented the country from systematically improving the implementation of its projects. Such systemic problems are evident from ADB's annual country portfolio reviews. ADB has helped Bangladesh mainly through TAs over the 1990s, such as in the area of project implementation and postevaluation capability with IMPLEMENTATION MONITORING AND EVALUATION DIVISION; primary education performance monitoring; and, more recently, strengthening of project portfolio performance, efficiency enhancement in fiscal management, and poverty monitoring. The Department for International Development of the United Kingdom (DFID) operates a project called Strengthening Implementation Systems for Planning that has achieved some measure of success in redesigning the development budget from approval through to implementation, with an emphasis on results. DFID has also funded a large project for reforms in budgeting and expenditure control since the early 1990s and has recently approved a very large output-based contract for TA called the financial management reform program, specifically designed to focus on results. A UNDP project on strengthening parliamentary democracy focuses on RBM through the strengthening of parliamentary committees. DFID's institutional development component (of a World Bank-funded roads program) has been working on RBM in the Ministry of Communications for the last 3 years and is due to enter into a new phase.

17. In conclusion, all five DMCs, in spite of their often difficult context, are attempting to improve their performance, and, as part of this, favor experiments with improved M&E systems, as well as pilots with PM and sometimes PPM. A basis for improved PPM for ADB projects and programs is thus supported by the context in DMCs.

## **2. Project Performance Management by Central Agencies**

18. Notwithstanding the initiatives described, the bedrock of the reporting systems for project management in all the five DMCs studied remains grounded in pre-PPM implementation monitoring concepts. In this aspect, the DMCs investigated certainly lag well behind ADB.

19. The reporting of the progress of projects in all DMCs is interorganizational and coordinated mainly by apex planning agencies responsible for development budgets, with varying levels of decentralization to regions, provinces, and the district level. Perhaps surprisingly, in the PRC, the system is the least centralized, and operates mainly at the provincial level. This may reflect the size of the country. Common features of all reporting systems are that they are geared to big multiagency and multi-project review meetings and rely on quarterly forms focusing on brief summaries of financial and physical progress and implementation problems. Some finance departments may provide EAs with forms to assist in reporting on projects, but this is not a common practice. All systems suffer from the fact that they are geared to an annual budget cycle rather than to a medium-term expenditure framework cycle. In DMCs, the problem is not bunching of new projects to be approved at the end of the year, but a combination of late release of funds, unexpected across-the-board cuts, and a spending rush at the end of the financial year. In addition, severe resource fluctuations and concomitant budgetary uncertainty cause finance agencies to restrict budget releases for earlier approved expenditure which creates a lack of predictability. An attitude of “going by the book” is fostered, through excessive questioning and reconfirming earlier operational decisions and applying rules and regulations officiously. In the process, much of the discretion and flexibility that is needed for achieving results in unpredictable environments is lost. All of these systemic problems lead to less focus on preparing solid annual work plans; the undermining of the cycle of progress reporting (particularly the first and last quarter); and the focus on implementation rather than ultimate results, which may be many years away. The increased focus on improved accountability in the 1990s in the context of the perceived prevalence of corruption has led to a variety of complementary supervision mechanisms being established, such as reinforcement of politically headed inspection teams, ombudsmen, foreign aid absorption units in prime minister’s offices, and special evaluation and audit units. They have also led to many attempts by development partners to build capacity in M&E at central levels, as well as, more recently, PM initiatives.

20. Within this context of improved accountability, staff of EAs and central agencies have retained the format of the quarterly progress reports for central agencies. One-sided perspectives on progress predominate, which is not surprising, given that the EA has a large stake in continuing the project. Few field visits are conducted by the planning agency or any of the other oversight agencies. There are insufficient resources for such visits so the one report is relied on, with technical agencies trusted to give unbiased, technical accounts of progress. DMCs often rely on development partners to evaluate foreign-aided projects. In all, the monitoring systems in the DMCs visited do not focus on results and are not geared to assessing performance. PFs have been made mandatory for larger projects in the Philippines recently, but no other DMC is at that stage of mainstreaming. The fact that there is a strict division of the budget into a development budget, focusing on investments, and a recurrent budget, focusing on operational expenditure, with a different department in charge of each, does not facilitate comprehensive planning for, or monitoring of results of projects. It appears that this situation is no different in many other DMCs (and even some donor countries).

21. The problem with project monitoring systems is exacerbated by turf battles between finance and planning departments. Finance agencies usually have the upper hand due to the power of the purse, although they generally are much less in the know about implementation issues and even results.<sup>8</sup> In the Philippines, for instance, NEDA and DBM were seen to work well together, but many EAs and IAs nevertheless saw DBM as more powerful than NEDA and questioned the right of NEDA to be involved in monitoring their projects, given that NEDA had

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<sup>8</sup> In theory, finance agencies should be well aware of results, or at least their recurring budget implications.

no responsibility for the budget. Even although NEDA has a mandate for public investment programming and project M&E, its involvement in project monitoring was not well appreciated. In short, NEDA review meetings had a coordinating and facilitating role, but NEDA itself could not enforce decisions.

22. In all DMCs visited, the project monitoring systems are viewed as weak even from the perspective of implementation monitoring, as is witnessed for instance by the annual country portfolio review missions carried out by ADB. In the PRC, the situation is perhaps least serious, given that project implementation is relatively better, while interorganizational reporting overall is less centralized. It takes place mostly at the provincial, county, and city levels, and has a financial focus. This is not surprising, given the earlier described supervision systems, and the fact that many projects are in some way results-oriented given their need to be self-financing. This increases ownership and has a positive effect on project quality.

23. Evaluation of development results in DMCs at the central agency level is mainly related to the 5-year plan. The preparation of this plan requires evaluation of sector programs. Self-evaluations by IAs are relied on. In some cases, midterm reviews of development plans are also conducted. The focus of these reviews is generally on project portfolios, with some attention for aggregate outputs. Therefore the reviews apply only to the development budget. Evaluation of recurrent budget activities is not common, and neither are quarterly review meetings on these activities. However, some attempts at a more integrated evaluation are carried out through public expenditure management programs. These attempts would then measure development results of government programs, usually on an experimental and temporary basis. There seem to be few examples, however, of RBM and evaluation systems capability being institutionalized.

### **3. Project Performance Management by Executing Agencies**

24. The slow development of PPM capacity in central agencies, even in public expenditure management, is dwarfed by major attempts at capacity building for PM in EAs and IAs. The primary focus of EAs on service delivery together with moves to corporatize or privatize government agencies have provided incentives to develop PPM capacity, and also the proliferation of specialized and decentralized IAs, and, in some DMCs, the increasing cooperation of EAs with NGOs and sections of the private sector in delivering services. These developments require the Government to track results produced by new policies and new players in the field of service delivery. They also call for new ways of specifying and managing contracts and performance of projects. The ultimate consequence is that there may be a need for the development of public service agreements and, in the context of projects, results-oriented project implementation agreements between EAs and IAs.

25. The more autonomous EAs and IAs have to resolve conflicting organizational objectives, given their continuing responsibility for public service delivery, and their internal needs to survive and be viable in a context of public sector reforms and concomitant changing roles, degrees of autonomy, and levels of own revenue generation. PM is a key challenge in this context. It is sometimes made more difficult by changes in government and the shifting multiplicity of demands posed by development agencies.

26. PPM of ADB-funded projects in EAs visited as part of the SES suffered generally from one or more of four main problems: (i) the difficulty in developing an accurate and credible information system that assists in the management of results; (ii) focus of many projects on procurement, which is often problematic and delayed; (iii) problematic contract specifications

and subsequent management; and (iv) insufficiently specified project implementation agreements between EAs and IAs.

27. The information systems were usually inadequate, not due to inadequate project preparation or design, but because of the delay in establishing a baseline from which to assess project results. Many baseline surveys, to be completed as one of the first activities of projects, were carried out too late to provide reports to MTRs where the findings could have led to results-based decisions about the project's scope. The lack of a regular supply of adequate national data does not help RBM, especially for the more process-oriented projects. Furthermore, requirements to conduct midterm updates of socioeconomic surveys were not always complied with because the resources and skills were not available. Even when surveys were conducted, they were usually done by consultants, and the end results were not always used.<sup>9</sup> The poor state of implementation of benefit monitoring and evaluation in ADB projects is symptomatic of the implementation-oriented focus of many EAs in DMCs and the lack of discretion and resources for EAs to respond effectively to the findings of BME surveys. EA project implementation units, and even ADB staff, are often reluctant to change the scope of ADB loans and contracts for consultancy services, because of the effort required. The practice in the five DMCs visited is to ignore the PF and to concentrate on project implementation.

28. Many projects, especially in the infrastructure sector, manage dozens, sometimes hundreds, of individual contracts to procure services and supplies. This requires familiarity with and compliance with ADB procurement guidelines. The focus of project management in this environment fully occupies the staff, and managers can easily get distracted from keeping track of development results.

29. Problems occur with insufficient specification of the quality of outputs and outcomes needed from such contracts; lack of quality controls; and, more generally, a traditional mentality towards contract management, focusing on implementation rather than results. Conflict resolution mechanisms may not be in place in the case of disputes over quality or timeliness of delivery of outputs. Only in the PRC, where good arbitration mechanisms are agreed upon at in the contract negotiation stage, did such disputes not arise. The absence of these mechanisms in other DMCs, in combination with a deficient legal system, sets severe limitations on the enforcement of such contracts, particularly output-based contracts, the fulfillment of which relies on the enforcement of quality standards through, ultimately, the legal system.

30. ADB-funded projects dealing with direct public service delivery systems, such as those in the local government, agriculture, and natural resources sectors, often have to rely on mobilizing a multiplicity of small IAs. Many projects in the social sectors may, in addition, have to rely on a large number of NGOs. The variation in types and quality of project implementation agreements between EAs and IAs, and contracts with NGOs observed was great. Several EA officers confessed to not knowing how to enforce such agreements or contracts, what quality standards to apply to outputs delivered, and when to enforce penalties. Particularly, contracts with NGOs were found difficult to manage in the absence of specific targets, quality standards, instruments to enforce these, and/or conflict resolution mechanisms.

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<sup>9</sup> ADB. 1996. *Evaluation of Bank Assistance to Developing Member Countries for Benefit Monitoring and Evaluation*. Manila.

### **C. Conclusions Regarding Performance Management in DMCs**

31. PPM is based on the axiom that greater attention to results (outputs, outcomes, and impacts of development interventions) in addition to input management in project management systems adds more value than relying solely on financial input and activity monitoring. Based on the findings of the study, the benefits of PPM for DMC public investment programs will be greater if (i) the country and institutional context is favorable; (ii) projects are process oriented; (iii) project budgets are directly linked to project results (output-based budgeting); and (iv) project staff and a range of stakeholders can be held accountable for their part in such results, and awarded or penalized accordingly. These conditions are currently often not fully met in DMCs. Even the currently predominant reporting systems for central agencies focusing on implementation progress are beset by problems, and the review of EA project progress reports (Appendix 3) shows that EAs also continue to have many problems recording and reporting on implementation progress.

32. In determining the scope for expanding PPM in ADB funded projects, country strategies and programs need to first pay attention to the larger institutional context. Public expenditure management, output-based budgeting, and personnel incentive systems are critical to good PPM. A full institutional assessment needs to be undertaken during project design. In countries with a good institutional context and implementation capacities, the quickest progress can be made.

33. In DMCs with more unfavorable contexts for RBM, a relatively larger effort in project administration is required from ADB. In such cases, the current system of administration should be further strengthened. Greater emphasis is required on annual project work plans linking with national budget cycles. Also, more linkage is needed between PPRs and EA progress reports, and both should be improved. In terms of DMCs' overall monitoring of public investments, efforts to strengthen existing implementation progress reporting systems need to be supported. Gradually after this, results-monitoring components can be added. ADB should furthermore consider extending its assistance to improve quality control systems, contract arbitration systems, and legal systems in such DMCs. There is also scope for further systematization of the many project implementation agreements between EAs and IAs, and NGOs.

34. Given the decentralization of certain public service responsibilities in a number of sectors, ADB should consider ways to deal as directly as possible with local government units in project implementation.

### **D. Recommendations**

35. Although the immediate potential of PPM may be limited in many DMCs, ADB should support current initiatives and experiments. ADB should focus on improving existing systems of implementation progress reporting, and only gradually introduce a results focus in these systems. In a wider sense, this implies the strengthening of DMC capacity in the following areas:

- (i) medium-term expenditure frameworks;
- (ii) public expenditure management;
- (iii) national statistics;
- (iv) sectorwide performance assessment by central agencies;
- (v) auditing;
- (vi) EA performance management;

- (vii) procurement and contract law enforcement, and contract arbitration systems; and
- (viii) accreditation and quality control systems.

36. The assessment of the particular need for support by ADB in each of these areas should be ideally undertaken as part of the preparation of its country strategy and program. The set of preconditions that the country strategy and program could go through in terms of assessing the readiness of the DMC for introduction of PPM is given in the box.

### **Preconditions for the Introduction of Project Performance Management (PPM)**

#### Government

- Is PPM in line with sequencing of public sector reforms?
- Is the leadership supportive of introducing PPM?

#### Aid Agency-Government relationship

- Reporting events clear?
- Reporting formats clear?
- Output events timed/review procedure clear?
- Quality control/arbitration system laid down?

#### Central Government -Executing Agency relationship

- Project selected shows clear relationship to government's priorities?
- All parties clear about their roles, relationships, responsibilities, and accountabilities?
- Laws/regulations related to information supply from executing agency to central government in place?
- Clear lines of reporting related to decision-making events?
- Clear schedules of decision-making events?
- Decision-making consequences clear?
- A manual for information input formats and reporting formats, including logframe based indicators at goal, purpose, output, and activity levels?
- Quality control instructions?
- Software to process information to obtain required reports?
- Financial contributions predictable, i.e., available on time?
- No political interference in project administration?
- Client satisfaction measurement system?
- Leadership active and supportive?
- Incentives for good performance and sanctions for poor performance?

#### Project Implementation

- All staff in place as scheduled?
- Staff capacity to handle systems of reporting?
- Verification of reporting systems in place?
- Staff capacity to use project frameworks?
- Flexibility for changing project frameworks?
- Regular management meetings to steer actions?
- Understanding of contractual relationships with different parties/ability to manage them?
- Competence in framing annual work plans with planned/actual differentiation and basis in logframes?
- Competence in securing appropriate work plans from implementing agents?
- Capability to manage all implementing agents?
- Mechanisms to resolve conflicts?
- Baseline information in place?
- Independent monitoring?