

MANAGEMENT RESPONSE ON THE SPECIAL EVALUATION STUDY ON THE ROLE OF PROJECT IMPLEMENTATION UNITS

On 3 June 2005, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

A. Overall Comments

1. Analyzing the role and impact of PIUs is a challenging task given the wide variation in country and executing agency (EA) capacities, and the complexity of individual investment projects. Although these variations limit our ability to make many generalized observations, the SES succeeds in mining substantial internal and survey data to make useful recommendations for our use of PIUs in future projects. Management broadly supports these recommendations, and notes that the SES also contains useful project management tools such as best practices for project implementation arrangements, and an institutional analysis checklist to guide the design of project management arrangements.

2. PIUs have made a mixed contribution to capacity development in executing agencies, where capacity includes not just the ability to meet our procedural requirements, but also good governance, accountability, technology, project management skills, and expertise in a particular field. Evidence suggests that there is some trade-off between higher efficiency in project implementation as a result of dedicated PIUs on the one hand, and building deeper in-house capacity, on the other. Here, it is important to use agency staff as much as possible, and to integrate PIUs into EA operations. ADB has committed in the Paris Declaration to harmonize project implementation arrangements, minimize the use of parallel structures for project implementation, and to use joint PIUs with other development partners where possible. These measures will also reduce the transaction costs to the borrower.

B. Specific Comments on Recommendations

3. Management supports the recommendation that, as an input to CSPs, staff prepare a capacity development strategy that elaborates how project implementation arrangements can be made compatible with capacity objectives of executing agencies. This task is not simple—as we have argued above and, as is readily apparent in the SES, even at a country level few generalizations hold across sectors, agencies and projects. Management also supports the recommendation to include an assessment of PIU/EA capacity development issues in country portfolio reviews, and ADB is currently preparing an updated Project Administration Instruction along these lines.

4. It is currently standard practice to include institutional assessments in project documentation. Implementation capacity and PIU roles and responsibilities usually are addressed in project administration memoranda, although Management acknowledges that detailed capacity development plans for executing agencies are sometimes lacking or inadequate. The link between

implementation readiness of EAs, structure of PIUs, and long-term exit or integration strategy for PIUs certainly needs to be developed more explicitly in project documentation. More specific TORs for PIU staff, whether agency, contractual, or consultant, is supported. The SES finds substantial evidence that consultants all too often substitute, at high cost, for government staff. As a result their time is allocated disproportionately to regular operational duties at the expense of advisory work. In this regard, we welcome the 'good practices' contained in Box 2 as a useful checklist that may be disseminated to borrower and EA staff also, and not just within ADB.

5. The SES found a wide variety of cost estimates for project administration, and perhaps more relevant for the topic of PIUs, a wide variety of financing arrangements—from full counterpart to full loan financing. This has implications for salary and incentives of PIU staff, a persistent issue raised in many country portfolio reviews. Although not mentioned in the report, we note that even within one country PIU financing arrangements can vary markedly. This issue will require further attention by Management and Operational Departments to balance the benefits of consistency with the specific circumstances on the ground. We support the recommendation to include more detailed cost estimates for project management, and more detailed explanations of implementation arrangements, including the structure and staffing of PIUs and their role upon completion.

C. Comments on Follow-up Actions

6. One of the follow up actions currently proposed for ADB is the preparation of guidelines on PIUs making use of the good practices (Box 2) and the checklist for the institutional analysis of PIUs. The contents of specific guidelines on PIUs would be affected by the ongoing Innovation and Efficiency Initiative, which is addressing consulting service, procurement, CSPs and business processes. In the interim, we must examine whether existing ADB project management and implementation tools (e.g., the Project Administration Manual) can be enhanced to achieve the same outcome as introducing new guidelines. Because "there is no single best practice implementation arrangement for all circumstances" as acknowledged by the report, a common set of guidelines may not meet the needs of ADB operational missions.

7. The SES recommends that ADB conduct a study funded by TA sources on salaries of domestic and international consultants for ADB, Governments, and other funding agencies, in a range of DMCs, compare this with salaries of government staff in the DMCs, and assess this in the context of incentives and disincentives. Such a study would show that consultants, particularly international ones, earn substantially more than DMC government officials. The issue of high expatriate remuneration compared to DMC levels is not specific to the role of PIUs; it exists in many forms where the value of aid flows is very high compared with local income levels. However, the value of such a study and the priority for TA funding is not obvious.