A. Introduction

1. This project administration instruction (PAI) describes how the performance of ADB financed and administered sovereign projects financed by loans and/or grants, and technical assistance projects, will be monitored and rated using the eOperations project implementation module.\(^1\) A project is defined by its unique design and monitoring framework (DMF),\(^2\) regardless of the number of its financing instruments or sources.\(^3\) The eOperations is an integrated information technology solution that records country and project level information from concept to ex-post evaluation. The eOperations produces uniform project-related documentation and customized reports based on data that automatically moves through the system along a project cycle.

B. Design and Monitoring Framework

2. Each ADB financed and administered project is required to have a DMF that provides a logical structure for results focused project design.\(^4\) It is drafted in the project concept note and finalized with the borrower during negotiations prior to Board approval. The DMF summarizes how, assuming risks do not eventuate and assumptions hold true, approved inputs will resource activities to achieve measurable outputs, outcome, and contribute to a sector level impact. The DMF provides project managers with a framework to monitor and evaluate the achievement of development results (Appendix 1).

3. Impact. A project’s impact describes the expected beneficial consequences of achieving the outcome on sector performance three–five years after project completion. The impact links a project with the relevant sector or thematic results framework in the country partnership strategy. There should be one succinct impact statement, phrased as an end situation, reflecting a direct means–end relationship with the project’s outcome.

4. Nonsovereign operations only may have up to three impact statements. One impact statement must link the project to its relevant sector results framework in the country partnership strategy. As ADB’s nonsovereign operations are expected to contribute to strategic impacts of promoting innovative and replicable technologies especially in frontier economies and difficult sectors, and/or attracting and diversifying private sector investment partners, up to two additional impact statements with corresponding performance targets/indicators and data sources can be included.

5. Outcome describes what the project aims to achieve using the delivered outputs by the end of project implementation, thereby addressing one or more development problem identified in the problem tree. The phrasing of the outcome statement determines the nature and scope of the outputs that will be sufficient to achieve the outcome. There should be one succinct outcome statement, phrased as an end situation, describing institutional or organizational performance change, or behavioral change of beneficiaries, which is necessary but not sufficient to achieve the impact.

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\(^1\) Performance monitoring of nonsovereign projects is described in OM D10.
\(^2\) On the use of the DMF in loan, grant-funded and TA projects, refer to OM section J1/BP (Project Performance Management System), and ADB. 2015. *Guidelines for Preparing a Design and Monitoring Framework*. Manila.
\(^3\) For example, a project financed by two loans using a regular ordinary capital resource, a concessional ordinary capital resource, and an Asian Development Fund grant, with an associated (“piggybacked”) TA grant has one DMF, and therefore one PPR.
\(^4\) The only projects that do not require a DMF are: transaction TA, small-scale, and associated TA.
6. **Outputs** are the physical and/or tangible goods and/or services delivered by the project and describe the scope of the project. The outputs must be necessary to achieve the outcome with a clearly identified means-end relationship. Outputs are phrased as an end situation, not an action. They must be achievable during the life of the project within the available resources. Components are headings that describe a collection of outputs, and are often used when costing a project. It is useful to include an output for project management.

7. **Activities and Milestones.** Activities are the key actions (groups of tasks) carried out using project inputs to successfully achieve the planned outputs. Activities reflect the approach used to deliver the output and are the basis for implementation plans. Each activity should have a completion date/milestone. Procuring goods, hiring consultants, reporting, conducting surveys, etc. are activities recorded under a project management output.

8. **Performance Targets and Indicators** identify how the successful achievement of an output, outcome, or impact will be measured. Indicators are quantifiable with a target value that identifies how much will be achieved in a specific timeframe. A baseline is required for each indicator, although for many numeric output indicators the baseline may be zero. Target values and baselines should be gender disaggregated where appropriate. Including existing government indicators strengthens the government’s capacity to monitoring results during and after project completion. ADB should pay attention to executing agency capacity to monitor results and provide capacity building support, or additional resources for this purpose within the project as appropriate.

9. **Data Sources and Reporting Mechanisms** The data sources describe where information on the status of each indicator can be found, who provides the information, and how the information is collected. The use of existing government data sources will help institutionalize good information management practices.

10. **Assumptions and Risks** are external factors that are not within the control of the project and complete the cause-effect logic of the DMF. For example, the completion of activities will result in the outputs only if certain assumptions hold true and the risks do not eventuate. This logic applies up the results chain to the impact. Assumptions are positive statements of conditions, events or actions that are necessary to achieve results at each level of the DMF. For example, loan covenants are often crafted to obligate the borrower to ensure that assumptions are valid or achieved—they may be outside the scope of the project but are necessary for its success—and hence should be reflected in the DMF. Risks are negative statements of conditions, events, or actions that would adversely affect achievement of the intended results.

11. **Inputs** are the main resources required to undertake the activities to produce the outputs. In the DMF, inputs are listed by financier and main cost categories in financial and physical terms, including the in-kind contributions for other stakeholders.

12. **Recording the DMF** A project’s DMF is first entered into the e-Operations prepare project module under the Contents tab by the project team leader when the draft project concept paper is prepared. The DMF is updated during project processing in consultation with the executing agency as the project’s report and recommendations of the President (RRP) and the project administration manual (PAM) are finalized and approved by the ADB Board. After Board approval, the DMF is locked in the eOperations project implementation module and can only be changed through activating the change request procedure.
C. Project Performance Reporting

13. After project approval, the project team will regularly update project performance information for each ADB administered project financed by loan(s) and/or grant(s). Project performance information is updated in the e-Operations project implementation module under the Performance tab.

14. After TA project approval, the project team will regularly update TA project performance information for each ADB administered TA project. In the e-Operations project implementation module, TA project performance information is entered under the Performance tab. As project preparatory, and associated do not contain a DMF, only financial and contract information automatically sourced from financial and procurement systems will be managed. A TA completion report is not required for these TA projects.

15. Content. In the e-Operations project implementation module under the Performance tab the status of project implementation is recorded under the following six sub-tabs:
   
a. **Overview** includes the rating of each of the five project performance indicators (Section D), a summary of major issues or problems, and project and loan/grant product(s) details. It has links to (i) the S-curve sub-tab where the disbursement and contract award projections for the life of the project as defined in the PAM (Section IV.H) are recorded, (ii) financial details updated from the financial system, and (iii) review mission information updated from eTrip.
   
   The TA performance overview includes project and product(s) details updated from the financial system, and a summary of major issues or problems. It is not required to rate the status of TA projects.

b. **Impact and Outcome.** The impact statement as listed in the DMF is automatically captured from the Contents tab. For each impact indicator the following information is recorded: the type of indicator measurement, the baseline year and value, the year the target value will be achieved, and the performance target value. All impact level assumptions and risks are recorded. The outcome statement as listed in the DMF is automatically captured from the Contents tab. For each outcome indicator the following information is recorded: the type of indicator measurement, the baseline year and value, the year the target value will be achieved, and the performance target value. All outcome level assumptions and risks are recorded.

   c. **Outputs and Activities.** Each output statement as listed in the DMF is automatically captured from the Contents tab. For each output indicator the following information is recorded: the type of indicator measurement, the baseline year and value, the year the target value will be achieved, and the performance target value. All output level assumptions and risks are recorded. The activities for each output listed in the DMF are automatically captured from the Contents tab. The start and end dates as defined in the PAM (Table 2, Overall Project Implementation Plan) are entered.

   d. **Covenants** detailed in legal agreements for a project are all manually entered by the team leader under the following categories—audited accounts,^5^ safeguards, social, sector, financial, economic, implementation arrangements, and other.

   e. **Inputs** are automatically sourced from financial system.

   f. **History** provides a monthly snapshot of performance after project approval.

16. **Contract awards and disbursement S-curves.** Projections of contract awards and disbursements for the ADB portion of project finances are based on the procurement plan for the project’s duration. Projections are calculated during processing for all projects including those financed by Japan Fund for Poverty Reduction, but excluding policy-based loans/grants, and TA projects. A project’s S-curves

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^5^ This includes audited project accounts and agency financial statements.
are recorded in the PAM (Section IV.H). The quarterly projection data is recorded under the e-Operations project implementation module Content/Baseline Projections sub-tab, which generates the project’s contract awards and disbursement S-curve projections.

17. With specific reference to portfolio performance indicators and rating system (Section D), at the time of loan effectiveness, both the contract awards and disbursement projections for the life of the project are locked in the project implementation module. These projection targets can only be revised during a midterm review (MTR), after a major change of scope, or approval of an extension of project closing date of at least 12 months.

18. **ADB annual resource management planning.** For ADB's overall liquidity, cash flow, and portfolio management planning purposes, it is necessary for contract awards, commitments, and disbursement projections for all projects (excluding TA projects) to be updated annually. In the third quarter, the Procurement, Portfolio and Financial Management Department (PPFD) requests sector each ongoing project’s quarterly contract awards, commitments, and disbursement projections for the following year. This is done directly or through the sector or authorized director.  

19. Using information received from the executing agency, the project team leader prepares annual projections by quarter of contract awards, commitments, and disbursement for projects they administer. This includes all active projects effective as of 31 December each year, and each project expected to be approved and effective in the following year. The project team leader also prepares a separate statement of projections for each project expected to be approved during the year, including policy-based loans.

20. The annual projection information must be updated in the eOperations project implementation module on or before the last Friday of January each year and endorsed by the sector director. PPFD uses this information to prepare quarterly portfolio updates, annual report on portfolio performance, and background papers for country portfolio review missions, reports for operational review meetings, and other related project administration monitoring activities. Treasury and CTL use the information for their annual planning.

21. **Updating the PPR.** At least quarterly, throughout the life of the project, the project team leader will review the PPR and update as required based on information provided in executing agency progress reports, ADB staff administration mission back-to-office-reports, reports from mid-term reviews, and updated financial records. Progress and back-to-office-reports should always review progress status of activities, output indicators’ target values, and covenants, and where appropriate the outcome indicators' target values. The PPR must be updated on or before the last Friday of the month following each quarter. Updates are validated by the sector director.

22. The project team leader ensures that findings and assessment of the progress status of activities, outputs, and compliance with all loan covenants are discussed with the borrower or executing agency. Where necessary, remedial measures with an action plan will be agreed and included in the aide memoire or memorandum of understanding, such measures will also be recorded in the PPR.

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6 The sector director is responsible for the achievement of the key result areas of the sector portfolio. However, the director general could decide the extent to which the country director, under the overall guidance of the sector director, would provide local oversight and administer the resident mission based sector portfolio to support the achievement of the sector key result areas. Where authority is delegated, the sector director would be copied on all administrative decisions made by the country director.
23. **Impact and Outcome.** Impact is not expected to be updated during project implementation. Progress may be reported in the project completion report if appropriate. Outcome progress status is expected to be recorded upon completion of a MTR and updated subsequently. This would include recording progress status on the achievement of each outcome indicator target value, the outcome assumptions and risks, and whether it is necessary to amend the outcome or indicators. The analysis will also be used to identify problems with implementation progress and proposed actions, which is not disclosed. It will be used to record progress towards the outcome for public disclosure through the project information document.

24. **Outputs and Activities.** The progress status on the achievement of each output activity, indicator target value, and assumptions and risks is updated quarterly or as information is available. Based on the update in these three areas, problems with implementation progress and proposed actions at the activity and output level should be recorded.

25. **Covenants.** The status of compliance of each loan covenant is assessed as either Yes—the covenant is being or has been implemented, or No—the covenant is not being implemented. The compliance field under the performance/covenants tab automatically reports the status as “not yet due” based on the recorded due date for a covenant. For rating purposes, from the time of project approval, whether due or not, the system will compute a default position that a covenant is being complied with (Yes). Covenants are categorized in the project performance information system under the following categories—audited accounts, safeguards, social, sector, financial, economic, and others. Covenant compliance is rated by category by applying the following criteria: (i) **Satisfactory (Green)**—all covenants in the category are being complied with (Yes), with a maximum of one exception (No) allowed, (ii) **Partly Satisfactory (Amber)**—a maximum of two covenants in the category are not being complied with (No), (iii) **Unsatisfactory (Red)**—three or more covenants in the category are not being complied with (No).

26. **Noncompliance with covenants.** While the status of covenants must be regularly monitored, a MTR will include a detailed assessment of the status of all covenants (PAI 6.02). In the case of persistent noncompliance with loan covenants, ADB may, by notice to the borrower and guarantor, suspend all or part of their rights to make withdrawals from the loan account following procedures in PAI 4.03.

27. **Project completion report.** On completion of implementation, the final PPR record will be incorporated into the draft project completion report (PAI 6.07A).

28. **TA completion report.** The final TPR record will be incorporated into the TA completion report for all TA requiring a completion report (PAI 6.09).\(^7\)

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\(^7\) A TA completion report is not required for a project preparatory, small-scale, or associated (piggybacked) TA (para. 14).
D. Portfolio Performance Indicators and Rating

29. The purpose of portfolio performance rating is to establish the implementation status of each project. This will enable executing agency project managers and project team leaders to identify implementation problems and design effective remedial measures to get the project back on-track.

30. Projects are rated using the following five performance indicators. These indicators have equal weight.

   a) **Technical.** Are problems, if any (e.g. quality standards, key project conditions, implementation arrangements, cost overruns that require additional financing, etc.) identified in external supervision consultants and/or review mission reports being addressed? (Yes/No) Where more than one problem is being addressed, each problem is rated as either being addressed (Yes) or not (No). To calculate the overall technical indicator rating, a Yes rating is given a value of 1 and a No rating a value of 0. The sum of these ratings is divided by the total number of problems and the threshold levels in para. 32 are applied to define the indicator status.

   b) **Contract Award.** The difference between the cumulative actual and the original projected contract award values starting at loan effectiveness over the life of the project. The original projected contract award ‘S-curve’ is derived from the PAM (Section IV.H). The actual contract award values are derived quarterly from the financial system.

   c) **Disbursement.** The difference between the cumulative actual and the original projected disbursements starting at loan effectiveness over the life of the project. The original projected disbursement ‘S-curve’ derived from the PAM (Section IV.H). The actual contract award values are derived quarterly from the financial system. Disbursement data will be automatically sourced from the loan and grant financial information systems to trigger the application of formula related to disbursement.

   d) **Financial management.** Compliance with audit/accounts covenants: Has an acceptable annual audit report been received on time? (Yes/No). The default is Yes until the due date as defined in the loan agreement. If the audited project accounts and agency financial statements have not been uploaded, and the indicator status has not been updated on or before the due date, then compliance will be rated No. An audit report is unacceptable if either partial or incomplete audited project accounts or agency financial statements are submitted, or only unaudited project accounts and financial statements are submitted. An audit report qualification need not imply unacceptability. The acceptability of an audit report with audit qualifications will be assessed by an ADB financial management specialist based on the nature of the qualification. (PAI 5.07 defines the parameters of an assessment of acceptability.) Their assessment will be recorded in the PPR. Where there is more than one set of audited project accounts and agency financial statements the rating method for covenants described in para. 25 will apply.

   e) **Safeguards.** Compliance with safeguard covenants: (i) Environment (Yes/No) (ii) Resettlement (Yes/No) (iii) Indigenous people (Yes/No). The default for each covenant is Yes. Use the rating method for covenants described in para. 25.

31. The portfolio performance indicators and rating system applies to all projects including those financed under the Japan Fund for Poverty Reduction. The following will apply to selected modalities:
a) Technical assistance projects performance is not rated.

b) Sector development program has one DMF describing both the policy-based (reforms) and project (investment) components. The policy-based component is released in tranches against agreed conditions, whereas the investment project component is implemented through contracts. While the contract awards S-curve is only prepared for the investment component, the disbursement S-curve is prepared for the total disbursement of both the program (by tranche release) and investment project components (as per procurement package contract awards).

c) Multitranche financing facility (MFF) has a DMF describing the overall program facility. A PPR is created for the MFF program facility DMF, and is updated as each periodic financing facility (PFR) is completed. In addition, each PFR (tranche) is a project with a unique DMF. The portfolio performance indicators and rating system apply to each PFR project, but not the MFF program DMF.

d) Policy-based loans. The five indicators do not apply to policy-based loans. For single tranche program loans where the tranche is disbursed soon after the loan is effective, by definition loan performance is on-track. For multitranche policy-based loans, an assessment of the performance of the program is made in the preparation of the Board paper requesting approval for the subsequent tranche. This assessment will be recorded in the PPR.

32. Rating will use a three-level traffic light applied to each indicator, and to the aggregation of the individual indicators into a single project rating.

<table>
<thead>
<tr>
<th>Status</th>
<th>Rating</th>
<th>Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>On track</td>
<td>Green</td>
<td>The S-curve for either ‘actual’ disbursement or contract award is within &gt;90% of original projection; Technical – overall rating ≥0.9; Financial management are rated Yes; Safeguard compliance is rated satisfactory (i.e. all Yes or with a maximum of one No)</td>
</tr>
<tr>
<td>Potential Problem</td>
<td>Amber</td>
<td>The S-curve for either ‘actual’ disbursement or contract award is 75%–90% of original projection; Technical – overall rating 0.7–0.89; Safeguard compliance is rated partially satisfactory (i.e. has a maximum of two No’s)</td>
</tr>
<tr>
<td>Actual Problem</td>
<td>Red</td>
<td>The S-curve for either ‘actual’ disbursement or contract award is less than 75% of original projection; Technical – overall rating ≤0.69; Financial management ratings are No; Safeguard compliance is rated unsatisfactory (i.e. has three No’s)</td>
</tr>
</tbody>
</table>

33. Project rating. The five indicator ratings is aggregated into a single project rating by generating an average rating score for the project. The following values will be assigned to each rating Green = 1 point, Amber = 0.5 point and Red = 0 points. The assigned values for each of the five indicators are summed and
divided by 5 to produce an overall project rating score between 0 and 1. Applying the percentage thresholds only, a project with a total rating score greater than or equal to 0.9 is on-track (Green); a project with a total rating score of 0.7–0.89 is a potential problem (Amber); and a project with a total rating score of less than 0.69 is an actual problem (Red), and is ‘at-risk’ (see Table 1).

Table 1. Illustrative alternative project rating scenarios

<table>
<thead>
<tr>
<th>Performance Indicator</th>
<th>Project 1</th>
<th>Project 2</th>
<th>Project 3</th>
<th>Project 4</th>
<th>Project 5</th>
<th>Project 6</th>
<th>Project 7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
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<tr>
<td>Contract Awards</td>
<td>1</td>
<td>0.5</td>
<td>0.5</td>
<td>1</td>
<td>0</td>
<td>0.5</td>
<td>1</td>
</tr>
<tr>
<td>Disbursement</td>
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<td>0</td>
<td>0.5</td>
<td>1</td>
<td>0</td>
<td>0.5</td>
<td>1</td>
</tr>
<tr>
<td>Financial management</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Safeguards</td>
<td>0.5</td>
<td>1</td>
<td>1</td>
<td>0.5</td>
<td>1</td>
<td>0.5</td>
<td>0</td>
</tr>
<tr>
<td><strong>PROJECT RATING</strong></td>
<td><strong>0.9</strong></td>
<td><strong>0.7</strong></td>
<td><strong>0.8</strong></td>
<td><strong>0.5</strong></td>
<td><strong>0.6</strong></td>
<td><strong>0.7</strong></td>
<td><strong>0.8</strong></td>
</tr>
</tbody>
</table>