ADB

Special Evaluation Study

SST: REG 2005-02

The Role of Project Implementation Units

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Operations Evaluation Department
Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
AusAID	–	Australian Agency for International Development
DFI	–	development finance institution
DMC	–	developing member country
EA	–	executing agency
GDP	–	gross domestic product
IA	–	implementing agency
NGO	–	nongovernment organization
O&M	–	operation and maintenance
OED	–	Operations Evaluation Department
OEM	–	Operations Evaluation Mission
PCR	–	project completion report
PCU	–	project coordination unit
PIU	–	project implementation unit
PMC	–	project management consultants
PMU	–	project management unit
PPR	–	project performance report
PPAR	–	project performance audit report
PRC	–	People's Republic of China
RRP	–	report and recommendation of the President
SES	–	special evaluation study
TA	–	technical assistance
TOR	–	terms of reference
UNDP	–	United Nations Development Programme

NOTES

(i) In this report, "$" refers to US dollars.

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W. Kolkma, evaluation specialist (mission leader), wrote this report. He conducted field missions to Kyrgyz Republic, Malaysia, Papua New Guinea, and the Philippines. M. Blacker (staff consultant) accompanied the mission leader to Malaysia and Papua New Guinea. H. Tucker, senior portfolio evaluation specialist, and J. Lawrence (staff consultant) conducted missions to Bangladesh and Viet Nam. In Manila, three researchers, J. Simon, M. G. Alindogan, and E. Relato, conducted file studies, administered the project questionnaire survey, and analyzed project management costs and technical assistances, respectively. A. Anabo, senior evaluation officer, supported the study with additional research.

The guidelines formally adopted by the Operations Evaluation Department (OED) on avoiding conflict of interest in its independent evaluations were observed in the preparation of this report. To the knowledge of the management of OED, there were no conflicts of interest of the persons preparing, reviewing, or approving this report.

APPENDIXES

SUPPLEMENTARY APPENDIXES (available upon request)

EXECUTIVE SUMMARY

This special evaluation study contributes to a wider debate in the donor community regarding project implementation units (PIUs), particularly their efficiency and role in capacity development. In this study, PIU is a generic term, referring to all special staffing and "ring-fencing" arrangements made in agencies to manage and implement projects. The debate revolves around the observations that PIUs as supported by external agencies would have high direct and indirect costs, have a propensity to develop into parallel organizations, and dilute central government policy through their allegiance to donor agendas. PIUs, although widely used on account of their supposed efficiency, are alleged by some to be less efficient than assumed. Representatives of some of Asian Development Bank's (ADB) developing member countries (DMCs) have raised questions whether PIUs result more in capacity substitution than capacity development, affect the agencies' project management capacity, and affect government ownership of projects. In attempting to address the observations and find answers to the questions, the study investigated the effects of PIUs on implementation efficiency and capacity development, and examined ways of simultaneously improving implementation efficiency and project management capacity.

Since information on the use of various PIU arrangements in ADB's portfolio was not readily available, the study undertook considerable data collection and investigated patterns of implementation arrangements with and without PIUs across projects, agencies, and countries. File studies were conducted, ADB databases analyzed, and a questionnaire was sent to all investment projects ongoing for a year or longer. Two hundred six project managers in 152 projects replied, or 58% of the 263 projects contacted. Missions visited six of ADB's member countries (Bangladesh, Kyrgyz Republic, Malaysia, Papua New Guinea, Philippines, and Viet Nam) to gather additional information from various stakeholders.

Although it would be reasonable to expect that, as institutional capacity develops with several decades of development experience, agencies would gradually rely less on dedicated management structures, the study found that the number of PIUs used for investment projects has not decreased. A significant number of investment projects are implemented without formal PIUs only in the energy sector, although project management consultants still often contribute. In this sector, many state-owned enterprises have developed into matrix-structured organizations suitable for project implementation without the need for temporary management arrangements.

The study found that around 90% of ADB's investment projects (including sector projects) are managed using some type of PIU. The remaining 10% or so are run without formal PIUs. Almost a sixth of the projects use internally staffed PIUs and a third use externally staffed PIUs (sometimes excluding a senior agency staff member as project head). The remaining 52% of projects have a mix of internal and external staff. Forty-four percent of PIUs are temporary and are to be dissolved upon completion of the project; 26% were unclear about their fate after project completion. Twelve percent of PIUs regarded themselves as "permanent", i.e., they expect to find new projects to manage upon completion of the present project(s), and 18% were to merge, i.e., the PIU staff would be (re-)absorbed as permanent staff of the parent agency. Overall, around half of all PIUs were judged to be largely integrated with their agencies; the other half operated more separately.

PIUs are commonly used to manage the planning and implementation of large capital projects in both developing and developed countries. PIUs are used to clearly assign authority and accountability for the project. In many cases, the need for skilled human resources is

temporary (i.e., during the implementation period). Often, fewer or different types of people are needed during the implementation and maintenance phase.

Although investment projects continue to rely on them, PIUs have become less dominant in ADB's portfolio. The number of policy-based programs supported by ADB is increasing. Together with credit lines provided to development finance institutions (DFIs), such projects now involve more than a quarter of all loans. Except for sector development programs, program loans and credit lines for DFIs do not normally use PIUs.

The use and composition of the PIU depends on (i) the funding agency, (ii) the nature of the parent executing or implementing agencies, (iii) the type of project, and (iv) the country context. ADB projects are much larger than most projects funded by bilateral agencies or nongovernment organizations, and need more special management arrangements. ADB thus usually insists on establishment of a PIU before loan effectivity but usually leaves it to the agency to structure and staff the PIU in a manner that is consistent with local conditions. ADB policies and safeguard demands have increased the tasks of PIUs over the years. However, the degree to which this represents direct and indirect costs for DMCs depends on the nature of the project. The policies and procedures can cause delays or extra costs. However, the Operations Evaluation Department (OED) believes that these policies and procedures promote good practice in project management and often contribute to improved project output. ADB's requirements may not be higher than those of most other funding agencies. The study concluded that project management costs are not excessively high—around 5% of total costs on average. ADB needs to reduce delays in its response time: 40% of respondents in the project survey noted this as a problem. This will require placing more attention and staff resources for project administration. Delegating more responsibility to resident missions for project administration may be a cost-effective way of improving this area. ADB may also need to increase its quantum of technical specialists. This was recommended by a recent assessment of the effectiveness of ADB's reorganization of 2002. ADB is currently working on a variety of initiatives that will change implementation processes, such as notably a middle-income countries partnership framework, and the Innovation and Efficiency Initiative which deals with business processes.

Changing agency characteristics have contributed to the persistence of PIUs. The types of executing agencies for ADB-funded projects have gradually shifted since the 1970s. More projects are now executed by regular government agencies rather than by more project-oriented state-owned enterprises. Decentralization has led to greater subnational involvement of agencies, which have less capacity in project management. Exercises to downsize staff of agencies in the 1990s and 2000s have reduced spare capacity and therefore increased the reliance on temporary arrangements.

Changing project characteristics have also contributed to the persisting reliance on externally staffed and financed PIUs for investment projects, notably their increasing complexity, scope, and continuing use of innovative approaches. ADB is coupling infrastructure and reform-related components, or capacity development-oriented components. ADB finances more social sector projects, usually in agencies with less experience in infrastructure construction.

The project management context in many counties has remained problematic for arrangements relying on greater use of regular divisions of agencies. In some countries, recruitment of additional government staff has been banned. Civil service systems have not adapted to the reality of projects and may continue to work against flexible recruitment of staff into government positions or reassignment of internal staff to projects. Poor public investment

programming may increasingly "projectize" not only capital investment but also components of operation and maintenance (O&M) programs and service delivery. The sheer number of foreign-funded projects in many countries and the large number of external agencies involved in a sector decreases project management expertise available for any particular project. Experienced project administrators with proven track records are scarce commodities in some countries. The increasing size, quality, and competitiveness of the domestic consulting industry has led some governments to choose to rely more on outsourcing and externally staffed PIUs. Excessive use of consultants and contractuals is allegedly favored by certain government officials as an opportunity for corruption and kickbacks. The growing awareness of the influence of corruption on projects in certain countries has led external agencies, including ADB, to "ring fence" their projects to reduce opportunities for corruption. All of the factors mentioned have combined to favor a continued use of PIUs even if ADB regularly attempts to increase reliance on regular units of agencies.

The relative efficiency and effectiveness of arrangements with PIUs as against those without PIUs was difficult to establish as most of the arrangements without formal PIUs were found only in the energy sector. Energy projects, particularly transmission projects, were more often executed by agencies dependent on project funds and highly specialized in project implementation. Almost half of these did not make temporary arrangements although some used specialized consultants. Energy projects have often been rated successful by OED, but ADB's project performance reporting system indicates that the currently ongoing energy projects have more implementation problems than others. Overall, there is little evidence to corroborate that project implementation arrangements without PIUs lead to significantly greater efficiency. Many external agencies as well as executing agencies visited during the country missions reported that they saw no easy alternative to PIUs. The continuing dominance of the PIU across the portfolio points to the likely conclusion that PIUs are fundamentally efficient for investment projects of the type typically financed by ADB. Temporary, permanent, and merging PIUs may have been designed to fit to purpose as they did not appear to achieve very different levels of efficiency. Whether separate PIUs are more efficient than integrated PIUs may depend on the type of project. Usually they also seemed fit to purpose: levels of efficiency and effectiveness were generally comparable. Externally staffed PIUs on the whole seem slightly more efficient for infrastructure projects, and internally staffed PIUs somewhat more for projects that include a focus on O&M of infrastructure and public service delivery.

The assessment of PIUs' effects on capacity development in the parent agencies concentrated on the role of external PIU staff, notably consultants and contractual staff.[1] Contractual staff tended to fill gaps (i.e., carrying out operational tasks for which the agency could not supply the staff). However, their semipermanent nature in many agencies pointed to systemic problems with the institutionalization of capacity creation through projects. Consultants in PIUs were used for operational and advisory or training-related tasks, and the survey found that 16–19% of such consultants sometimes substituted for agency staff. A large majority of heads of PIUs responded that agency staff outside the PIU are likely to do more tasks in the project if given more incentives. Over 40% of those surveyed did not confirm that the project improved project management capacity. In many agencies, project management capacity was created, but in some agencies, there were signs of capacity erosion. Many agency staff members left the service to become consultants, and external staff rotated quickly through PIUs. Some PIUs became parallel units. One in five respondents stated that the PIUs' work

[1] PIU consultants were usually hired through firms or, occasionally, as individuals, with ADB's concurrence needed if the funding came from the loan. Contractual staff are hired as individuals by the executing or implementing agency, on conditions set by the agency. Usually the salaries are not very different for those with comparative expertise in the government service. ADB is not involved in hiring contractual staff.

overlapped with the agency's. Many among these also stated that the PIU and the agency competed for staff members. OED's recent project evaluations showed little evidence of PIUs becoming parallel institutions after project completion. The assessments lead to the conclusion that the effects of PIUs on capacity development are variable. While there are demonstrable positive influences in many cases, some PIUs have overlapping functions, substitute for agency functions, inducing behaviors of staff members outside the PIU which are not conducive to capacity development, and having no clear plans for O&M of outputs after project completion.

The study argues that DMC governments should introduce performance management systems in their agencies, combined with incentives for their staff to work in PIUs or with the project. Agencies dealing with repetitive projects through separate PIUs should consider adjusting their organizational structures to better integrate project management systems.

The main conclusion of this study is that PIUs are a generally legitimate and justifiable implementation arrangement for capital investment projects of the type that dominate ADB's loan portfolio, on account of their efficiency in implementation. PIUs are primarily used as a mechanism to implement projects and to create capital assets, rather than as a tool to build human or institutional capacity. In principle, ADB should strive to implement its projects within the government structures, if necessary through PIUs, preferably of the integrated type, considering the loan modality, government policies, country systems, and project efficiency. To reduce the risk that separate PIUs might undermine agency capacity in certain circumstances, attention needs to be paid to (i) possible overlaps with the functions of the parent agency, (ii) staff composition, and (iii) exit strategy. Another conclusion is that no single best practice implementation arrangement is always appropriate. Finding the best solution depends on a careful analysis of executing agency, project, and country conditions.

The study recommends the following:

(i) ADB should more systematically assess the potential effects of project implementation arrangements on agency capacity. Where possible, the potential of such arrangements for developing project management capacity should be maximized.

(ii) The project implementation arrangement should be chosen depending on careful analysis of project, agency, and country contexts.

(iii) If the loan modality and government preferences require the establishment of a PIU, ADB should encourage the use of PIUs that are staffed internally.

(iv) In cases where separate PIUs are more efficient, the risk that they would undermine the parent agency's project management capacity needs to be assessed as a standard practice and mitigated.

(v) In cases where separate PIUs are planned, ADB and executing agencies should agree on their exit strategy and/or transformation for the O&M phases of the project.

(vi) The cost of project management and the development of capacity to manage projects should be more systematically analyzed during project preparation. Loan financing of project administration costs should be well justified.

(vii) The focus at the stage of Board approval should be on the readiness of projects, so that delays in establishing implementation mechanisms do not become a reason for subsequent delays. If country systems do not allow for the establishment of PIUs before Board consideration, ADB should enter into policy dialogue to see if this situation can be changed, pointing out the cost of delays in financial terms to the borrower.

(viii) Country portfolio reviews should monitor the effects of implementation arrangements on capacity development.

More detailed recommendations are in Chapter VI. The study identified a set of good practices for project implementation arrangements (Chapter VI, Box 2), and a checklist to guide ADB staff in the institutional analysis to help determine the need for, and nature of, PIUs (Appendix 13). This material is designed to improve the capacity-building impact of PIUs. A number of follow-up actions are proposed, focusing on integration of the practices and checklist in staff guidelines on project processing and administration, and, in the interim period, on their distribution to ADB staff members in various departments and integration in training programs that ADB runs for staff members of executing agencies.

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I. QUESTIONING THE ROLE OF PROJECT IMPLEMENTATION UNITS

A. Introduction

1. The Asian Development Bank (ADB) has long recognized that good project management capacity is necessary for project success. Some of its staff would even say it is sufficient.[1] To harness such capacity, most ADB projects have used special units to manage project implementation. Depending on the nature of their tasks, such units are variously called project coordination units (PCUs), project management units (PMUs), project implementation units (PIUs), or similar designations. Since their purpose is essentially the same, in this special evaluation study (SES) all are called PIUs. The justification for creating them is partly based on many agencies' limited capacity. Special arrangements are thought necessary to successfully manage implementation. Efficient implementation is sometimes thought to be helped by a unit able to employ and retain project staff under special conditions, sometimes including salary enhancements; access more regular budgets and better facilities than normal government agencies; avoid the usual bureaucratic constraints of the agency; and cater to ADB's need for fiduciary arrangements.[2] A related reason is that such units are often seen as a temporary organizational structure to supplement the executing agency (EA) or implementing agency (IA) capacities during project implementation.[3] Because project activities are seen as additional to the normal duties of most agencies, their regular staff would not be available for project management, or would need to be assigned full-time and thus taken away from other duties: hence, the need for special arrangements. However, to what extent do the short-term objectives of efficiency and expediency—which are important practical reasons for establishing PIUs—prevent EAs' regular units from taking on a gradually larger role in project implementation?

B. PIUs in ADB

2. ADB does not systematically classify the different kinds of PIUs. ADB staff and government counterparts define project implementation arrangements in the context of each individual project and may assign any name to such a unit. Generalizing the most frequently used practice in ADB, a PCU coordinates different EAs, with or without administrative functions. When there is a PCU, invariably there is also a PMU or PIU. A PMU is usually in the EA and manages the project, either by itself or with assistance from either subordinate PIUs or with attached consulting services performing such tasks as procurement, contract supervision, monitoring, and reporting. Detailed design, direct supervision of works, and other technical tasks are generally not performed by the PMU. However, when there are no additional PIUs, then a PMU can undertake such tasks. A project office designated as a PIU usually performs a significant number of technical tasks such as detailed design, procurement, construction supervision, monitoring, and reporting to ADB, and other tasks such as supervision of training.

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[1] "A bad project manager can turn a good project into a bad one. A good project manager can turn a bad project into a good one."

[2] Arrangements that ensure that (i) the money is used for the intended purpose through adequate procurement, contracting, accounting and disbursement, and financial management arrangements, especially in countries where government systems are perceived to be inadequate; (ii) environmental protection; and (iii) social safeguards such as on involuntary resettlement and indigenous peoples.

[3] The executing agency (EA) is the organization that manages part or all of the ADB loan funds. (A project can have more than one EA if it has multiple components.). The implementing agency (IA) carries out a distinct part of project implementation. The EA can also be the IA. Often other IAs are involved in implementing a project.

C. PIUs in Projects of Other Organizations

3. PIUs are not unique to ADB and are commonly found in the implementation arrangements for projects in developed and developing countries. ADB created a PIU to manage the construction of present headquarters building. The well-known United Nations Development Programme (UNDP) report, *Rethinking Technical Cooperation,* referred to their widespread use in Africa in 1993.[4] The World Bank completed studies[5] in 2000 and 2001 in Latin America and the Caribbean, Europe, and Central Asia, showing that most of its projects used PIUs, varying from separate units to government-integrated ones. The separate, free-standing units had their own budget, with most staff members paid from that budget, sometimes had a separate legal status, and were often outside the building of the EA or IA. The integrated units functioned without a special budget, had no separate legal status, and often operated as a task force composed mostly of the EA's permanent staff members. Overall, two thirds of the World Bank projects in Latin America and the Caribbean had separate PIUs. In Europe and Central Asia, 80% did.

D. ADB's Role

4. ADB has provided a great deal of project management support to EAs and their PIUs. The support can include loan-based funding of administration costs, loan-financed consultants, and ADB project supervision missions that help and monitor the work of PIUs. ADB provides handbooks and regularly organizes workshops and seminars for government staff of EAs and their PIUs on project management, procurement, contracting of consulting services, disbursement, accounting, and financial management. Increasingly, ADB holds annual country portfolio review missions, to which PIU staff are invited, to focus on larger issues of portfolio management. Since the adoption of the Resident Mission Policy Paper in February 2000, ADB has created more resident missions. More authority and accountability for project administration are being delegated to resident missions, which are closer to EAs and PIUs. ADB also helps PIUs and EAs in a variety of other ways, such as by providing funds in loans for consulting services and training to develop project management capacity, and by providing technical assistance (TA) to EAs. ADB attempts to improve the environment for good project implementation, for instance by financing TAs that strengthen general institutions such as in training, planning, finance, law, and audits, and by doing special studies and reviews. ADB participates in international forums and working groups to coordinate and harmonize its implementation processes with those of other external agencies and developing member countries (DMCs).

5. ADB's support for project management should be seen in the context of the increasing complexity of projects. Many ADB projects have moved beyond the principal objective of capital investment to include objectives related to operation and maintenance (O&M), service delivery, capacity development, and policy reform. The emphasis on compliance of projects with ADB's policies and procedures, loan covenants, and safeguard policies has grown.

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[4] Berg, Elliot J. 1993. *Rethinking Technical Cooperation. Reforms for Capacity Building in Africa*. New York: United Nations Development Programme and Development Alternatives, Inc.

[5] (i) World Bank. 2001. *Thematic Review on Project Implementation Units: An Analysis of Ongoing and Completed Projects in Latin America and the Caribbean.* Washington, DC. (ii) World Bank. 2000. *Implementation of World Bank-Financed Projects. A Note on the ECA experience with Project Implementation Units*. Washington, DC. (This study was available to the Operations Evaluation Department [OED] only in draft form, although it has been referred to in various World Bank publications such as *Evaluation of the Comprehensive Development Framework*, and *World Development Report 2004*.)

E. Role of PIUs Questioned

6. The development community is questioning the role of PIUs.[6] The debate involves funding agencies and DMCs, whose project implementation capacities have grown over the years. Negative perceptions of PIUs have come to the fore, including the high salaries of PIU consultants, lack of commitment, overstaffing, opaque financial activities, lack of audits, and vested interests of PIUs in self-perpetuation.

7. UNDP's publication on capacity development[7] argues that PIUs present a major dilemma, and that project implementation that bypasses existing institutions misses opportunities for capacity development in the core public sector, increases fragmentation, and distorts incentives. "Parallel entities actually tend to undermine established structures and chains of command, and typically divert scarce skilled human resources from mainstream administration"… "PIUs can be a cop-out for fundamental reforms"… "Powerful PIUs may drive a development agenda and impose prescriptions on how a government should work"… "Particularly in the least developed countries, PIUs should be the rare exception, with clearly defined exit strategies"… The report, however, also has positive things to say about PIUs, such as that under certain circumstances they may be efficient and can be fine-tuned to meet capacity objectives. The degree to which the publication refers more to PIUs for TA projects such as financed by UNDP is not clear. According to a recent publication by Oxfam,[8] 85% of all aid transactions cost less than $1 million.[9]

8. *World Development Report 2004*[10] argues, on the basis of World Bank studies (footnote 5), that "autonomous" or "semiautonomous" PIUs may undermine local capacity building, distort salaries, and weaken the compact between policy maker and provider organization. The report stated that PIUs may have no significant positive impact on project outcomes. The likely sustainability of results may suffer because of them. In other words, autonomous or semiautonomous PIUs may neither develop capacity nor sustain projects.[11] The report opines that these units should be phased out and development agencies build the capacity of government provider organizations.

9. More recently, PIUs have become part of the debate on donor harmonization, alignment, and use of country systems in project implementation. A paper released in October 2004[12] states that the isolation of projects from government systems as required by external funding agencies limits the positive impact of development assistance to the individual projects. The paper sees PIUs mainly as a ring-fencing arrangement to serve external funding agencies. The aggregate of their many separate requirements imposes high transaction costs on recipient countries and strains their administrative resources. For advanced borrowing countries, the approach may simply add to the cost of doing business with development agencies and undermine implementation of borrowers' "good practice" requirements. The Paris Declaration on

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[6] For instance, (i) the Berg study (footnote 4); (ii) UNDP. 2003. *The PIU Dilemma: How to Address Project Implementation Units. Practice Note*. New York; and (iii) World Bank. 2003. *Toward Country-led Development. A Multi-Partner Evaluation of the Comprehensive Development Framework*. Washington, DC.

[7] Lopes, Carlos and Thomas Theisohn. 2003. *Ownership, Leadership and Transformation. Can We Do Better for Capacity Development?* New York: UNDP and Earthscan Publications.

[8] Actionaid, Oxfam. 2005. *Millstone or Milestone? What Rich Countries Must Do in Paris to Make Aid Work for Poor People.* Available: www.oxfam.uk

[9] In 2004, the average ADB loan size was $67 million.

[10] World Bank. 2003. *World Development Report 2004. Making Services Work for Poor People*. Washington, DC.

[11] However, the study referred to in footnote 5 (i) also found that 82% of projects implemented through more autonomous units were rated satisfactory or highly satisfactory, and 75% of less autonomous units. Furthermore, in low-income countries, the use of consultants in PIUs made a project more likely to sustain its results.

[12] World Bank. 2004. *Issues in the Use of Country Systems in Bank Operations*. Washington, DC.

Aid Effectiveness (2 March 2005) reflects the commitment of external funding agencies to "avoid, to the maximum extent possible, creating dedicated structures for day-to-day management and implementation of aid-financed projects and programmes."[13]

10. These are indeed potent challenges to a commonly used implementation arrangement, some of which are based on perceptions and would be hard to prove or disprove empirically. Many studies reviewed for this SES have not distinguished systematically between the effects of internally or externally staffed PIUs, often assuming that all are externally staffed. Similar questions have been raised by DMC representatives in ADB workshops: (i) Do PIUs contribute more to capacity substitution than capacity building? (ii) Do they hamper the growth of EAs' project management capacity? (iii) Are they too donor-driven and impose high indirect costs? (iv) Do they reduce government ownership of the project? (v) Are they the best model or can a better one be found that simultaneously implements projects and builds capacity?

F. Study Questions

11. ADB has not investigated the nature of its PIU arrangements in detail and does not have general guidelines for them. Little is known about which types of arrangements are typically used, how much they cost, how they have evolved, how they are distributed across sectors and countries, and how they function in the various agencies and projects that ADB deals with. Little information exists to assess the efficiency of PIUs and their impact on project implementation capacity development. The objective of this SES is to address these questions. It will investigate various PIU arrangements in ADB investment projects and analyze their relationship with implementation efficiency and agency capacity development.

12. The SES focuses on loan-funded investment projects. Implementation arrangements for program loans are excluded and there is also less attention for implementation arrangements in the context of credit lines to development finance institutions (DFIs). Both types of loans are usually managed without PIUs. The SES mainly addresses the utility of temporary and externally staffed PIUs versus other types. The main PIU arrangements to be reviewed include (i) temporary PIUs and permanent ones (which handle more projects), (ii) PIUs with significant involvement of externally recruited staff and PIUs without, (iii) PIUs "separate" from EAs (i.e., temporary and externally staffed) and those "integrated" with EAs ("organic PIUs"), and (iv) simple and complex PIU arrangements.

G. Methodology of the Study and its Limitations

13. The SES used the following evaluation instruments: (i) a review of ADB publications on capacity development and implementation efficiency; (ii) ADB loan data and project performance reports (PPRs); (iii) a sample of 140 reports and recommendations of the President (RRPs) issued from 2000 to 2003 to analyze implementation arrangements; (iv) all 220 project completion reports (PCRs) issued from 1998 to 2003 to analyze project management costs;[14] (v) a sample of 100 PCRs drawn from these 220 to examine general implementation issues; (vi) the 30 most recently issued project performance audit reports (PPARs); (vii) a project survey based on a detailed questionnaire e-mailed or faxed to the PIU heads of all 263 ADB-supported investment projects ongoing for at least a year in ADB, or to

[13] The high-level forum agreed to a special indicator for this "(6): Strengthen capacity by avoiding parallel implementation structures — Number of parallel project implementation units (PIUs) per country." The target for improvement was to be set by September 2005.

[14] The figures are derived from the databases used for a previous OED study (ADB. 2004. *Special Evaluation Study on Project Cost Estimates*. Manila).

project heads, in case there was no formal PIU (there were 206 responses from 152 projects);[15] and (viii) country missions to Bangladesh, Kyrgyz Republic, Malaysia, Papua New Guinea, Philippines, and Viet Nam, during which 3–5 projects and their PIUs were visited and interviews held with central agencies and external agencies.[16]

14. A few words of caution are in order. Although the SES defined concepts used such as project management, project implementation, implementation efficiency, and capacity development, these remained variously understood by project survey respondents and interviewees. In practice, the concepts have different meanings in different contexts. Project documentation studied for this SES paid variable attention to the issues that are the subject of this study. Information available in RRPs, PCRs, and PPARs was usually insufficiently precise to determine the use of government officers, consultants, and contractual staff by PIUs, their exact tasks, and sometimes even whether they existed before the project was approved, and what the exit strategy was. This limited the scope for establishing cause–effect relationships between types of implementation arrangements and project success. Proxy indicators had to be relied on, as well as perceptions of PIU staff in ongoing projects. Project documentation was often unclear about the level of project management capacity existing before the project,[17] and the division between advisory or operational tasks of consultants. Large numbers of RRPs did not reflect whether an institutional analysis had been conducted and whether lessons had been learned from implementation arrangements. Appendix 1 contains more details on the project survey, including its limitations. The resulting methodological, data, and measurement challenges place some caveats on findings and recommendations.

H. Definitions

15. The study distinguishes between three types of PIUs, two types of PIU tasks (project management and project implementation), and two types of effects (implementation efficiency and capacity development) (Box 1 on next page).

I. Framework and Organization of the Report

16. The PIU's nature and use depends primarily on the characteristics of (i) the funding agency, (ii) the parent agency, (iii) the project, and (iv) the country. The effects of the PIU on capacity development depend on its characteristics. Consequently, the SES analyzes these characteristics at length before turning to the effects of PIUs on implementation efficiency and capacity development.

[15] The SES will indicate the source of the information below tables and figures—whether the Project Survey 2004, the 140 RRPs issued from 2000 to 2003, or other sources. One indicator of the representativeness of the project survey sample was that its finding of 9.7% PIU-less projects was roughly equal to the 11% that of the 140 RRPs. If the 152 projects had been a sample, the responses would normally give a confidence interval of 5% around the average and a confidence level of 95%.

[16] Missions took place from July to September 2004. With the exception of Malaysia, countries were selected where OED expected project management capacity to be a scarce good. Malaysia was included to compare the general experience with a middle-income country where project management capacity is more advanced.

[17] This was sometimes not discussed in the RRP.

Box 1. Definitions Used in the Special Evaluation Study

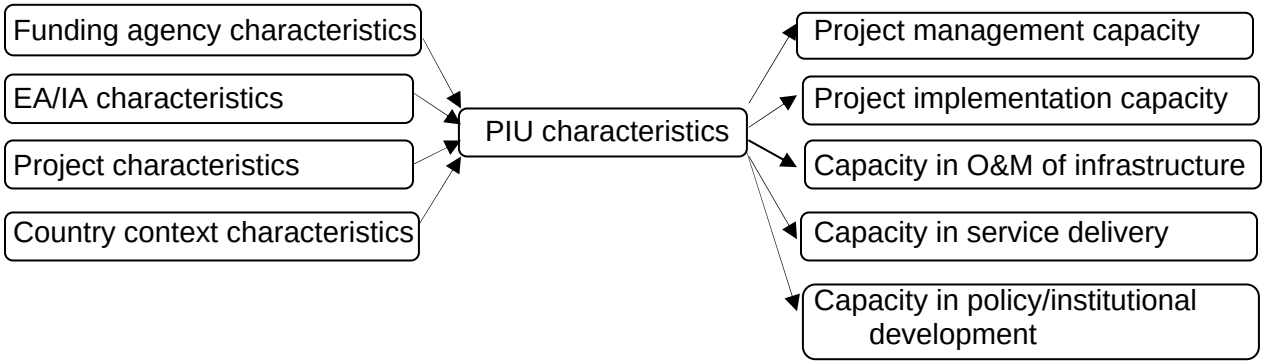
In this special evaluation study (SES), the project implementation unit (**PIU**) is a generic term designed to capture all project implementation arrangements, which rely on a group of staff members designated officially to work together full-time or almost full-time, with separate accountability, to coordinate and manage project implementation. The SES regards a unit set up by consultants under a contract to manage a project as a PIU, although often it is then called a project management consultants (PMC) unit. All long-term project consultants are viewed as part of the PIU arrangements, even if some operate on their own and are not operationally oriented. The SES does not designate as PIUs loose task groups that constitute staff of regular executing or implementing agency divisions involved in the project. In such cases the project is regarded as managed without a PIU. The definition that the SES uses may not coincide with the common perception of the PIU as a group of staff members recruited especially and paid by external agencies to do a temporary job. The PIU can be funded by the government and consist fully of regular agency staff members, as long as they have been assigned to a PIU. An office with especially recruited temporary staff would coincide with the "separate" PIU rather than with the "integrated" one.

Project management is defined broadly as the activities needed to lead and coordinate project implementation, including administration, monitoring and reporting on project progress, finance, and accounting, procurement tasks, and supervision of consultants and construction contractors.[18] The definition is wider than the often-used concept of project management, which would not necessarily include such activities as contract supervision, procurement, or even accounting. It is considered appropriate since it coincides with the main tasks that the SES deems necessary for any agency that wishes to manage projects efficiently: project administration, including procurement and reporting, and project supervision.

Project implementation includes project management and technical tasks such as detailed design of works or training of staff or project beneficiaries.

Implementation efficiency is the degree to which project tasks can be completed in accordance with time limits, available resources, and quality standards. It incorporates the level of economy with which inputs are transformed into outputs.

Agency project management capacity development is a process whereby the agency and its members enhance their abilities to coordinate projects, administer them, and supervise procurement and implementation on a sustainable basis. The SES distinguishes between project management capacity development and other capacity development such as operation and maintenance/service delivery capacity development. In agreement with modern ideas on the importance of knowledge acquisition next to knowledge transfer, the SES assumes that project management capacity development must include a large amount of learning on-the-job by staff members ultimately responsible for project implementation.[19] Each PIU should thus have a sizeable contingent of regular agency staff members.



EA = executing agency, IA = implementing agency, O&M = operation and maintenance, PIU = project implementation unit.
Note: Arrows indicate effect relationships.

[18] Contract supervision can include supervision of consultants who supervise works contractors or, if such consultants are not appointed, direct supervision of works contractors.

[19] Fukuda-Parr, S., C. Lopes, and K. Malik. 2002. *Capacity For Development. New Solutions for Old Problems*. Place of publication: New York: UNDP and Earthscan Publications. "Information-based learning organizations now rely less on routine training courses and more on on-the-job learning, or mentoring, or having people with different levels of skills work in teams with a constant process of interaction and learning" (page 13).

17. Chapter 2 discusses ADB's role in setting up and funding PIUs and in developing project management capacity in the agencies.

18. Chapter 3 analyzes the characteristics of ADB, agencies, and projects that explain the PIU phenomenon, and describes the variety of PIUs found across ADB's portfolio.

19. Chapter 4 analyzes country conditions that influence the prevalence of various categories of project implementation arrangements. The chapter summarizes country-specific PIU issues in the six countries where the SES conducted country missions.

20. Chapter 5 analyzes the effects of PIUs on implementation efficiency and capacity development in agencies, particularly in terms of project management and implementation.

21. Chapter 6 summarizes, draws conclusions, provides recommendations, and proposes a set of follow-up actions for ADB.

II. ADB's ROLE IN FUNDING PIUs AND PROJECT MANAGEMENT CAPACITY

A. Evolution of Implementation Arrangements in ADB Projects

22. The concept of assigning a unit with especially designated staff to help convert inputs (investment funds) into outputs (completed projects) is universal. When staff members are assigned full-time to a major task, responsibilities can more easily be fixed than when they have many tasks and responsibilities. Where investment projects are unique or where no similar project will be needed or approved, organizations usually hire temporary staff to implement them, except perhaps for a senior officer who is in charge.[20] This happens in high-income countries and for domestically-financed projects in middle-income countries. Even in other circumstances, however, creating special offices and assigning some of the agency's own staff members to projects full-time is a common phenomenon.

23. Implementation arrangements have evolved in ADB projects. In its early years, ADB supported predominantly three types of projects: (i) resource transfer (or credit line) projects for DFIs, (ii) projects supporting production-oriented corporations and other state-owned enterprises, and (iii) infrastructure investment projects. The first and second would be generally implemented by regular staff within the normal structure of the EAs, i.e., without a PIU as defined in this study.[21] The third would be implemented by a works-oriented agency, or an agency assisted by another specializing in infrastructure creation. The RRPs of ADB's first two investment projects, approved in 1968, did not describe the implementation arrangements in detail.[22] They did not describe any particular duties of PIUs or even EAs. They required that consultants be used for "engineering services" in design and contract supervision, that certain government engineers be made available to the project, and that the borrower provide information to ADB regarding their qualifications and experience. The RRPs stated that financial statements would be issued regularly, records kept for ADB to inspect, consultants hired

[20] Occasionally even this is not the case: the PIU is then fully external, with an external head or manager, who then liaises with a senior government officer involved part-time as project director and co-signatory of documents produced by the PIU.

[21] The project, however, frequently included a consultant to assist and advise the EA.

[22] (i) ADB. 1968. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Central Bank of Ceylon. Tea Factory Modernization Project in Ceylon*. Manila; (ii) ADB. 1968. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Seoul-Incheon Expressway Project in Korea*. Manila.

acceptable to ADB, procurement arrangements in accordance with ADB's guidelines, and approval sought before bids were advertised and before the contract was awarded.

24. Soon after, however, loan agreements assigned implementation responsibilities to the EA rather than the borrower. Conditions were set for the maintenance of separate project accounts, an annual audit of accounts, and related financial statements within a specified period. Gradually, conditions were added for the appointment of government staff, project directors, and the use of adequately staffed and equipped project offices. Since the mid-1970s, clauses on project offices have been placed in the loan and project agreements for investment projects, such as the following:[23]

> The National Irrigation Authority shall establish a Project Office within 90 days after the signing of the Loan Agreement and appoint a full-time Project Manager acceptable to the Bank. The Project Manager shall be supported by an Assistant Project Manager and adequate technical and administrative staff, together with personnel assigned by other participating Government agencies and authorities to coordinate with the Project Manager. The Project Office shall continue to operate during the agricultural development phase for a period of at least 4 years after the completion of the construction work. During the construction phase, the Project Office shall consist of the following Divisions: Engineering, Agricultural Development and Administration. During the agricultural development phase, the Project Office will be reorganized with the Engineering Division reduced and an Operations and Maintenance Division added to the Project Office.

25. PCUs, PMUs, PIUs, and other types of offices with a wide range of acronyms were used, all indicating different levels of activity and responsibility. Specific tasks were added, such as the quarterly reporting of progress in increasingly detailed formats, organization of midterm reviews, preparation of a PCR, external audits, and benefit monitoring and evaluation. In the 1990s, ADB made a project administration memorandum mandatory for each project, in which the implementation arrangements were detailed more than in the RRP.

26. The establishment of PIUs was often made a condition for loan effectivity. It is fair to say that ADB has often enforced PIUs, although not necessarily separate ones, in its projects.

27. This process took place as project modalities evolved, further contributing to the reliance on PIUs in investment projects. ADB's increasing use of the sector project modality since the early 1980s has added to subproject design tasks during project implementation. Investment projects came to include more and more components that went beyond direct capital investments. Projects became vehicles for introducing policy, organizational, and O&M restructuring.[24] In the mid-1990s, ADB issued policies on involuntary resettlement, gender and development, governance, environmental protection, indigenous peoples, and anticorruption, requiring compliance from projects. Cofinancing is increasing. Projects funded by more than one agency required more coordination and reporting. These developments have all increased the tasks of project management, imposed more external conditions on PIUs, and encouraged external staffing of PIUs. Many EAs believe that the tasks required of PIUs for ADB-funded projects are now more extensive than those of nationally funded projects.

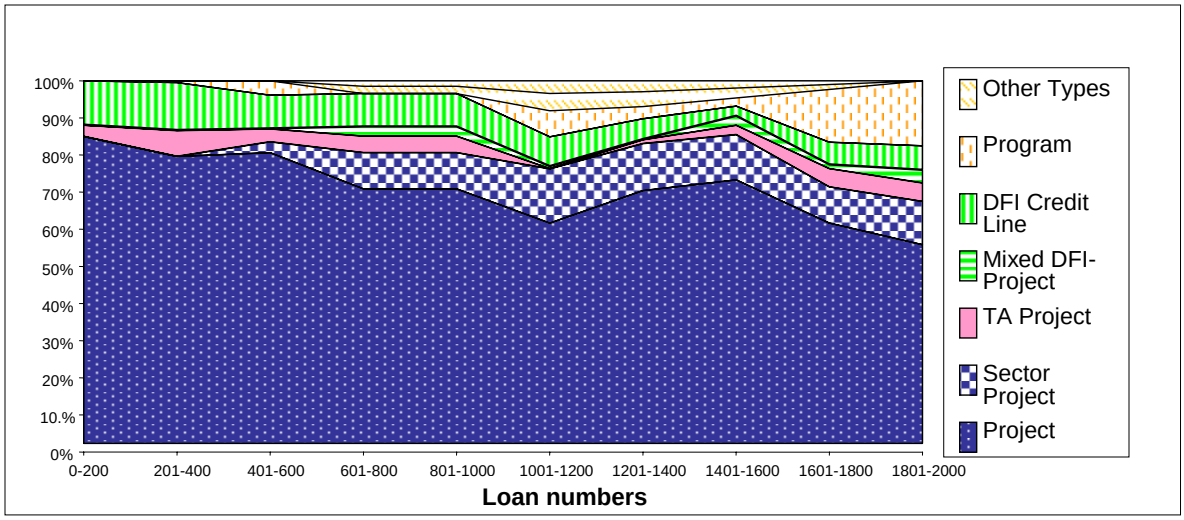
28. One development countering the overall trend, however, needs to be highlighted: investment project loans are declining as a proportion of ADB's overall portfolio, from 85% in the

[23] Taken from the Loan Agreement for the Tago River Irrigation Project in the Philippines, 6 September 1977.

[24] Projects approved in the 1990s had larger budgets than those in the 1970s for training, institutional strengthening, and other components (footnote 14).

early 1970s to 55% since 2000 (Figure 1). Due to the growing number of program loans, particularly during the Asian financial crisis and ADB's increasing involvement in economies in transition since the mid-1990s,[25] the proportion of loans normally disbursed without the help of PIUs has gone up from 12% in the 1970s to 28% of all loans approved. Project loans that include PIUs in the implementation arrangements make up around 70% of all ADB loans.

Figure 1: Types of ADB Loans Over Time, 1968–2004



DFI = development finance institution, TA = technical assistance.
Source: Asian Development Bank databases on all loans approved 1968–2004, numbered 1 to 2,065.

B. Loan Funds for Project Management

29. ADB's support for PIUs has led to frequently including especially earmarked allocations for project management in loans. ADB can fund the costs of project management in a variety of ways, including the use of loan components for project administration. Since ADB's policies and procedures are alleged to increase the overall cost of project management, the various costs incurred should be added up to see whether they are significant. Apart from a specific budget for project management, project management costs can be subsumed under loan components for consulting services, training, institutional strengthening, equipment, vehicles, and the construction of offices. Appendix 2 reviews the various costs in detail. The summary below shows how the costs are distributed across various loan components.

30. **Project Administration Costs.**[26] These may fund project staff salaries, including those of "contractual staff" hired directly by the agency, salary supplements, office rental, office supplies, office maintenance, communications, equipment and vehicles, O&M, travel costs, meeting costs, and related cost descriptions. Based on a review of 140 RRPs approved over 2000–2003, such costs constituted, on average, 1.4% of the base loan.[27] In half of the loans for investment projects, an administration budget was not specified. Excluding these cases, the average rose to 3.5% for all loans with a project administration cost specified. This was about half of the total cost estimated for project administration, meaning that other sources, notably

[25] Of the 200 more recently approved loans, 18% fall in this category.
[26] ADB uses "project management costs" and "administration costs" interchangeably, but in loan agreements, the line item of administration costs is employed more frequently. The line item is based on an estimate which can appear in the overall project cost estimate under such designations as "PCU," "PMU," "PIU," "incremental administrative support," "operating expenses," or "supervision of implementation."
[27] The base cost of the loan excludes interest charges and the line item of "unallocated" (for contingencies).

the government, contributed the other half. The number of times loans have had separate components for administration costs has risen since the 1970s (footnote 14), reflecting ADB's experience that budget constraints frequently resulted in underfunding of such costs.

31. ADB funded all administration costs in 40% of projects, and shared costs with others in an additional 10%. In 21% of the projects, governments funded all project administration costs; in a further 12%, governments contributed to project administration costs; and in 2%, external agencies other than ADB funded all project administration costs. Given that administration costs were not reflected in the cost estimates of 23% of the projects in the sample (all projects will in principle incur such costs), the actual cost of project administration may be higher.[28] If ADB's own administration costs are included, which are in part funded through interest and commitment charges, the cost of project administration increases further. For instance, in 2003, such costs included the cost of 1.7 missions per project (25 staff-days).[29]

32. **Loan Components for Consulting Services.** Of projects in the sample, 93% included loan components for consulting services. The average share of consulting services to the total project cost was 3.3%—around half the figure for a sample of projects approved a decade earlier (footnote 14). The relative size of the loan component for consulting services has gone down. Based on a review of all terms of reference (TOR) for consulting services in the sample projects, it was estimated that around two thirds included project management tasks. Operational project management tasks provided by consultants (e.g., management support, procurement,[30] construction supervision) were far more common than advisory tasks.

33. Total consulting services for all investment projects averaged 68 person-years, of which 86% were rendered by domestic consultants and 14% by international consultants. Based on an average intended project duration of 5 years, this would indicate 13 full-time consultants per year per project. The median value was, however, much lower at 7, indicating that the portfolio is skewed: it has many small loans and fewer, much larger ones. The domestic consulting industry has developed significantly in many DMCs since ADB began operations. The increasing reliance on domestic consultants, particularly in middle-income and ordinary capital resources (OCR)-only countries, is an important reason for the decreasing loan component for consulting services. Domestic consultants are much cheaper than international consultants.

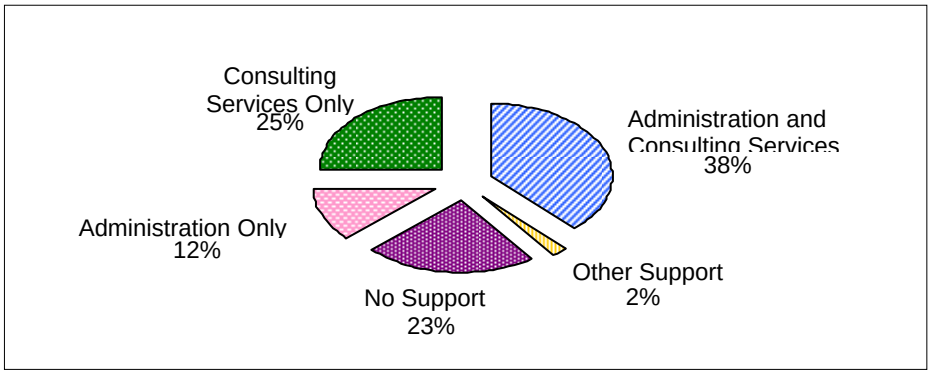
34. **Other Loan Components**. At least 40.0% of the investment projects included a separate cost estimate for a training component, and around 40.0% included project management training needed for the adequate functioning of the PIUs—an average of 0.1% of the base loan amount. Fifteen percent of the projects had a loan component for institutional strengthening, which sometimes also included funds for project management. A quarter of the sampled projects had components for the purchase of vehicles and office equipment for use by PIUs, averaging 0.3% of the base loan amount. Almost half of all projects included costs for the construction of office buildings for project management or training facilities.

35. Overall, 75% of ADB's projects approved from 2000 to 2003 included one or more loan allocations to fund project management, whether administration costs (56% of projects),[31]

[28] Sector projects often did not specify such costs, although governments obviously incur costs to run them.
[29] ADB. 2004. *Annual Report on Loan and Technical Assistance Portfolio Performance for the Period Ending 31 December 2003*. Manila.
[30] A project was counted as having consultants for procurement if the TOR stated that the consultants would be involved in procurement, although the consultants may also be tasked to carry out jobs not related to project management.
[31] In 83% of these cases, this was for salaries and nonsalaries; in 17%, it was only for nonsalary expenses.

consulting services (62%), training (17%), equipment (31%), or vehicles (25%). The funding of project management through loans can be estimated at an average of 5% of the total loan amount. The cost of project management as proportion of the total project cost is also estimated at around 5% (footnote 14).

Figure 2: Percentage of Investment Projects With and Without ADB Loan Components for Project Management



Source: Project survey 2004 for this study.

36. The estimated project management costs associated with ADB loans can be compared to what some governments charge their own development budgets to administer nationally funded projects. A proposal in Pakistan for a nationally funded infrastructure project routinely adds 6% for administration costs to the base cost (departmental or work charges). Such costs do not cover all salary costs of agency staff involved or other recurrent costs of the agency. The Office of Financial Management of the State of Washington puts a ceiling of 3% on the total capital construction costs for administration on projects of $1 million and less, but the definition of project administration is somewhat narrower than that used here, whereas implementation conditions can be assumed to be generally better. For larger projects, this office uses an administrative expenses fee schedule with similar principles but more flexibility.[32]

37. Since loans for non-revenue-generating agencies are guaranteed by the central government and do not have to be repaid by the EAs in many DMCs, funding of project administration through loans usually comes at no direct charge to them. Reimbursement of project administration cost by loans is usually 100% of costs incurred. Given that ADB and EAs can control project cost estimates, the amount charged to loans may be inflated to enable generous financing of PIU staff and other office costs.

38. Some ministries of finance and other borrowing agencies believe that the cost of PIUs should be should be reduced. While opportunities for cost reduction should be pursued, the focus should be on project quality when assessing trade offs. Project quality should not be put at risk (i.e., the other 95% of expenditures) by reducing PIU costs to, say 3%, of total project costs. Foreign consultants are often a major element of the cost of a PIU. While some DMCs, particularly middle-income countries, have strong domestic capacity, other countries have weaker capacity and may benefit from inputs of foreign consultants.

[32] Office of Financial Management. 2002. *2003–2013 Capital Plan Instructions*. Washington DC. Available: http://www.ofm.wa.gov/ budget/ instructions/capinst/section6.pdf

C. ADB TAs on Project Management Capacity Development

39. In addition to loan provisions for project management, ADB supports capacity development through grant-funded advisory TAs attached to projects. Of all projects investigated that were approved in 2000–2003, 26% had such TAs. TA activities consisted mostly of training, studies, policy development, and work plan development. The average TA grant was almost $1 million. Attached TAs were mainly found in RRPs for projects in energy (33% of all energy projects), transport (30%), and social infrastructure (28%). The consulting services rendered by international and domestic consultants were equivalent to an average of 16 and 29 person-months, respectively. In a 2-year TA, this meant two long-term consultants per project.

40. Another category of TA administered by ADB of importance to project management capacity development are stand-alone advisory TAs for particular DMCs and sectors in DMCs. In 1994–2003, ADB approved 148 TAs (6.1% of all advisory TAs), which included development of such capacity in agencies and PIUs (Appendix 3). This translated to an average of 15 TAs or $7.5 million per year. Over 40% of the TAs focused on seminars and training events on ADB operational policies and procedures, procurement, accounting and disbursements, and project implementation. The rest were oriented to particular sectors, with Cambodia, Indonesia, People's Republic of China (PRC), and Viet Nam benefiting the most.

41. These advisory TAs do not include TAs to prepare new projects. Over one third of all ADB projects were preceded by preparatory TAs (footnote 14). Some include support to would-be or existing PIUs, particularly to prepare contract packages and bidding documents.

42. ADB also uses regional (multicountry) TAs (RETAs) to support project management. In 1994–2003, 37 RETAs, totaling $12.5 million, dealt partly or wholly with project management. Some RETAs concentrated on regions with particular project management challenges, such as Central Asia and the Pacific. Others dealt with capacity building for project implementation through workshops and specialized training sessions in ADB, to which EA, IA, and PIU staff were invited. A few dealt with studies on accounting and auditing or with sector approaches and results-based management.

43. PIU staff members met during the SES country missions generally highly appreciated the TA provided by ADB to strengthen project management, and many had benefited. Yet, often the TA provided was not regarded as sufficient and they requested more training. As will be seen later, the high turnover of staff in some PIUs may be one reason for this, the complexity of ADB's procedures another. Difficult procurement formats were singled out for criticism. A 1997 OED study of the engagement of consultants pointed to a few problems with training government staff in ADB procedures.[33] The effectiveness of ADB training seminars has been mixed. The principal factor cited was the inability to secure the right audience, i.e., the staff members from the EA directly involved in executing ADB projects and who could directly benefit and make use of the skills imparted in the training programs. Pecuniary incentives often provided to program participants and the opportunity to travel seemed to attract some officials who might not have direct involvement with the subject matter. Sometimes holding training programs in another country seemed to attract the wrong officials.

[33] ADB. 1997. *Special Study on Issues Pertaining to the Engagement of Consultants in Bank Loan Projects and Their Effect on Project Performance*. Manila.

D. Conclusion

44. This chapter explored how PIUs have emerged as the dominant project implementation arrangement for ADB projects. It analyzed how ADB has funded PIUs and supported project management capacity development in its client agencies. ADB has generally required that such units be established, and included loan covenants to that effect. ADB has provided various types of assistance to strengthen project management.

45. ADB's contribution to the costs of PIUs and project management capacity development has been substantial. Thus, it is plausible that ADB considerably influences these PIUs' nature and prevalence, although almost a quarter of the units were funded exclusively by governments and would therefore be less directly influenced.

46. Whether the project management cost should be regarded as high in an absolute sense depends in part on the attitude toward consultants, who accounted for about a quarter of this cost, and their performance. It also depends on the attitude toward what proportion of the administration cost is related to ADB requirements that would not have been there if the project had been implemented without ADB financing. Given that part of the funding is for project management capacity building such as training and equipment, the cost is not unacceptably high. However, the SES missions to various countries found occasional dissatisfaction with ADB's insistence on international bidding above a certain cost ceiling, complicated procurement formats, ADB procurement guidelines and guidelines for the use of consultants, laborious accounting requirements for imprest accounts, the cost of beneficiary surveys and related monitoring arrangements, elaborate progress reporting, the need for EAs to prepare PCRs, and more intensive contract and construction supervision than usual for the agency. The cost of PIUs as a result of ADB's demands will be explored further in the next chapter, which focuses on patterns of PIUs found in ADB's portfolio.

III. INFLUENCES ON PIU PATTERNS FOUND IN ADB's PORTFOLIO

47. Several factors guide the types of PIU found across ADB's portfolio. First, ADB requirements for project implementation influence project management arrangements. These requirements are designed to improve project efficiency and quality, and range from organizational structure, staffing, and financial arrangements to environmental and social safeguards. However, EAs could see such requirements as increasing the complexity of project management. Second, the types of PIU found depend on the DMC's government structure and local conditions, and the nature of the parent agencies and the projects. This chapter discusses characteristics of ADB's requirements for PIUs, as well as agency and project characteristics of relevance to PIUs. This is followed by a listing of the PIU characteristics most important to implementation efficiency and capacity development. The occurrence of these PIU characteristics is investigated in ADB's project portfolio. Appendix 4 provides relevant agency, project, and PIU characteristics. Appendix 5 contains statistical tables from the project survey on which many of the findings of this chapter are based.[34] Appendix 6 provides more information on agency patterns found across ADB's program.

A. ADB's Demands on PIUs

48. Whether ADB's demands are excessive and lead to adverse effects has to be judged in comparison with what an efficient and responsible government would do to ensure sound

[34] Supplementary Appendix B contains more tables.

project implementation. They should also be judged in comparison with the demands made by other external funding agencies as well as by national funding agencies. An external funding agency's general characteristics of importance to PIUs are (i) whether the agency provides grants or loans, (ii) whether it has the technical and administrative staff to help implementation, (iii) the average size of the projects funded by the agency, (iv) project design and procurement systems used by the external agency, (v) whether it funds project management costs, and (vi) the conditionalities that it imposes on project implementation (Table 1).

Table 1: External Funding Agency Characteristics

No.	Characteristic	Categories
1	Type of external funding agency	(i) Grant-giving agency (ii) Loan-providing agency
2	Technical and administrative staff in agency	(i) Agency with few staff for project administration (ii) Agency with many staff for project administration
3	Average size of the project funded	(i) Average size is large (ii) Average size is small
4	Design and procurement system allowed by funding agency	(i) Detailed design of project allowed inside the country (ii) Detailed design before project, by funding agency (iii) Procurement of goods and services organized by recipient agency, tied or not tied (iv) Procurement of goods and services organized by funding agency, tied or not tied
5	Funding of project management costs	(i) Agencies fund all such costs (ii) Agencies do not fund such costs (iii) Agencies fund part of such costs
6	Imposition of conditionalities on implementation	(i) Insistence on use of funds for certain purposes (ii) Insistence on anticorruption safeguards (iii) Insistence on endorsement of decisions of the EA and/or IA by funding agency (iv) Insistence on use of staff from the country of the funding agency (v) Insistence on following procurement guidelines (vi) Insistence on following guidelines on use of consulting services (vii) Insistence on following of reporting guidelines (viii) Insistence on following of accounting and auditing guidelines (ix) Insistence on monitoring procedures (x) Insistence on compliance with policies including environmental and social safeguards

EA = executing agency, IA = implementing agency, No. = number.
Source: This study.

49. Are ADB projects more likely to have PIUs than projects of grant-giving agencies? ADB is a bank and has to negotiate the implementation arrangements with its borrowers in light of their costs, giving it less influence on favored arrangements than a grant-giving agency. If DMCs insisted, they could implement projects without PIUs. Godfrey et al.'s study of capacity development in Cambodia[35] found that government staff expressed more ownership of loan-funded than grant-funded projects. Although the numbers have gone down in recent years, ADB

[35] Godfrey, Martin et. al. 2002. Technical Assistance and Capacity Development in an Aid-Dependent Economy: The Experience of Cambodia. In: *World Development* 30 (3): 355–73.

generally has more technical and administrative staff members to help manage and implement projects than many bilateral agencies.[36] ADB staff members regularly visit the country on project review missions; a growing number of resident missions help EAs and IAs. ADB has better access to ministries of finance than many bilateral agencies. ADB projects, however, have a number of features that increase the burden of project management. ADB's loan-funded investment projects are generally larger than those of bilateral agencies. ADB's capital construction projects often demand significant management time from agencies. ADB often leaves the detailed design of major project components to be completed after project approval. Unlike many grant-giving agencies, ADB requires goods and services procured under a loan to be handled by EAs/IAs following its guidelines. Thresholds for local competitive bidding have been raised considerably in the last years, increasing the responsibilities of PIUs but allowing them to follow national procurement guidelines. In addition, ADB has adopted a number of safeguard policies with which projects have to comply. Many DMCs see these as leading to higher transaction costs and placing greater burdens on PIUs. This is sometimes resented, although ADB expects many of these tasks to improve project quality (para. 38).

50. One criticism voiced by some DMCs is that ADB is driven by a schedule that leads to loan approvals before December of each year, instead of spacing out project processing and loan negotiations and conducting more advance actions. If ADB focused less on loan approvals in a given year, the EA would have more time to create and fully staff the PIU. ADB's approval culture sometimes results in ADB pressuring DMCs to come to loan negotiation before they are ready. Although this may result in the approval of the loan, loan effectiveness and implementation are often delayed.

51. Overall, ADB projects are as likely to have PIUs as projects of grant-giving agencies, but implementation tasks for ADB PIUs are more extensive. While this may superficially look as if it increases the risk of creating parallel organizations, in fact these PIUs include tasks that some other agencies may well have conducted outside the DMC or before the project. Thus, ADB PIUs might provide more opportunities to develop project implementation capacity.

B. Influences of Agency Characteristics

52. As confirmed by interviews held during the country missions, characteristics of certain EAs and IAs may lead to a greater reliance on the creation of a PIU. Government agencies may not be specialized in management of large construction projects and may not feel the need to be (e.g., health and education EAs). Agencies may be specialized in project management but may not have the staff available for an additional project (i.e., have no organizational "slack"[37]). EAs may not be able to access the counterpart funds needed to staff a PIU and may be constrained by government regulations on appointment or transfer of civil servants for project management. EAs may have offices in many locations and need more PIUs because their organizations at lower levels have less experience with project management and weaker staff capacity. EAs may be involved only peripherally in construction or procurement of goods and services and therefore need specialized staff to manage one-off projects. Last, EAs may not have good access to works-oriented agencies to ask them to implement projects.

53. The agencies with which ADB works have changed in many ways over the years. Some changes have contributed to a greater reliance on separate PIUs in spite of a general increase

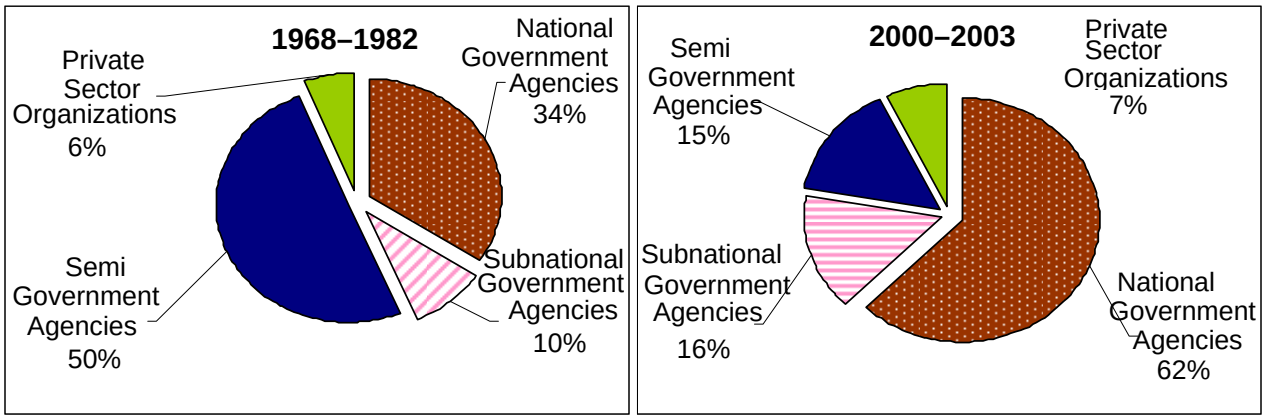
[36] A report (ADB. 2004. *Final Report of the Independent Assessment Panel on the Effectiveness of the Bank's Reorganization*. Manila) argues that technical expertise in some specializations has weakened in ADB, and proposes the recruitment of 50 technical staff.

[37] Perrow, Charles. 1986. *Complex Organizations. A Critical Essay.* Third Edition. New York: Random House.

in project management capacities in many DMCs. ADB now works more with regular government agencies as EAs than in its first 15 years of operations, when semi-government EAs were more common (Figure 3). Semi-government agencies (e.g., government-owned corporations, statutory bodies, and authorities) are usually more specialized and depend more on projects for their financing. Often they have less of a need for PIUs with many external staff members. Regular government agencies, however, may need PIUs more since they are usually less specialized and subject to more central civil service regulations on appointing staff members to a project. Decentralization in the 1990s, such as occurred in Indonesia, Pakistan, Philippines, PRC, and Viet Nam, has resulted in charging locally based organizations with project management. Generally the capacity to manage large, complex projects is weaker at lower levels of government than at the center.

54. Contracts for PIU consultants may be seen by some government officers as an opportunity for corruption and kickbacks. High salaries of consultants in PIUs are reinforced by competition and lack of monitoring in the donor community. Paying salaries that are far above those in the local labor market underhanded deals between consultants and agency staff. Dissatisfaction with the performance of some public works agencies, notably their perceived levels of corruption, has contributed to the trend that service-oriented agencies such as education departments implement infrastructure works, like the building of schools. Such agencies need the support of externally staffed PIUs to fill gaps in the quantity or kind of agency staff available. This has led some countries to create special engineering units within health and education ministries to plan and manage civil works-related projects. These units perform O&M tasks and minor works but usually do not have enough specialized staff members to manage major projects. All these factors have contributed to the continued use of the PIU model, with reliance on external staffing, and in spite of three decades of project management experience.

Figure 3. Executing Agencies by Type (1968–1982 and 2000–2003)



Sources: (i) ADB. 1984. *A Special Study on Executing Agencies Arrangements*. Manila. (ii) Project survey 2004. N= all 562 reports and recommendations of the President (RRPs) approved in 1968–1982; N= 140 of all 205 RRPs for investment projects approved in 2000–2003.

55. Although many agencies need to use PIUs, they may not be structured to use them most efficiently. Inappropriate organization structures may explain why so many PIUs face problems within their parent agencies. General organization management handbooks point to the difficulties that hierarchically and functionally structured but also decentralized division organizations face in incorporating self-contained, cross-cutting project units.[38] The project unit

[38] Keuning, D. and D.J. Hartog. 1999. *Management en Organisatie*. Stenfert Kroese (in Dutch).

concept often better fits the flat organization structure or unit-managed structure of a semi-government agency. This is especially so if its structuring principle—whether it is organized based on functions, products, markets, or geographical areas—is similar to that of the agency. Such agencies then often develop into "PIU-less" matrix organizations with dual command relations shared between the leaders of various projects on the one hand and functional division managers on the other.

56. Many government ministries and departments are hierarchically structured rather than matrix-structured (i.e., they have a single command structure in a pyramid shape). They often experience difficulty when an increasing share of their budgets is channeled through projects. There is an inherent discrepancy between the autonomy needed for efficient project management—indeed, the whole rationale for the creation of a PIU—and the autonomy granted in practice to subordinate divisions in such organizations. The discrepancy becomes more pronounced the larger the project unit is or the more project units are created. The project survey confirmed the relation between size and number of problems encountered (para. 100 [v]), and also between problems and the number of PIUs.

C. Influences of Project Characteristics

57. Certain project characteristics may favor the use of PIUs. The need for PIUs in emergency response projects, or post-conflict rehabilitation projects is well established.[39] Large infrastructure construction projects (e.g., major roads, railways, power plants, water supply, waste water treatment) generally need some form of dedicated management structure specific to the job. The size and ad-hoc nature of such projects usually makes it inevitable that they are at least partly externally staffed (with consultants or contracted staff). Projects that need to spend funds through large imprest accounts also often need special ring-fencing arrangements to guard against corruption, which may lead to the hiring of external staff. Projects using highly innovative approaches generally need more input from consultants. This, in turn, increases the need for their supervision by the agency and the use of PIUs. Some projects need the involvement of many agency staff members, which increases the need for PIUs. Appendix 7 offers more details on the implications of project characteristics for implementation arrangements, as well as on the project patterns found across ADB's program.

58. The growing importance of certain characteristics of projects may have contributed to the continued use of separate PIUs in investment projects since the 1970s. Examples of this are the growth in number of project sites covered in one project and the increased number of sector projects. Such projects require special coordination arrangements, something that is often done by a PIU. Another factor is the increasing scope of many projects, which needs more coordination arrangements.

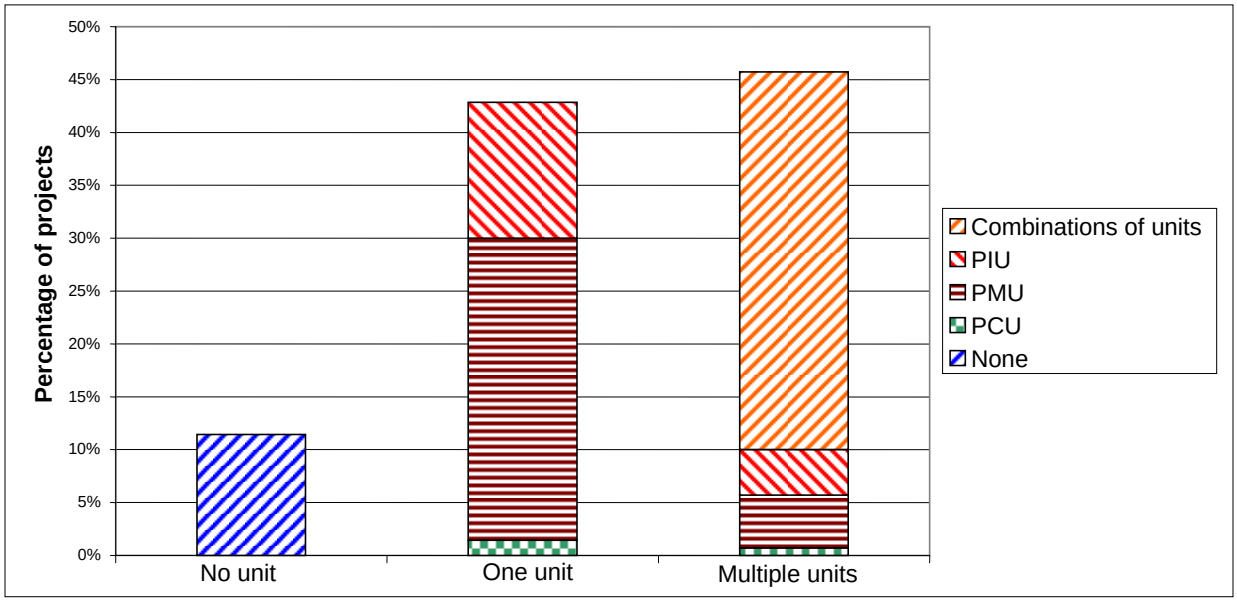
D. PIU Characteristics Relevant to Efficient Implementation

59. The SES investigated the characteristics of PIUs that influence efficient project implementation: (i) type, (ii) tasks, (iii) whether single or multiple, (iv) whether serving one or more projects, (v) legal status, (vi) funding source, (vii) facilities and systems available to it, and (viii) when it was created. The main patterns found in ADB's portfolio are summarized below. The findings show that the large variety of PIUs makes it difficult to generalize about their role.

[39] The World Bank's OED noted this and posted its lessons regarding the use of PIUs on its website: http://wbln0018.worldbank.org/oed/oeddoclib.nsf/0/adf4b0ad4ae0bb25852569ba006e34b4?OpenDocument

60. **Type of PIU.** Around 11% of ADB's investment projects were implemented without a designated office or unit. Most were in the energy sector (44% of the energy projects in the sample), where electricity production or transmission was dealt with by specialized corporations or authorities, often working in matrix or unit structures with project leaders relying on inputs from functional divisions. Presumably reflecting the technical strength of the EAs, such projects also used fewer consultants (although more international consultants). A few other such PIU-less projects were in the transport sector, especially those implemented by toll road authorities. Of all projects, 44% had implementation arrangements relying on one unit, consisting of either (i) a "PCU" (2%), (ii) a "PMU" (29%), or (iii) a "PIU" (13%), while 46% had multiple unit implementation arrangements. Figure 4 shows patterns of PCUs, PMUs, and PIUs found for projects approved from 2000 to 2003, based on labels used in RRPs.[40] The fact that 17% of all projects had PIUs but no PCUs or PMUs illustrates how loose the use of the designation in RRPs is in practice: such PIUs also had coordination and management tasks.

Figure 4: Investment Project by Implementation Arrangement Approved 2000–2003



PCU = project coordination unit, PIU = project implementation unit, PMU = project management unit.
Source: 140 reports and recommendations of the President approved from 2000 to 2003.

61. **Tasks of PIUs.** The project survey shows that the tasks assigned to the PCUs, PMUs, and PIUs did not differ much. The nomenclature of the units is imprecise, can follow country-specific conventions, and does not reflect functional responsibilities. In addition to the usual tasks of monitoring and reporting of progress and financing and accounting, almost 80% of PIUs undertook tasks related to procurement, drawing up of TOR, and contract supervision. Two thirds indicated that detailed design or specification of equipment/materials was among their tasks. Only one in five PIUs did not have to deal with detailed contract supervision, procurement, or consultants' TOR; one third did not deal with detailed design or equipment specifications. The importance of the various tasks is reflected in the presence of certain designated staff in the PIU (Table 2). All of this indicates that PIU tasks are complex and that many projects deal with the tasks in PIUs rather than through regular divisions.

[40] Or project coordination offices (PCOs), project management office (PMOs), and project implementation offices (PIOs), to indicate offices instead of units. Other names were also used.

Table 2: Percentages of PIUs including Full- or Part-time Staff at Time of Survey

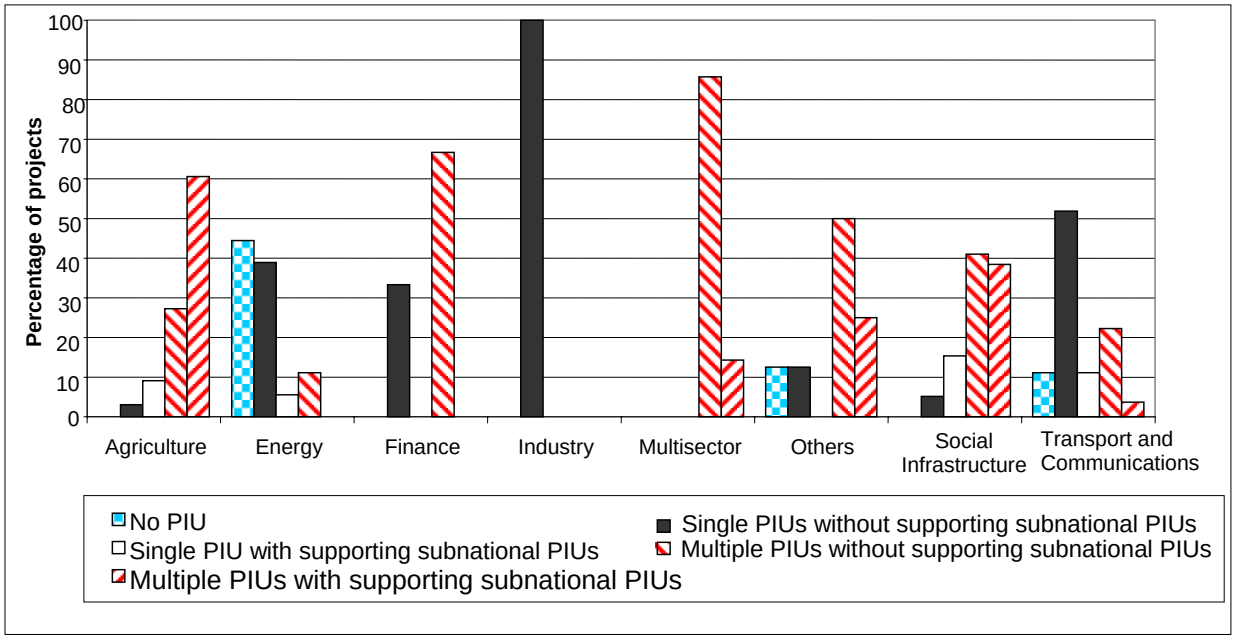
Major Sectors	AGR	EN	TC	SI	OTH	Total
Number of PIUs that responded	58	4	29	65	20	176
PIU staff (Presence in % of PIUs)						
PIU Manager*	95	100	97	95	100	96
Finance/Accounting Staff	88	100	86	85	90	87
Monitoring Officer(s)	69	100	76	71	70	72
Procurement Officer(s)	57	75	66	72	70	66
Contract Supervision Engineer(s)	45	100	66	60	45	55
Detailed Design Engineer(s)	36	75	52	38	40	42
Other PIU Staff	41	25	41	40	35	40

AGR = agriculture and natural resources projects, EN = energy projects, OTH = other projects, PIU = project implementation unit, SI = social infrastructure projects, TC = transport and communications projects.
* Presumably, 4% of PIUs had a vacancy for the PIU manager at the time of the survey.
Source: Project survey 2004. N = 206.

62. **Number of PIUs in the Project.** The number of PIUs across ADB's portfolio is large. Half of all projects with PIUs had multiple PIUs at the central level, and over one third also had PIUs at the subnational level. Particularly in the social infrastructure sector,[41] a large number of PIUs could be involved in one project. If the project serviced districts, as in Indonesia, a project sometimes established up to 80 or more PIUs, one for each district. Then coordination by a central PIU is clearly needed.

63. **Single and Multiple PIU Arrangements.** Industry and finance projects employed single PIU arrangements most frequently (Figure 5). The energy sector, and to a lesser extent the transport sector, had a proportion of projects without formal PIUs; agriculture and "multisector" projects always had PIUs.

Figure 5: Single and Multiple PIU Arrangements by Macro-Sector



Source: 140 reports and recommendations of the President approved from 2000 to 2003.

[41] Health, education, water supply and sanitation, and urban development.

64. **Number of Projects Covered.** Almost a quarter of the PIUs in ADB's portfolio handled more than one project, occasionally two ADB projects, but, more often than not, other projects of the agency. The coverage of more than one project by a PIU should result in economies of scale, but requires close time management of staff members as well as clear assignment of their responsibilities. This finding demonstrates that agencies are trying to make PIUs more efficient and less ad hoc.

65. **Legal Status of the PIU.** The large majority of PIUs in ADB projects had no separate legal status. Of PIUs in the project survey, 88% were part of government or semi-government agencies, 2% were limited liability companies, and less than 1% foundations. Ten percent indicated that they had a separate legal identity as PIU—but it was not always made clear what that meant. This finding is different for World Bank projects in some other continents (footnote 5) and reduces the risk of creating parallel organizations.

66. **Funding Sources of PIUs.** The proportion of the projects that had PIU budgets funded by ADB loans was discussed in the previous chapter. Funding of PIUs by governments can be arranged from regular operational budgets of agencies, special operational budget supplements approved by ministries of finance, and by public investment budgets. Project administration costs for 57% of the projects approved from 2000 to 2003 were funded in part or wholly by the agencies or the government. The actual source of the contribution varied from country to country. For instance, in Bangladesh and Pakistan, PIU staff was invariably funded by the public investment program if not by ADB. In Malaysia and the Philippines, PIU staff was usually funded from the EA's operational budget. Funding of PIUs and their staff may have important consequences for efficiency and the sustainability of capacity developed. A separate and sufficient budget available for the PIU reduces budgetary uncertainties and possible delays. ADB loans often fund administration budgets anticipating that government budgets for this may be insufficient or released too late. However, funds released routinely from recurrent budgets may benefit long-term capacity development since the staff is then a more permanent part of the agency. The SES will return to this point later.

67. **Facilities and Systems in PIUs.** Most respondents were happy with facilities and systems available. However, the project survey found that at least 20% of PIUs were not content with office space, power supply, or air conditioning. Almost 20% responded that vehicles were lacking, and 12% that facilities (e.g., office furniture, fixtures, supplies) and budgets for running costs were insufficient. Ten percent responded that communications facilities such as telephone, fax, or internet were inefficient. These problems are likely related to the PIU's funding source; if the source was the government only, PIU costs may have been underfunded. Office systems were not optimal. Although most PIUs felt they had sufficient legal and procedural documentation available, only half used specialized computer software for accounts and finance, and fewer used other systems such as procurement databases, detail design software, computerized baseline databases, or project management systems such as MS Project. There were few systematic differences between types of PIUs; permanent PIUs had better facilities and systems than other PIUs. The SES country missions found that many PIUs felt they were reinventing the wheel in office management systems, with governments and ADB missing opportunities to systematize the use of the best computer software across PIUs.

68. **Timing of Creation of PIUs.** Most PIUs for ADB projects are created between loan approval and effectiveness, usually as a condition for loan effectivity. However, because it is not always easy to create a PIU within the context of civil service regulations and budget constraints, the average period between loan approval and loan effectiveness was at least three times higher than the 3 months that it is supposed to take (footnote 14). Skeleton PIUs

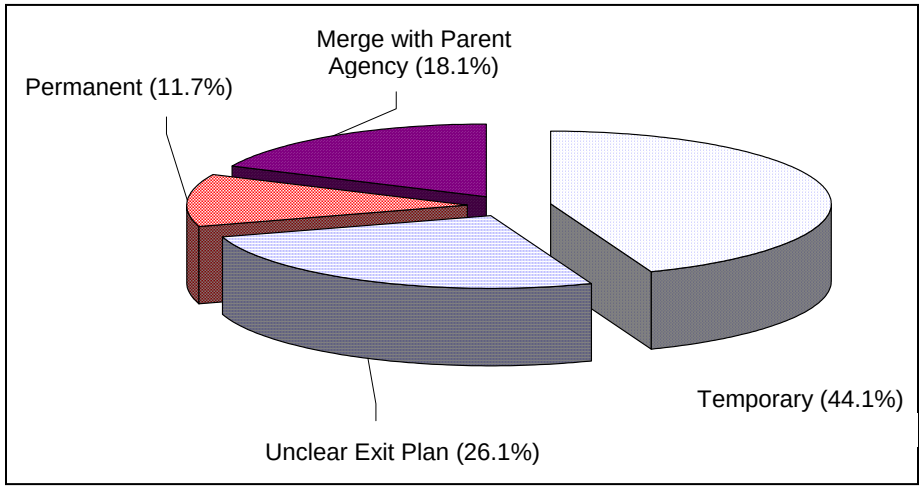
created during project preparation to guide and manage loan approval and effectiveness enhance the efficiency of the PIU and the ownership of the project by the EA or IA. This approach is being promoted by ADB in many countries. In Pakistan, experiments have been undertaken along these lines since 2002, through the approval of revolving funds in federal and provincial development budgets to create core project management units. The funds are replenished from the loan proceeds once the loans become effective. ADB is increasingly emphasizing project readiness filters to reduce the sometimes excessive delay between loan approval and loan effectiveness and the beginning of project implementation. The SES concludes that ADB should require PIUs to be established and partly staffed, including having the project manager in place, as a condition of Board discussion rather than of loan effectiveness.

E. PIU Characteristics Relevant to Capacity Development

69. The SES considers the following PIU characteristics of particular relevance to capacity development in EAs and IAs: (i) whether the PIU is permanent and whether it is intended to be merged with the agency or not, (ii) staff size (also in comparison with that of the parent agency), (iii) staff composition, (iv) whether PIU staff members have project experience, (v) whether the PIU head is from the agency or not, (vi) incentives for PIU staff, and (vii) physical location of the PIU (i.e., whether or not it is within the agency building).

70. **Permanence of PIU.** Of all PIU heads, 44% indicated that the PIU was to be dissolved upon project completion, while 26% gave unclear or conflicting answers, indicating lack of certainty about whether the PIU was going to continue after the project or not. EAs with such temporary units generally run a greater risk of losing all or a part of the project management capacity built up as the people who learned on-the-job will disperse and the systems instituted may be abandoned. Of PIU heads, however, 18% responded that the PIU would merge with the parent agency (or its staff would be [re]absorbed by it) to operate the project, provide service delivery, and undertake O&M. Of the respondents, 12% considered their PIUs as more or less permanent, in the sense that the PIU existed before the project and was set to continue to administer other projects. Permanent PIUs often implemented more than one project. The variety in actual and planned permanence of PIUs encountered shows once more that it is unwise to speak of PIUs in general terms (Figure 6).

Figure 6: Distribution of Types of PIUs According to their Status in the Agency



Source: Project survey 2004. N = 188.

71. The agriculture and natural resource and social infrastructure sectors had the largest proportion of temporary PIUs in the project survey (Table 3). Many of the energy projects were implemented by regular agency staff and did not have PIUs; only 4 of the 14 projects that responded had PIUs and these were mainly externally staffed.[42] The transport sector had a larger proportion of either permanent or "merging" PIUs. A large group of transport PIUs were expected to continue as PIUs after project completion, handling other projects. In this sector, proportionately more PIUs handled more than one project.[43] The other sectors all had few "merging PIUs" (one in five), i.e., PIUs whose staff could be absorbed by the agency afterward. A large number of respondents gave conflicting answers with respect to a set of questions on this topic,[44] indicating that no clear exit strategy had been defined.

Table 3: Types of Temporary or Permanent PIU Arrangements by Major Sector
(% of all responses in the project survey)

	Sector					
Type of PIUs	**ANR**	**EN**[a]	**TC**	**SI**	**OTH**	**Total**
Temporary	41.9	8.7	33.3	54.3	30.4	39.9
Unclear	29.0	4.3	26.7	21.4	30.4	23.6
Permanent	9.7		20.0	8.6	17.4	10.6
Merging	17.7	4.3	20.0	15.7	21.7	16.3
None	1.6	82.6				9.6
Total (column %)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Total (row %)	**29.8**	**11.1**	**14.4**	**33.7**	**11.1**	**100.0**

ANR = agriculture and natural resources, EN = energy, OTH = other, PIU = project implementation unit, SI = social infrastructure, TC = transport and communications.
[a] Only energy projects with PIUs (four PIUs in the project survey).
Source: Project survey 2004. N = 206.

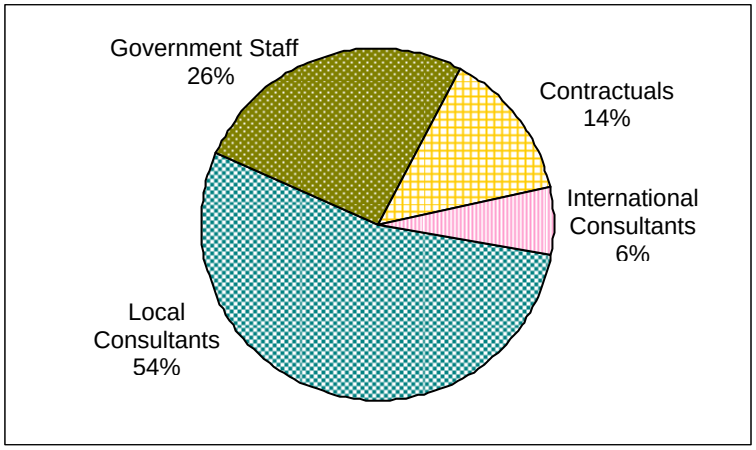
72. **PIU Staff Size.** The project survey found PIUs with as few as three staff members and as many as 200. Large PIUs may be a sign of duplication of functions of the parent agency. Of the PIUs, 6% employed more than 100 professional staff members. The differences between project and PIU staff could sometimes be subtle, based on the broad definition of a PIU as a unit combining project coordination, finance, monitoring and reporting, detailed design, procurement, and contract supervision. The average PIU had 24 long-term professional staff members, and 44 staff members overall, including support and short-term staff members present at the time of the survey.[45] More than a third of all PIUs were small, with fewer than five professional staff members. When counting only the main offices of projects, the numbers were not very different: 26 professional and overall 47 staff members, respectively.

73. **Staff Composition.** Although regular government staff was an important category from the perspective of agency capacity development, government staff members made up only a quarter of the total professional staff in the PIUs (Figure 7) and slightly over a third of total staff (professional and support staff). Two thirds of the total PIU staff members were externally recruited. Long-term local consultants were the largest category of PIU staff: 13 staff members on average in the project survey, 9 of whom were for project management, including contract

[42] This is 29%; the sample of 140 RRPs approved in 2000–2003 came to 44% "PIU-less" projects in the energy sector.
[43] Thirty-seven percent of all transport PIUs, and 36% of energy PIUs; in agriculture, and natural resources and social infrastructure, the corresponding figures were only 13% and 19%, respectively.
[44] For instance, responding that the PIU would be closed and simultaneously somehow merged with the agency.
[45] The situation at the time of the survey was investigated, not the pattern of employment over the life of the projects.

supervision. Regular government staff was the second largest single category, with an average of six professional staff members for project management; contracted staff was the third category with three professional staff members on average.[46] Internationally recruited consultants were the fifth category, with fewer than 2 long-term staff. If the reported support staff was counted as well, then the size of government staff would be increased by seven members on average, and the contracted staff by six. Advisory work of consultants was usually a small component of the overall work of consultants in PIUs, and was more often conducted by international consultants.

Figure 7: Proportion of Professional PIU Staff Used



Source: Project survey 2004. N = 188.

74. Extrapolating the findings to the 286 ADB-funded investment projects with PIUs[47] implemented for a year or longer at the time of the survey, the importance of the PIU as a means to develop capacity or as a lost opportunity to do so is clear. ADB PIUs in EAs alone may involve 6,900 professionals, of whom only a quarter are regular agency staff members.

75. **Internally or Externally Staffed PIUs.** Of the PIUs, 58% were mainly external (i.e., more than 50% staffed externally by foreign and local long-term consultants and contractual staff members) and 42% internal (i.e., staffed 50% or more by professionals from the parent agency). The pattern held for all major sectors (Table 4), although the number of PIUs in the energy sector in the sample was small. A greater share of internally dominated PIUs was found in the agriculture and natural resource and social infrastructure sectors, which focus more on service delivery or capacity development. Only 15% of all PIUs were completely internally staffed; conversely, almost 33% of all PIUs were completely externally staffed, with no full-time professional staff input from the agency, with little difference across the sectors.

[46] Consultants would usually be hired either as part of a contract with a firm, or as individuals, but paid consultant fees. Contractual staff would be hired by the government and be paid generally comparable or lower salaries than government staff with the same qualifications or duties. The use of contracted professional staff was more prevalent in countries such as India, Philippines, and Pakistan; in other countries their use was very limited or absent.

[47] In mid-2004, 314 investment projects were implemented for a year or longer, of which around 10% were without a PIU.

Table 4: Predominance of Internal or External Professional Staff in PIU by Macro-Sector
(% of responses in the project survey)

	Sector					
Type of PIUs	**ANR**	**EN**[a]	**TC**	**SI**	**OTH**	**Overall**
Internal ≥ External Staff	46.2	25.0	29.6	48.2	38.1	42.5
External > Internal Staff	53.8	75.0	70.4	51.8	61.9	57.5
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Exclusively Internal Staff	15.4		11.1	17.9	14.3	15.0
Exclusively External Staff[b]	36.5	75.0	29.6	26.8	28.6	32.5
Internal and External Staff	48.1	25.0	59.3	55.4	57.1	52.5
Total	100.0	100.0	100.0	100.0	100.0	100.0
Percentage of All Cases	**32.5**	**2.5**	**16.9**	**35.0**	**13.1**	**100.0**

ANR = agriculture and natural resources, EN = energy, OTH = other, PIU = project implementation unit, SI = social infrastructure, TC = transport and communications.
[a] Only energy projects with PIUs (four PIUs in the project survey).
[b] Except sometimes the PIU head.
Note: This table excludes projects without PIUs and cases where the internal or external nature of staff was not consistently expressed in the questionnaire response.
Source: Project survey 2004. N = 160.

76. **Separate and Integrated PIUs.** Separate PIUs are temporary, predominantly externally staffed; integrated PIUs are predominantly internally staffed, either temporary or not (Table 5). Although some PIUs have an unclear status, it can be deduced that around half of all PIUs are more integrated with, and half more separate from, their parent agencies. The patterns indicate widespread differences across the sectors, and negate some simplistic views on the predominant "separateness" of PIUs that seem to be driving the international debate on this topic. Given the large number of PIUs that are uncertain about their future beyond the project, well-planned exit or integration strategies will likely be needed.

Table 5: Separateness of PIU by Sector
(% of responses)

	Sector					
Type of PIUs	**ANR**	**EN**[a]	**TC**	**SI**	**OTH**	**Total**
Externally staffed, to close	35.8	50.0	19.5	30.2	17.4	29.3
Internally staffed, to be closed	9.4		10.7	17.5	13.0	12.9
Externally staffed, to merge or unclear	24.5	50.0	57.1	27.0	47.8	34.5
Internally staffed, to merge or unclear	20.8		10.7	12.7	13.0	14.6
Unclear	9.4		3.6	11.1	8.7	8.8
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Percentage of all cases	**31.0**	**2.3**	**16.4**	**36.8**	**13.5**	**100.0**

ANR = agriculture and natural resources, EN = energy, OTH = other, PIU = project implementation unit, SI = social infrastructure, TC = transport and communication.
[a] Only energy projects with PIUs (4 PIUs in the project survey).
Note: Table excludes projects without PIUs and cases where this was not consistently expressed.
Source: Project survey 2004. N = 171.

77. **Project Management Experience.** Eighty-nine percent of PIUs favored employing staff members with project management experience in PIUs; 84% of PIUs included such staff members. The average number of such staff members in PIUs was 16, half or two thirds of all

professional staff employed in PIUs.[48] Many of such staff members were external to the agency, contributing to a pattern of reliance on outsiders to implement projects. In half of the PIUs, staff members had left over the last year, with an average per PIU of around 5 (21%). PIU consultants and even regular government staff members often moved from one PIU to another. Some EA representatives viewed the accompanying instability and disruptions as a negative side effect of the general benefit of maintaining a pool of project management expertise in the country. It has been argued that this pattern reflects vested interests in maintaining the reliance on temporary and externally staffed PIUs, with project funds being directed to lucrative project management positions outside the normal civil service. Others have argued that employing experienced external staff does not inherently undermine agency capacity, as it obviously benefited project implementation efficiency and did not take away from capacity elsewhere in the agency.

78. **Head of PIU.** Particularly important for the PIU's level of integration is whether or not its head is a regular staff member of the parent agency.[49] ADB does generally favor internal heads but sometimes promotes the use of external heads. Of the RRPs that mentioned a PIU, 62% did not specify whether the head should be internal or external, 31% stated that the head should be internal, and 7% stated that the head should be external. In the survey, 79% of PIU heads were reportedly internal staff members of the parent agency, and paid by it. Another 5% were from the parent agency, but were reportedly paid as consultants for the duration of the contract. Of the PIU heads, 6% were seconded by another agency, while the remaining 8% were externally recruited as part of consulting services contracts. In total, 21% of PIU heads in ADB's project portfolio were external, i.e., not regular staff of the parent agency.

79. **Incentives for PIUs.** Higher-than-normal salaries improve the work morale of PIU staff as do salary supplements for government staff. Almost 30% of the survey respondents reported that government officials in the PIU received some supplemental payment (honorarium or a special allowance). Half of the government officers who received supplementary pay received an additional 5–25% of their salary. The others received more, but most were in the 25–50% category. The practice was in part related to country regulations as to salary supplements and salaries for consultants. The publications reviewed in Chapter 1 often alleged that such incentives could demoralize staff assigned to regular operations or project operations not externally funded. However, the SES country missions did not find direct evidence to support this. Godfrey et. al. (footnote 35) argue that higher salaries in the external assistance sector may have indirect costs in that they draw away human resources from other sectors and raise the cost of actual and potential skill-intensive activities in them. This would imply that incentives for project staff, if provided at all, should be part of an overall incentive strategy.

80. **Physical Location of PIU.** The project survey found that three quarters of all PIUs were in the building of their parent agencies, suggesting that the rest have fewer opportunities to integrate with their parent agencies and to cooperate with and learn from them.

F. Conclusion

81. Assuming that at least half of the program loans and half of the DFI-based projects do not have PIUs of any sort,[50] and 10% of other projects do not, then around 70% of all ongoing

[48] It was not clear whether this number also included support staff.

[49] The project director was occasionally also the head of the PIU, particularly if the PIU is internally staffed. Often, however, there was both a project director and a PIU head (or project manager).

[50] Although the SES did not study program loans and DFI loans in detail, some program loans rely on "program support units." Most program loans have attached TAs, which may include aspects of program administration and,

ADB projects and programs are likely to have a PIU. If a subsequent distinction is made between separate and integrated PIUs, and externally and internally staffed PIUs, then the proportion of the projects that would need to be carefully assessed with respect to their effect on EA capacity is two thirds of this universe. Around half of ADB's loan portfolio risks potentially diminished opportunities for capacity development through projects as a result of separate PIUs (i.e., temporary and externally staffed PIUs).

IV. PROJECT IMPLEMENTATION CONTEXTS: COUNTRY PERSPECTIVES

A. Country Context Characteristics

82. Distinct from the direct effects of the nature of the agency and the project, country contextual factors—government policy and civil service conditions, governance, external agency presence, and private sector presence and capacity—may have impacts on PIUs. These factors restrain the use of PIUs or, alternatively, favor it. They also impact on PIUs' efficiency and potential for capacity development. The importance of the country context seems to be often forgotten in critical stances (paras. 7–9) regarding the role of PIUs. For this reason, this chapter pays special attention to this aspect.

83. The SES found that many country characteristics favored separate PIUs and made it difficult for agencies to staff their PIUs internally. For instance, it was sometimes government policy to reduce the number of civil servants and to outsource the management of projects and the delivery of certain public services to the private sector or NGOs under special contracts. The usual government agencies specializing in project implementation, such as public works agencies, were sometimes avoided because they were perceived as inefficient and corrupt. Some large construction projects were contracted to private sector parties under turnkey contract arrangements. Civil service conditions often made it difficult to recruit new civil servants on short notice to work in PIUs, to transfer experienced civil servants into PIUs, or to give staff promotions in PIUs. In some countries, civil service conditions prohibited special allowances for PIU staff, even if the work load and level of responsibility were demonstrably high. In the Pacific and in Central Asia, many civil services are so small that external funding agencies competed to recruit officers for work in PIUs. Generally, many governments were unable to finance investments from their own sources, instead relying on external agencies and depending on their favored implementation arrangements. Good project managers and other government staff experienced in project management were sometimes in short supply.

84. Problematic country characteristics were not the only factors that led to the use of separate PIUs. Government officers sometimes felt that the optimum solution was to set up temporary PIUs operating only with external staff. The presence of a vibrant consulting industry with good project management consultants could sometimes be seen as an opportunity, especially if the services were offered relatively cheaply. By the same token, however, the country characteristics that made "separate" PIUs relatively advantageous did not necessarily make them efficient in an absolute sense. Budgetary uncertainties, leading governments to rely on temporary arrangements to avoid the cost of permanent divisions, often made PIUs inefficient because of the lack of timely funds. Budgetary shortages could leave well-staffed PIUs inoperative at times and increase their need to lobby for counterpart funds. In some DMCs, far too many public investment projects were started, given the funds available. The result was delayed implementation or half-finished projects that would discourage PIUs and

therefore, could be seen as PIUs (although with fewer tasks related to finance and accounting, procurement, and supervision of consultants and contractors than PIUs).

reduce their productivity. In some countries, externally staffed PIUs were alleged to breed more corruption, although the SES Mission did not come across concrete evidence of this (para. 54). In other countries, such PIUs were considered to be a good mechanism to ring-fence projects against corruption allegedly institutionalized within some agencies.

85. Even if a government mainly relied on integrated PIUs, the effects on capacity development were not necessarily positive, although this study will assume that they are in general. The political compulsion to recruit unemployed people for positions in the civil service often led to overstaffed agencies and PIUs. The low government salaries and overstaffing often have a hidden cost by lowering PIU staff morale and productivity. Low salaries occasionally compelled PIU staff to resort to moonlighting, thus reducing the effect on capacity building. Some governments funded portions of their infrastructure O&M program and service delivery program through projects under their investment budget rather than under the regular budget. Many external agencies, eager to compensate for failing service delivery, had included service delivery operations in projects on an ad hoc basis, thereby contributing to the long-term instability of the funding of public services. The encroachments on government investment and operating budgets and large numbers of PIUs was sometimes at the cost of strengthening regular government divisions and services. Given all these constraining factors, it is clear that attempts to improve on current PIU arrangements need to be linked to broad programs of public sector reforms. Such programs are complex, subject to various risks and uncertainties, and take long to implement. PIUs may be required in the intervening years when such reforms are designed and are being implemented.

86. This SES regards the following country characteristics as among the most relevant to explaining the nature of PIUs: (i) predominant funding arrangement for projects, (ii) donor fragmentation, (iii) the financial context, (iv) policies toward downsizing of agencies and devolution, (v) civil service conditions, (vi) government salary levels, (vii) project management capacity in the civil service, (viii) project management capacity in the country as a whole, and (ix) the nature and level of corruption. Appendix 8 describes these characteristics.

B. Country Context Effects on PIUs in Six Countries

87. Although this study did not categorize DMCs by orientation toward separate PIUs, the influence of country context was analyzed for the six countries visited: Bangladesh, Kyrgyz Republic, Malaysia, Papua New Guinea, Philippines, and Viet Nam. Table 6 compares these with the PIU situation found in the project survey in each country. Each country characteristic was rated in accordance with its disposition toward the establishment of separate PIUs. For instance, a high proportion of external funding for the countries' development budget was rated as a contributing factor, since this turns projects into additionalities for which the government could not easily justify the appointment of permanent staff. Similarly, the degree of donor fragmentation was regarded as contributing to the establishment of separate PIUs: the multitude of implementation arrangements and procedures demanded by external agencies works against the appointment of permanent government staff to manage such projects. The resulting ratings for the six countries are a proxy for the conduciveness of the context to separate or integrated PIUs. The table allows a comparison of the country rating with the proportion of externally staffed and temporary PIUs found by the project survey. Viet Nam and Malaysia are conducive to integrated PIUs (or arrangements without PIUs). The Kyrgyz Republic is the least conducive. Bangladesh, Papua New Guinea, and the Philippines are also less conducive.

Table 6: Context Characteristics Conducive to Separate[a] PIUs

No.	Country Context Characteristic	Valuation	BAN	KGZ	MAL	PNG	PHI	VIE
1	Predominant funding arrangement for development projects	External (>50%) = +++		+++		+++		
		Mixed (20–50%) = ++	++				++	++
		Internal (<20%) =						
2	Donor fragmentation index (WDR 2004)	0.8–0.9 = +++, 0.6–0.7 = ++, 0.4–0.5 = +, 0-0.3 =	+++	+++		+	+	++
3	Level of budgetary uncertainty for government, government budgetary discipline, and quality of public expenditure management	High uncertainty = +	+	+			+	
		Low discipline = +	+	+		+	+	
		Bad PEM = +	+	+		+	+	
4	Government policy toward downsizing or devolution, and strategy towards involvement of private sector and civil society in public service delivery	Downsizing policy = +		+	+	+		+
		Devolution policy = +					+	+
		Private sector policy = +			+		+	+
5	Type of civil service	Lack of rules/enforcement of rules = +		+		+	+	
		Harmful transfer of staff/ political intrusions = +	+			+	+	
		Coverage civil service low = +	+				+	
6	Salary level in civil service for senior project managers	<$150 per month = +++		+++				
		$150–$550 per month = +	+				+	+
		> $550 per month =						
7	Depth of project management capacity within civil service (relative proportion of staff with education and experience in this field)	Low = +++		+++		+++		
		Medium = +	+					+
		High =						
8	Quality of domestic consultant industry in project management	High = +++	+++		+++		+++	
		Medium = +						+
		Low =						
9	Level of corruption in the country	TI highest 20 countries = +++	+++					
		TI highest 50 countries = ++		++		++	++	++
		Other countries =						
	Combined index of features favoring creation of temporary and externally staffed PIUs	**Total number of pluses**	**18**	**19**	**5**	**14**	**17**	**12**
		% of maximum points (27)	66.7	70.4	14.8	51.9	66.7	44.4

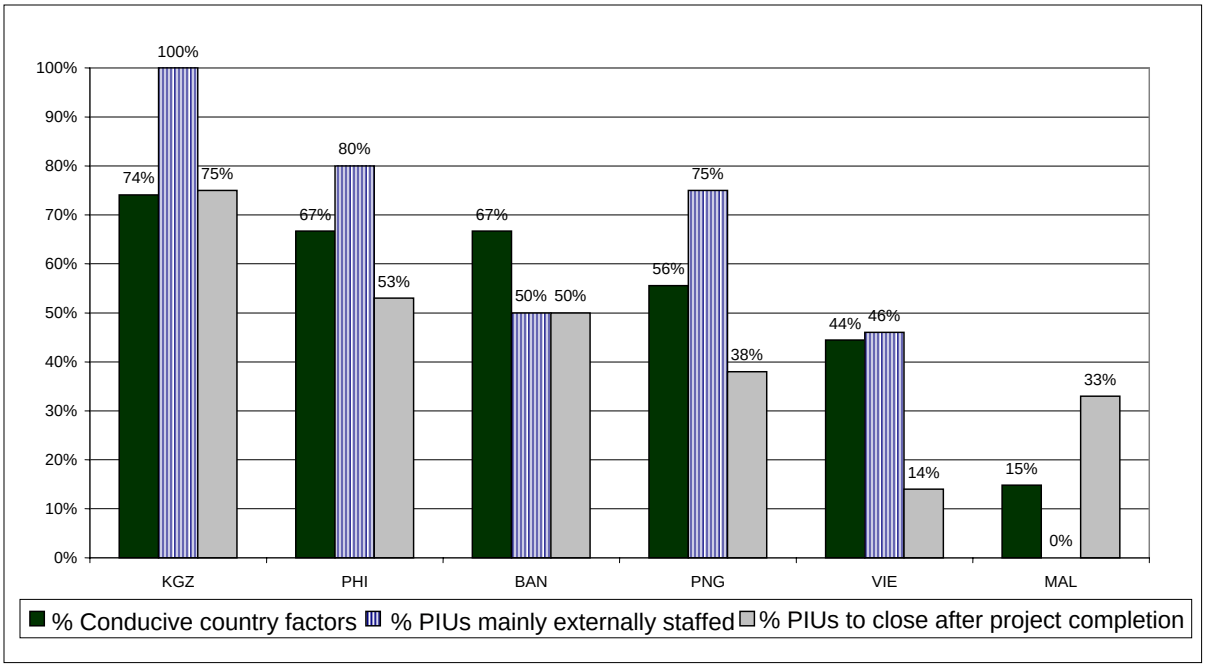
BAN = Bangladesh, KGZ = Kyrgyz Republic, MAL = Malaysia, No. = number, PEM = public expenditure management, PHI = Philippines, PIU = project implementation unit, PNG = Papua New Guinea, TI = Transparency International Corruption Index 2004, VIE = Viet Nam, WDR = World Development Report.

[a] Temporary, externally staffed.

Sources: Estimates based on country missions; *World Development Report 2004* for point 2 (footnote 10); Transparency International 2004 for point 9 (Available: www.transparency.org/cpi/2004).

88. The strength of the relation between country context characteristics and PIU patterns found is illustrated by the bars sloping downward from left to right in Figure 8. Although the correlation is distinct, it is not perfect. This reflects the complexity of situations and the separate effects of agency and project factors on PIU patterns. For instance, although the context in Bangladesh might strongly favor separate PIUs, these were in fact less predominant in the sample than expected. The smallness of the sample in some countries and the nature of the project portfolio may be other factors, as well as certain special situations not captured by the list of country context characteristics. The next section highlights the main effects of the characteristics mentioned, as well as occasional special situations.

Figure 8: Context Factors and Types of PIUs



BAN = Bangladesh, KGZ = Kyrgyz Republic, MAL = Malaysia, PNG = Papua New Guinea, PHI = Philippines, VIE = Viet Nam.
Sources: Table 6 and project survey 2004.

C. Experience and Issues in Six Countries Visited[51]

89. **Kyrgyz Republic.** The country was the most reliant on separate PIUs. Projects in a mixed economy began only in the early 1990s. The civil service had little experience with the type of project management practices that ADB promotes, and PIUs had been mainly staffed by consultants. As a result, in the early years of ADB's operations there were many foreigners among the PIU staff members, but at the time of the SES mission, most PIU staff were domestic, predominantly former government officers. The extremely low salaries of civil servants made consulting jobs very attractive. The Government wants to reduce the number of expensive international consultants engaged in projects, believing that the highly educated work force should be able to take over parts of project management and implementation. The Government issued a decree to regulate the salaries paid by external agencies to domestic consultants, which were perceived to distort the labor market and drain the Government of its best staff. Implementing this decree was hampered as external agencies argued that it ran counter to their guidelines for consulting services, which favored more open competition and market-determined rates. Through the funding of salary surveys, some external agencies attempted to improve transparency in and harmonization of the disparate salaries that were paid to consultants. PIUs may have developed the capacity of the domestic consulting industry rather than the capacity of the public service. Negative effects of PIUs should not be exaggerated. The brain drain to Russia and Germany in the past decade and a half, unrelated to actions of external agencies, has had a more serious effect in this respect.

90. **Philippines.** In the Philippines, PIUs used more regular government staff than in the Kyrgyz Republic. Most PIUs were headed by senior government officers. Consultants and contractual staff members were heavily used. The relative ease with which separate PIUs could

[51] Appendix 9 summarizes observations made in the six countries visited.

be created in the past may have been a sign of the Government's budgetary indiscipline, or weaknesses in the public service, which also employs thousands of contractual staff members outside the projects. The budgetary crisis of the last 2 years has led to certain shifts in the Government's position. Contractual staff members in PIUs used to be paid according to government salary scales, with a supplement of 20% to compensate for the greater job insecurity and lack of social security. In 2003, the Government terminated this supplement, while including the contractual staff members in the social security system. Modest salary incentives for government staff members in PIUs have also been terminated. In response to a perceived proliferation of PIUs using contractual employees, the Department of Budget Management issued a policy regarding unified project management offices in 2003. This requires unifying the various PIUs into one per agency and integrating them into the regular structures, functions, and systems. This was justified on the basis of the argument that PIUs often diffused government policy and lowered compliance with central government directives.[52] Starting in 2004, agencies were no longer allowed to create a PIU for each new project; rather, one consolidated PIU would be used for all projects. There is no evidence that the change caused major disruptions, although this may be in part because most PIUs that already existed before 2003 were excluded from the new rule.

91. **Bangladesh.** A large variety of implementation arrangements were being used—integrated as well as separate PIUs. As in some other countries in South Asia, a main problem with integrated PIUs was the frequent transfer of senior government staff, notably the project managers. In a number of projects, project managers were recruited externally to avoid the disruption that such internal staff members would cause when transferred. Resorting to the use of consultants and temporarily contracted staff was widely justified by the argument that EAs had insufficient staff to work in foreign-funded projects. The discrepancy between remuneration for government staff and domestic consultants and contractual staff members was less prominent than in the Kyrgyz Republic or Papua New Guinea and similar to that in the Philippines. The main issue regarding capacity development with PIU and project staff on contract was the Government's difficulty in regularizing the positions after project closure. Invariably the salaries would be paid from the development budget, and staff would need to transfer to the recurrent budget. Regularization was often a contentious issue between external funding agencies and government. The problem was smaller for large construction projects, where such staff members were needed to implement but not to operate project facilities. It was a more significant problem on agricultural projects, where continuing support was needed to ensure long-term success. The Government was aware of the potential conflict between short-term implementation efficiencies and long-term capacity development. Its policy was to promote increases in program aid that could address shortages in the recurrent budget.

92. **Papua New Guinea.** As in Kyrgyz Republic, external agency funds dominate the funding of the development program in Papua New Guinea. As in Kyrgyz Republic, government officers often leave the public service to become project consultants. Government salaries and consultant fees for PIUs are higher than in some other very poor countries, turning the cost of PIUs into a larger issue. Other than this concern, the Government did not express issues related to PIUs or project mechanisms as such. Rather, it focused on larger issues of civil service conditions, public expenditure management, and decentralization. The most important recent development related to PIUs was that the Australian Agency for International Development (AusAID), the major bilateral donor in the country, was converting from predominantly project-type aid to program aid. AusAID viewed this as helping reduce the number of PIUs. Another

[52] The policy was justified on the grounds of "(i) ensuring operational sustainability and alignment of project concerns with the overall agency program; (ii) optimum use of resources; and (iii) strengthening monitoring, accountability, and in-house capability."

development of interest was the creation of a number of statutory authorities, which were often assisted by PIUs to develop capacity. This trend may ultimately reduce the number of PIUs, although it could fragment the public service and generate parallel structures.

93. **Viet Nam.** Viet Nam, like other transition economies, has had less extensive experience with externally-funded projects or with public procurement and contract management systems than many other DMCs. However, it implemented some successful reforms over the last 10 years, notably a far-reaching decentralization process. Capacity has been built up in the civil service, including project management capacity. Viet Nam has higher numbers of regular government staff involved in PIUs than some other countries visited. A conspicuous feature of PIUs in Viet Nam is that the Government considerably tops up salaries of its project staff, with few reports to the country mission on demoralization of staff outside the PIUs. The main problems related to the PIU mechanism were threefold. First, the recent decentralization of projects to provincial and district levels was leading to a proliferation of PIUs at the lower levels of government, where project management capacities were weak. Second, the authority relationships between PIUs and EAs were complex because of the country's history of political party dominance in administrative decision making. A dual responsibility structure for PIUs required obtaining approvals at ministerial and even prime ministerial levels, in addition to their own agencies. This led to implementation delays and conflicts with the agencies. In a number of cases, the dual responsibility structure gave rise to the creation of parallel structures that reported to the minister rather than to the EA. The third problem was related and had to do with the large degree of insularity of subnational PIUs. Such PIUs were not primarily accountable to national authorities. The Government is revising Decree 17 of 2001 on regulating management and mobilization of official development assistance. This may provide EAs with greater authority to make project decisions.

94. **Malaysia.** Of the countries visited, Malaysia has the highest per capita gross domestic product and the lowest proportion of donor aid. It has had a high measure of political stability, budgetary certainty, and a controlled project approval process, ensuring that once a project was approved, sufficient funds would be made available to it to ensure timely implementation. ADB's projects in Malaysia had PIUs as in the other countries, but they were primarily staffed by regular government officers. There was little reliance on contractual staff members or domestic consultants with respect to project management functions. Most projects in Malaysia were government-funded and managed through integrated PIUs; PIUs were not an externally imposed arrangement. Rather, the Government viewed them as an efficient and effective way to manage project implementation.

95. As in the Philippines, PIU staffs were funded by the operating budget of their departments and not by the development budget. As a consequence, ADB loans for the projects visited had not had allocations earmarked for administrative costs. In many other DMCs, such allocations may increase the reliance on consultants to manage projects, as well as lead to topping up of government salaries. Reliance on regular government staff to manage projects had the advantage of capacity development within the EA. When relying on regular government staff, PIUs became an issue not only for the Ministry of Finance but also for the Public Service Department, which is specifically concerned with long-term capacity development. The practice of funding project staff through the regular budget on supernumerary positions was used to promote more centralized project supervision mechanisms and diminish the risks of proliferation of temporary project offices within organizations.

96. In line with its policy on private sector involvement, Malaysia conducted experiments with private sector management of projects toward the end of the 1990s, through project

management consultants (PMCs) or turnkey arrangements (e.g., for large hospitals and complex infrastructure projects). The Government recently recognized that these experiments had only had a mixed success, mainly because of the difficulty of establishing the right prices for works and, in the case of PMC projects, high administrative costs and difficulties accounting for consultant time. The perception of the EA staff interviewed was that engineering departments needed to retain control over the design and implementation of at least a portion of their projects so that the hands-on experience of their staff was built up and the long-term capacity for adequate supervision of consultants and contractors maintained. As a consequence, the model of contracting out projects, including design and implementation, to the private sector on turnkey and PMC basis may not expand soon. A Ministry of Finance order advises not using the PMC model any longer. After the Public Works Department was restructured in 2002, its role in project implementation was consolidated, and recently 500 of its staff were promoted, indicating continued confidence of the Government in the role of this department. It changed from a functional to a sector-based matrix organization, reducing the need for separate PIUs. Overall, PIUs remain an often-used model in Malaysia, staffed by regular government officers.

97. Country patterns of temporary and permanent, and internally and externally staffed PIUs are summarized in Appendix 10.

V. EFFECTS OF PIUs ON EFFICIENCY AND CAPACITY

98. This chapter reviews the effects of PIUs on implementation efficiency and on capacity development within the agency. The discussion on implementation efficiency focuses on a few aspects that could be captured by the study of RRPs, PPRs, and the project survey. The discussion on agency capacity development is focused on project management capacity and other areas where capacity can be developed. For findings of earlier ADB studies on implementation efficiency, see Supplementary Appendix F. Supplementary Appendix G reviews some ADB studies on project management capacity development.

A. Effects of PIU Arrangements on Project Implementation Efficiency

99. Given the constraints discussed in Chapter I (para. 14) on the difficulties in determining effects of PIU arrangements on implementation efficiency, the SES regards the following variables as proxy indicators of implementation efficiency, and compares them to different PIU arrangements: (i) efficiency in the use of staff, (ii) relative economy (the cost of project management per million dollars of loan or project), (iii) process efficiency in terms of the relative absence of problems confronting the PIU, (iv) process efficiency in terms of the project output produced on time and within budget, (v) process efficiency in terms of variables tracked through the PPR, and (vi) effectiveness in achieving the project's outcome.

100. The statistical analysis is summarized in Appendix 11. Overall, the indicators reviewed showed little systematic and significant variation in their efficiency and effectiveness across the different types of temporary or permanent PIUs, or internally or externally staffed PIUs, or single or multiple PIU arrangements. This indicates that the choice of various types of PIUs has not been independent of the circumstances: with certain degrees of freedom, a broad range of PIUs have been designed fit to purpose in ADB's portfolio. Temporary, permanent, and merging PIUs do not achieve very different levels of efficiency. However, a correlation, albeit weak, was established between the proportion of external staff in the PIU and the efficiency of the project: external staff in PIUs may accelerate project implementation and increase the likelihood of the project staying within budget. The following observations can be added:

(i) Projects with implementation arrangements not relying on PIUs were not significantly more or less efficient in time and budget management. They had less rather than more problems than some other categories of PIUs, implying that certain problems such as the mandate of PIUs, staffing, and budgets did not occur as much in this implementation arrangement.

(ii) Permanent PIUs generally used more staff members. The country missions confirmed that they had more "slack". Temporary PIUs were generally the smallest. Partly because of their newness and temporary nature, they had more difficulty recruiting staff.

(iii) Permanent PIUs rated their expectations as to being on time and within budget as much lower than temporary or merging PIUs, and also staff in projects without PIUs. The reasons for this are not clear but may have to do with the fact that these PIUs often had to manage more than one project. Since most projects have peak and slack periods in their implementation cycle and over each year, time management is more an issue and can increase delays if not handled well. Mixed responsibilities for staff may contribute to the problem.

(iv) Especially in subsidiary PIUs—PIUs in IAs and often at the subnational level—efficiency seemed to improve with the involvement of external staff, confirming observations that agency staff may be less experienced in such PIUs and at lower levels of government.

(v) Differences between types of PIU in terms of problems that can affect their functioning were marginal. This validates the hypothesis that the types of PIUs were chosen to respond to problems, and that many problems affecting implementation efficiency are external to PIUs. Projects with many external PIU staff members did not encounter more problems than those with internally staffed PIUs. However, the more PIUs in a project, the more problems were reported. The project's complexity may be a factor, so the problem may be less the implementation arrangement per se. A weak but statistically significant correlation was established between PIU staff size and problems: the larger the PIU, the more problems were reported—an argument in favor of a certain leanness of PIU staffing.

(vi) PIU heads' assessments of the expected achievement of their own projects varied significantly in the survey by type. Project survey respondents thought that 74% of the projects focusing on infrastructure provision would achieve their objective. The corresponding figures for other types of projects were 83% for the projects focusing on O&M of infrastructure, 67% for projects on public service delivery, and 51% for institutional development and capacity development projects. On average these anticipated success rates were similar for the various types of PIU arrangements, indicating a general lack of causal relationships between the nature of the PIU and the quality of project achievement.[53] What could be established, however, was the finding that PIUs with internal staff thought themselves more likely to achieve the objective in projects focusing either on infrastructure O&M or public service delivery. On the other hand,

[53] This was similar to a World Bank finding based on analysis of its projects in Latin America and the Caribbean (footnote 5 [i]): there is a stronger correlation between project performance and country wealth and a low level of corruption in the country, than between project performance and project organizational structure.

externally staffed PIUs thought themselves more likely to achieve the objective for straightforward, one-off infrastructure provision projects.

101. One of the most contentious issues in the PIU debate is the extent to which implementation inefficiencies are caused by complex procedures imposed by ADB, and their importance vis-à-vis other problems that the PIUs have to deal with. The project survey found that 10% of respondents mentioned the interaction with ADB as a major problem (in terms of specific issues, complicated procedures, slow responses, and disputes). Almost 30% of respondents identified it as a minor problem. However, 26% of respondents regarded the dependence on progress or decision making outside the PIU and EA as a major problem and 13% thought the lack of PIU staff was a major problem. Around 10% identified as major problems an insufficient budget to run the PIU, defective project design, or division of responsibilities between PIUs and parent agencies.

102. The project survey may not have fully captured the extent to which ADB's procedures are regarded as complicating implementation. In some cases, ADB's policies related to procurement, finance, environment, and social concerns, and ADB's requirement for conducting benefit monitoring and evaluation (or setting up a project performance management system) could be viewed as slowing down implementation and increasing transaction costs. A full assessment would need to evaluate to what extent these policies help improve project quality and develop capacity with respect to international best practice in project implementation. ADB's projects might in the aggregate imply a challenge to the consistency of host government policy and implementation processes only when ADB's systems are significantly different from those of other agencies. Many observers have noted this, but it may differ by country and sector. Greater donor harmonization is one way to address this issue. ADB is an active participant in ongoing donor harmonization discussions. Internal working groups, such as on the OCR/Middle Income Countries Partnership Framework, and on the Innovations and Efficiency Initiative to reform business processes, are proposing improvements to ADB's systems.

103. Another issue is whether ADB's need to concur with decisions made by the EAs, and ADB's checks and response time to requests slow down implementation. The country missions found a number of examples where PIUs expressed frustration with the delays caused by late ADB responses, for instance with procurement decisions or disbursement requests. ADB needs to take steps to reduce delays significantly and improve response times to requests from PIUs.[54] Many implementation delays, however, had causes other than delays associated with ADB response times. Many projects not supported by ADB or other external agencies also experienced serious problems in the DMCs visited. They were similarly constrained by issues related to budget and governance.[55] Despite this, best practice would be for ADB to take measures to decrease the response time or to delegate more authority and accountability to EAs so that ADB's clients do not feel that ADB is contributing to delayed decision making. The survey finding that 40% of respondents felt that ADB contributed somewhat or significantly to delays in project implementation is too high to be ignored by an organization dedicated to providing excellent services to its clients.

B. Effects of PIU Arrangements on Capacity Development

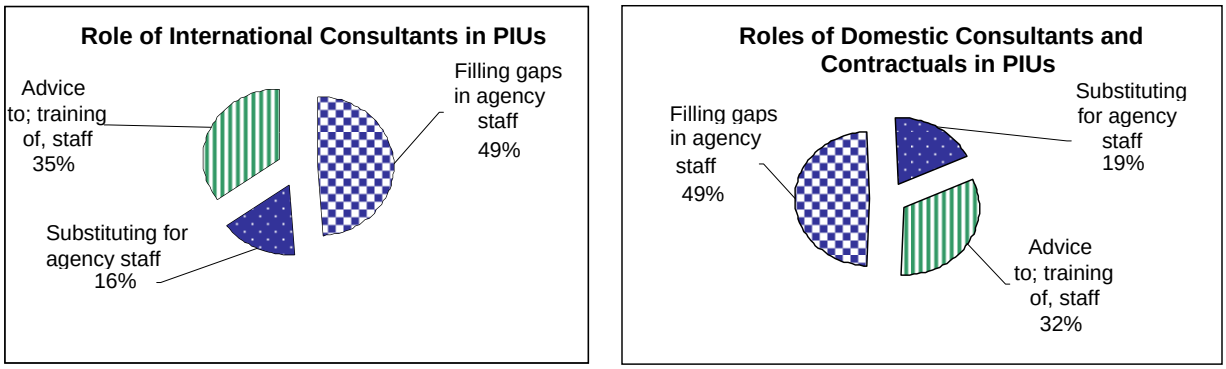
104. Quantifying the effects of different types of PIU arrangements on project management and implementation capacity development is as difficult as quantifying the effects on

[54] Delegating more responsibilities to ADB's resident missions may be cost-effective in this respect. This is discussed in greater detail in section IV-A in the report referred to in footnote 31.
[55] A summary of the overall implementation problems reported by ADB's PCRs is in Supplementary Appendix E.

implementation efficiency. The methodological and conceptual difficulties are similar to those given in the previous section. Indicators of capacity development are notoriously difficult to develop. The SES investigated only a few aspects of the possible effects of PIU arrangements on capacity development, and analyzed the opinions of respondents in the project survey about this subject. Appendix 12 contains the details of analysis, a summary of which follows.

(i) Half of the survey respondents judged international consultants working in PIUs at the time of the survey as performing operational rather than the advisory roles, filling gaps due to the extra work created by the project, or due to the perceived need for extra quality or integrity of the work (Figure 9). This was in spite of the TOR for many of the positions, which often stressed advisory or training roles. Around a fifth of the survey respondents felt that international consultants were in practice substituting for agency staff for various reasons; substitution means that they were doing tasks that could and should have been done by government agency staff in regular units without disrupting their regular activities. The SES suspects that substitution is at least partly induced by generous administrative loan and consulting services budgets. Interviews with consultants and some government officers confirmed that many EAs and IAs favor assigning operational tasks that have specific, measurable outcomes to consultants rather than the less measurable advisory tasks.

Figure 9: Role of Consultants and Contractual Staff Members in PIUs —Views of PIU Heads



PIU = project implementation unit.
Source: Project survey 2004. N = 206.

(ii) Almost two thirds of the survey respondents mentioned that project consultants had done more operational tasks than required by their TOR. Almost 30% of the survey respondents answered that some project consultants were not so important, and 8% replied that all were not so important. On the other hand, 24% answered that all consultants were crucial, and 23% answered that some were crucial. These findings suggest that ADB needs to more carefully assess the need for consultants and define their TOR during project processing. This will require a more careful institutional assessment of the strengths and weaknesses of EAs to identify areas where consultants can clearly add value that is far in excess of their costs.

(iii) Three quarters of the PIU and project heads responded that agency staff not in the PIU would probably do more work for their project if they were offered incentives. Agency staff mentioned during country missions that PIU staff are

paid to do the job and perhaps offered special incentives. Some agency staff felt that they need not associate themselves with the project.[56]

(iv) Half of all respondents reported that one or more staff members had left the PIU in the last year, the average being more than 20%. Twenty-two percent stated that one or more government officials had resigned from their parent department and had joined the PIU as consultants or contractual staff members. Five percent of PIU heads were agency staff, who had resigned in order to be paid as consultants. In most cases, such government officers were counting on further employment in other PIUs and foreign-funded projects for the duration of their careers.

(v) Forty-four percent of all respondents stated that the PIU had developing EA capacity for service delivery, or O&M, as an objective. Projects that focused on O&M and policy/institutional/capacity development tended to have externally dominated PIUs. Externally dominated PIUs are most useful for emergency projects and infrastructure creation projects in agencies that do not have these as their primary mandate.

(vi) Merging PIUs were not used more frequently in projects that focused on service delivery and were used less than average in projects that focused on infrastructure O&M. A significant number of the projects that focused on O&M, service delivery, and policy/institutional/capacity development had temporary PIUs, presumably because such approaches were perceived as innovative and therefore requiring more consultant input. Nevertheless, they offered less opportunity to acquire knowledge for EA staff in PIUs.

(vii) Project survey respondents were asked whether they felt that the project would help develop project management capacity in the EA or IA. Fifty-seven percent of all respondents thought that it would and 43% thought it would not, indicative again of the diversity of effects of different types of PIUs and the importance of other factors.

(viii) Twenty-two percent of the respondents regarded the work of the PIU as overlapping with that in the main agency. More than a quarter of these stated that the PIU and main agency competed for staff. A further 9% stated that although the work of the PIU and of the main agency did not overlap, they competed for staff.

105. A review of OED's 30 most recently published PPARs for investment projects found one case of a PIU having evolved into a parallel unit that continued after project completion. In the Northeast Minor Irrigation Project in Bangladesh, slow progress during the first 2 years led to activities being transferred from the Department of Agricultural Extension to the Ministry of Agriculture and a separate PMU structure developed. While this improved implementation efficiency, it did not strengthen the institutional capacity of the department, and adversely

[56] The offering of incentives for regular government officers in PIUs was, however, not common: only 28% of PIUs reported that their officers received supplemental payment (honorarium or special allowance). When this happened, the payment was usually within 25% of the base salary (over 50% of the cases; an additional 21% were 26–50% of base salary). Supplemental payment for other staff was less common and was reported by 18% of the respondents.

affected project sustainability.[57] The review of the PPARs was limited but indicates that few parallel institutions are created. However, the PPARs documented several cases where PIUs improved agency capacity.

106. Survey respondents felt that PIUs were an arrangement primarily created to ensure efficient implementation and that they were, in fact, successful. Eighty-five percent of all respondents replied that this was the main purpose of the PIU rather than creating capacity. Other project stakeholders interviewed during the SES country missions, such as staff members of EAs and IAs, usually felt the same. Many representatives of external agencies reported to the country missions that, although they were aware of potential drawbacks, they saw no easy alternative to PIUs for investment projects. Projects without PIUs would need to be more akin to a program (budget support with conditions). But programs also had drawbacks. The SES corroborates the argument that, other things being equal, implementing most investment projects through PIUs is usually more efficient than implementing them without. A systematic comparison between types shows that little can be generalized to identify the most efficient type of PIU. A separate PIU may be most efficient in some circumstances, with only modest losses, sometimes even gains, in capacity development if it is promoted through the use of advisory or training activities. From the information available, a case might be made for permanent PIUs to be rationalized and consolidated, for PIUs to be kept as lean as possible, and for projects to be as simple as possible.

VI. CONCLUSIONS, RECOMMENDATIONS, AND FOLLOW-UP ACTIONS

A. Summary and Conclusions

107. The main questions addressed by this study are the following: (i) What are the PIU patterns in ADB's investment project portfolio? (ii) What are the effects of PIUs on implementation efficiency and capacity development? (iii) What are the specific country experiences with PIUs? (iv) What is ADB's role?

108. **Patterns Found.** The study found that 90% of ADB's investment projects (including sector projects) used PIUs. The 10% of projects without PIUs were in the energy sector and run by agencies specialized in the type of electricity distribution that the projects were supporting (i.e., there was significant in-house capacity to plan, design, and manage project implementation). These agencies were sometimes the result of previous PIUs that developed into matrix-structured authorities or corporations with the task of developing infrastructure.

109. A large number of types of PIU were identified in the study. There is no standard type of PIU depicted in some other publications on this subject (paras. 7–9). A PIU that is externally staffed and funded, set up to serve external agencies, and dissolved upon completion of the project, the subject of such controversy and debate in the donor community, is not typical of ADB projects. Half of all PIUs were funded partly or entirely by other funds (primarily government) than the ADB loan; many used staff funded from the agency's operating budget rather than from the project budget. Some PIUs were run exclusively by internal agency staff (15%) but most PIUs involved agency staff, contractual staff members, and consultants working together (52%). The remaining 33% were run entirely by external staff. Some agencies intended to absorb PIU staff upon project completion (18%); others had "permanent" PIUs (12%).

[57] ADB. 2003. *Project Performance Audit Report on the Northeast Minor Irrigation Project in Bangladesh*. Manila.

110. **Effects of PIUs.** The statistical analysis showed few significant differences among the various PIU categories, indicating that PIUs investigated were broadly appropriate for the tasks assigned. Responses by project survey respondents indicated that externally dominated PIUs may be somewhat more efficient in achieving project outputs on time and in remaining within budget. Implementation arrangements without PIUs were not thought more efficient in these terms than those with PIUs. PIUs with large internal staff scored a little better on O&M infrastructure and public service delivery projects. PIUs with external staff scored better on straight infrastructure provision projects. Permanent PIUs, often with many contracted staff, were less efficient than others, perhaps because they usually handled more projects and had more problems with time management and divided responsibilities. PIUs in IAs and subnational PIUs were also less efficient and had more problems, although this may be related to the greater complexity of projects with many PIUs. From interviews it was apparent that the efficiency of many PIUs is constrained by the hierarchical and functional structure of their parent government agencies. Government agencies working with many projects did not necessarily have the organizational structure to do so. Larger PIUs seemed to experience more problems in their parent agencies, possibly in part due to confused lines of authority. The analysis does not support the conclusion that one type of PIU is more efficient than another, rather that the role and function of the PIU must be carefully designed to suit local conditions and the task.

111. With regard to capacity development, the file studies and the project survey indicated that over half of all PIU heads claim that their PIUs improved their agency's capacity to manage projects, something also regularly documented by PPARs. However, there were also some drawbacks: (i) there is some capacity substitution by consultants and contractual staff members, meaning that project staff substitute for, rather than fill gaps in, agency staff, which may slightly hinder capacity development of parent agencies; (ii) project management expertise in the public sector in poor countries was lost when agency staff left for consulting positions; (iii) projects focused on regular tasks of agencies such as O&M and service delivery often had more separate PIUs; (iv) 20% of the respondents felt that the work of the PIU overlapped with that of the parent agency; (v) some respondents perceived competition for staff between the PIU and the agency; and (vi) respondents overwhelmingly believed that agency staff outside the PIU would be more inclined to do project work if given special incentives. The existence of a trade-off between short-term project implementation efficiency, and long-term agency capacity development was confirmed. A risk of separate PIUs undermining the agency's project management capacity was also confirmed.

112. **Country Experience.** Discussions held with representatives of executing agencies, external funding agencies, and central agencies pointed to some issues of concern to governments:

(i) Slow start-up of PIUs, leading some governments to provide funds to establish these units before project approval. ADB should encourage this trend, or at least the appointment of a project director. A complementary solution offered was to rely more on advance actions such as preparation of bidding documents, approval of prequalification of contractors, and early operationalization of project implementation arrangements.

(ii) Inability to absorb externally funded PIU staff after project completion. A solution suggested was to increase the involvement of internal agency staff, perhaps by offering salary incentives, but based on a clear performance management system. Another solution was to review the system of financing of project staff and to finance all such staff from operational budgets from the start.

(iii) In some countries, there were problems with projects having PIUs both at the central and subnational levels, leading to divided loyalties and implementation delays. The solution would be to delineate precisely the roles and responsibilities of the two levels. Problems with weaker implementation capacity at lower levels need to be addressed by specific capacity development efforts.

(iv) Highly disparate salaries for international and domestic consultants in PIUs, in part arising from foreign funding and little donor coordination. One solution would be to hold regular salary surveys for international and domestic consultants working in DMCs to increase transparency and thereby indirectly harmonize salaries. Governments could also regulate salaries of contractual staff members and provide guidelines for salaries of individual consultants.

(v) Problems with the lack of assertiveness and the inefficiency of contractual staff members and domestic operational consultants in PIUs as a result of their dependency relations with their employers and their low status in the public service.

(vi) Difficulty with central control of contracted staff in PIUs, as it was sometimes part of a much larger trend toward use of temporary personnel in the public service. This pointed to the need for civil service reform.

113. Typical problems recognized by critics of the PIU model were acknowledged in some countries. Central agencies saw the proliferation of PIUs as contributing to a lack of adherence to central government policy and as diminishing their authority. Some respondents felt this led to reduced government ownership of projects and to attempts to reduce the number of PIUs by decreeing that they should be consolidated into one per agency. A solution offered was to gradually rely more on program-type assistance from the development community.

114. **ADB's Role.** The international debate on harmonization and alignment has highlighted concerns about the role of PIUs and attempts to substantially reduce their use. This study cannot confirm the need for a reduction per se in the use of PIUs. However, ADB should strive to maximize the use of internally staffed and mixed PIUs, while taking into account the government policies, capacity, loan modality, and efficiency considerations. The concerns expressed in the international debate may be more valid for the smaller aid interventions that predominate in development cooperation. Given the size of most of ADB's investment projects compared to normal government investment operations in ADB's DMCs, some type of special management arrangement is usually necessary. Hence, this study deems it appropriate that ADB has supported PIUs as a tool for efficient project management and implementation. ADB has also responded appropriately by providing significant TA to improve project management in agencies. This does not mean that opportunities for capacity development were not missed and that further improvement is not needed. Loan components for project management were generous, and may have led to greater use of externally recruited staff than needed. ADB often insists on international recruitment of project management consultants. The use of internal staff in PIUs has not always been promoted. Generally there was no evidence of an agreed-on transition and exit strategy for PIUs prepared during project processing. Most EAs' and IAs' criticisms of ADB's processes and systems concentrated on the delays caused by ADB when it required compliance with policies and had to concur with PIUs' proposals and decisions. ADB still has much to do to improve service to its clients. Project administration capacity within ADB has weakened over the years. ADB should make more resources available for project administration, simplify procedures, and rationalize and harmonize policies. However, many

agencies stated that project implementation processes for nationally funded projects could be problematic, as well. Issues related to PIUs are not the most important factor affecting project quality. Many projects were hampered by governance and other project- and country-specific factors.

115. **Borrowers' Role**. The study found that implementation arrangements were not always aligned well with agency structures. These structures may need to be adjusted to the reality of a large portion of the budget being provided through ad hoc projects. More modern matrix structures, unit-management structures, and structures relying entirely on "management by projects" may need to be introduced. Some governments were pursuing the consolidation of various PIUs in an agency into one more integrated and semipermanent unit.

116. Agency staff could become more involved in project management and implementation, if given incentives. This might need a change in the agency's culture. Annual work plans for individual staff, linked to performance evaluation reports, may be required, as well as divisional or agency-wide work plans, intra-agency contracts between divisions, and annual reports.

117. There was a wide variety in funding mechanisms for PIU staff designated to operate the project outputs upon project completion. The best absorbed such staff into the recurring (or operating) budgets of the agencies from the beginning, rather than adding their costs to the project budgets. The system needs to be flexible in case PIU staff members are dismissed because of changed public investment programs, policies, or unanticipated budget deficits.

B. Recommendations to ADB

118. ADB has recently committed itself to develop capacity more effectively.[58] Given the large number of staff members involved in PIUs and the increasing number of projects combining capital investment with service delivery and policy reform, **the SES recommends ADB to more systematically assess the potential effects of PIUs on agency capacity.** Where feasible, ADB should **rely on existing units of agencies to manage projects. Where this is not feasible, it should encourage the use of PIUs that are mainly staffed internally by agencies.** Separate PIUs, mainly externally staffed, may continue to be needed in certain circumstances. Government policies, capacity, loan modality, and project efficiency considerations need to be taken into account. **The risk that temporary, externally staffed PIUs might undermine agencies' project management capacity needs to be analyzed as a standard practice and mitigated.** More detailed recommendations follow, subdivided into those that can be done in the context of ADB-government dialogue (through country programming and portfolio review), those to be done in the context of individual projects, and those that cannot be done by ADB alone and those that are to be discussed between the government and other external agencies. Some recommendations are not resource-neutral and will require additional staff time to implement.

119. **Country Programming and Portfolio Review.** One of the inputs for formulating a country strategy and program should be **a capacity development strategy that elaborates on, among other things, how project implementation arrangements can be compatible with developing capacity.** The sheer number and size of PIUs makes this imperative so that opportunities are not missed. The preferred strategy of using internal or external operational

[58] ADB's Board approved a review of the poverty reduction strategy in July 2004, which recommended the introduction of capacity development as a new thematic priority for ADB lending and TA operations. ADB has created a capacity development working group to prepare for staff instructions and an action plan, which is to be implemented from the third quarter of 2005.

staff in project implementation arrangements should be outlined, perhaps specified for certain sectors. Country context characteristics outlined in this study need to be taken into account when formulating individual projects. The role of PIUs in capacity development needs to be assessed, discussed with governments, and aligned with government policies. Country portfolio reviews need to monitor the risks in terms of PIUs undermining agency capacity.

120. **Project Preparation.** During the preparation of individual investment projects, **the institutional analysis should focus on (i) the effect of various types of implementation arrangements on the structure and functioning of the agency as a whole; and (ii) the effect of agency, project, and country characteristics on the efficiency of a PIU arrangement.** The anticipated effects of a PIU on the agency's capacity need to be weighed against its effects on implementation efficiency. Risks of capacity substitution need to be mitigated, as well as risks of duplication of tasks within and outside agencies, proliferation of PIUs, and the creation of parallel institutions. A checklist of relevant questions for such analysis of PIUs is in Appendix 13.

121. If a PIU is indeed needed to implement a project, then **the RRP should clearly indicate the degree of reliance on external or internal operational PIU staff, the role of consultants or contractual staff in their operational support tasks and advisory or training-related tasks, and an exit strategy of the PIU—whether integration with the agency to implement future projects, transformation into a structure that is appropriate for the O&M phase of the project, or dissolution.**[59] A project administration manual should elaborate these issues subsequently.

122. **The cost of project management and project management capacity development should be more systematically analyzed and described in RRPs.** Costs are sometimes not well calculated, and when they are, they are often reflected under different elements of the cost estimates and loan allocation tables. In addition to being reflected in project administration budgets, they are also subsumed in loan consulting service, training, equipment, and other budgets. Such costs need to be aggregated for analysis. A clear distinction needs to be made between project management and project implementation costs (para. 15, Box 1 for definitions), and between the costs of operational, advisory, and training tasks of consultants.

123. **The need for loan financing of project administration costs should be well justified in RRPs,** since overly generous budgets may lead to the involvement of more external staff and to distortions within the agency. ADB should have the flexibility to fund operational project management costs where the setting up of an externally staffed PIU is absolutely necessary. Reduced financing of administration costs may lead to a greater use of internal staff for project implementation tasks and thereby better chances of capacity development through learning by doing, i.e., more reliance on knowledge acquisition than on knowledge transfer by consultants to agency staff.

124. **Donor Harmonization and Alignment.** The burden in DMCs of the many separate requirements of external agencies needs to be addressed through donor harmonization. The many disparate requirements may strain the administrative resources of governments and

[59] There is little new in these recommendations. Twenty years ago, a study (ADB. 1984. *A Special Study on Executing Agency Arrangements*. Manila.) identified the following elements as contributing to the success of PIUs: "(i) a clearly defined functional or geographic area of responsibility of the office; (ii) an established internal communication mechanism so that the experience gained by the office was incorporated into the general operations of an agency; (iii) a carefully examined organizational structure, staffing requirements, and incentives; (iv) a structured arrangement so that senior level supervision was available and useful; and (v) funding of the office tied into regular budgeting processes so that recurrent funds were available as donor resources were phased out."

reduce opportunities for capacity development. ADB needs to harmonize its implementation arrangements with other external agencies, as is being done in some countries in such areas as project accounting, procurement systems, and reporting requirements. ADB should differentiate its approach for less and more developed countries to reflect different levels of capacities in DMCs. DMCs with stronger institutional capacity may be suited for greater use of country systems for project implementation if adequate safeguards are in place to guard against corruption and other governance issues of concern to ADB.

125. **Special Study.** The Paris Declaration (para. 9), states that external agencies (including ADB) commit to avoid activities that undermine national institution building, such as bypassing national budget processes or setting high salaries for local staff. ADB should study the issues connected with fees of consultants and incentive systems for project and agency staff, preferably in collaboration with some other external funding agencies. Excessive differences in fees may breed corruption; high consultant fees may lead to a brain drain of competent but lowly paid government staff. Systems often loosely recommended, relying on the pooling by external agencies of funds for civil-service-wide performance management, have so far worked almost nowhere in Asia.[60]

126. **Good Practices.** The study identifies a set of good practices for the establishment of project implementation arrangements (Box 2 on next page).

[60] Notably in Cambodia, “priority mission groups” consisting of staff members that the Government considers as key are supposed to have had their salaries supplemented since 1999 through a pool of funds supplied by external funding agencies, to replace the common supplementation of PIU staff salaries through individual projects. However, no headway has been made implementing this concept.

Box 2. Good Practices for Project Implementation Arrangements

Project implementation arrangements for investment projects should be worked out during project preparation in close collaboration with the executing and implementing agencies, taking into consideration the loan modality, government policies, the capacity of the agency and its plans for capacity development. The first question is whether the project can be implemented without a dedicated unit, and if not, why not.

A project implementation arrangement relying on a project implementation unit (PIU) is justifiable in those cases where (i) the project modality requires this, (ii) the agency is not geared to the running of the project, (iii) the government requests it, and (iv) where this is certain to have a positive effect on implementation efficiency.

Operationalization of the project implementation arrangements should be a condition for Board consideration.

The tasks, staff composition, and status of a PIU should be determined based on an institutional analysis. The list of questions in Appendix 13 should be the basis for this analysis.

The preferred staff size, qualifications, composition (internal vs. external), and exit strategy should be indicated in the reports and recommendations of the President.

ADB should help PIU staff members familiarize themselves with the use of needed ADB systems, from project processing onward.

Separate PIUs (externally staffed and temporary) may be more efficient for one-off infrastructure projects in agencies that do not implement such projects as their core business. Integrated PIUs (full staffed by the agency, or with a mix of staff) are more efficient in projects that combine infrastructure with operation and maintenance (O&M), service delivery, policy reform, capacity development.

Proposals for more separate PIUs need to be assessed for their effects on agency capacity. The three main questions in this respect are: (i) Is there a need for project management capacity development? (ii) How can externally staffed PIUs and/or temporary PIUs avoid inadvertently undermining capacity in the parent agency? (iii) How can the development of parallel units and proliferation of separate PIUs be avoided?

When a risk of PIUs undermining agency capacity is identified, a capacity development plan should be prepared. This should weigh the consequences for capacity in the agency against (i) building of capacity outside the agency, (ii) benefits of the project in other terms than capacity development in the agency, and (iii) need for efficient implementation.

All PIUs should avoid (i) duplicating tasks of the parent agency, and (ii) undermining ownership of the project by agency staff outside the PIU. External PIU staff should avoid substituting for agency staff functions, and be confined to gap-filling activities. Individual annual work plans for each PIU staff and agency staff should be prepared. Terms of reference of external staff need to distinguish between operational and advisory or training-related tasks.

PIUs should have a clearly defined functional or geographic area of responsibility, have an established internal communication mechanism so that past experiences can be incorporated into general operations, be lean, maximize the capacity-building impact of the PIU, and tie funding of the PIU into regular budgetary processes.

All PIUs should have an exit strategy agreed on between borrower, parent agency and ADB before the start of the project that addresses the following issues: (i) transfer of the various project outputs for O&M, (ii) preparation of relevant agency and its staff for O&M, (iii) transfer of PIU staff after project completion, and (iv) budget for O&M and for replacement investments.

If proposed by the parent agencies, incentives such as salary supplements for poorly remunerated government officers in PIUs can be provided with caution, and in agreement with central governments. Incentives will be more acceptable when they are embedded in a performance bonus system for the agency as a whole.

Patterns of PIU staffing based on government officers either resigning from government service, or on extended leave of absence, to work in a PIU as a consultant, should generally be avoided.

C. Follow-Up Actions

No.	Action	By whom and when
1	Prepare guidelines on PIUs making use of the Good Practices (Box 2) and the Checklist for the Institutional Analysis of PIUs (Appendix 13) drawing on the results of this study.	Central Operations Services Office (COSO). To be started upon decisions regarding ADB's reorganization and the Innovation and Efficiency Initiative (2006).
2	Review the recommendations regarding the role of PIUs in capacity development into ADB's Capacity Development Action Plan and into new Staff Instructions (or guidelines) on capacity development.	Regional and Sustainable Development Department and its capacity development working group this year (third quarter 2005). Capacity development specialist to follow up afterwards, assisted by focal points for capacity development in resident missions
3	Review, if necessary modify, and use the Good Practices and the study's recommendations in training programs in project administration for ADB staff, resident mission staff, and also staff of executing and implementing agencies.	Project Coordination and Procurement Division (COSO), and the Human Resources Division, starting in 2005
4	As an interim measure, distribute Good Practices and Checklist for Institutional Analysis of PIUs to teams dealing with project processing, to heads of project administration units, and to resident missions.	Regional departments' front offices to distribute, by June 2005
5	Distribute the study's sections 'Recommendations for ADB' (paras. 117–122) and 'Recommendations to Borrowers' to programming staff in the regional departments.	Regional departments' front offices to distribute, by June 2005
6	Distribute the study's section 'Recommendations for ADB' (paras. 117 and 118) to staff responsible for Country Portfolio Review Missions.	Project administration units in regional departments, and Project Coordination and Procurement Division, by June 2005
7	In the context of the Paris Declaration (2005): Look into 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, local private sector market rates, and assess this in the context of incentives and disincentives (para. 125).	COSO, by 2006, possibly funded by TA sources

METHODOLOGY OF THE PROJECT SURVEY

A. Scope

1. A questionnaire survey of project implementation units (PIUs) was undertaken to document and quantify characteristics of and views on executing agencies (EAs), implementing agencies (IAs), PIUs, and investment projects, with respect to aspects of implementation efficiency and capacity development.[1]

B. Methodology

2. In July 2004, a listing was made of all approved loans registered on Asian Development Bank (ADB) databases. From this list, all program loans[2] and all credit line loans for development finance institutions (DFIs) were excluded (these generally do not have project offices). From the remaining list of 324 loans which were effective on or before 1 July 2004 and not closed, the 263 projects they funded were declared the universe for the survey.

3. Names of project heads, addresses of project offices, their fax numbers and e-mail addresses were gathered for these projects from ADB Headquarters and Resident Missions (RMs).

4. In July and August 2004, early versions of the questionnaires were piloted during country missions to the Philippines and subsequently Kyrgyz Republic. Following these missions, the questionnaire was finalized. Responses obtained from the pilot questionnaire during a number of visits to project offices were included in the database. For those questions which were subsequently changed, the answer was excluded from the database. Absence of response to a few questions added to the questionnaire after the pilot phase was regarded as non-response.

5. Between end July and end September, letters were sent by e-mail, fax, or, if necessary, postal mail to the managers of projects, requesting them to fill out the attached questionnaire (Supplementary Appendix A). If they considered that their project did not have a regular PIU, they were requested to inform the Operations Evaluation Department (OED) survey team by e-mail. For these projects, the team then sent an amended version of the questionnaire, in which the questions on PIUs were replaced by similar questions on the EA or IA.

6. Towards the end of the survey, it was clear that a few projects, which, in the view of the survey team, did not have PIUs, had not reported this and had sent a PIU questionnaire reply anyway. In those cases, the survey team re-interpreted the findings as pertaining to the whole agency, on the assumption that the respondent saw as an EA division as the PIU. In a number of cases, this was checked through further e-mail communications. The response for certain questions specific to PIUs was excluded from statistical analysis.

7. The letters requested the project heads to forward a copy of the questionnaire to all other project offices involved in the project. Some projects had both central project offices and subnational PIUs, others had more than one central PIU, located in various EAs. One of the

[1] The term “project office” was used in the project survey questionnaire, since the respondents might misinterpret the generic term “project implementation unit” (PIU), and refrain from responding in case they represented for instance project coordination units or project management units or other such designations.

[2] Except sector development program loans. These generally have PIUs.

questions in the questionnaire, although it was not always responded to, was the total number of PIUs in the project.

8. Reminders were sent to projects that did not respond. The final result was a response covering a total of 152 projects (58%), and 206 questionnaire returns: 68.8% from central PIUs, 22.6% from other PIUs, and 9.6% from projects without PIUs. The survey team did not pursue answers to questionnaires from subnational PIUs, as the focus was on central offices with EAs, and there were time and manpower constraints. Details of the responses are in Tables A1.1 and A1.2.

9. Coding of the responses took into account information derived from other sources. In cases of obvious mistakes or misinterpretations of the questionnaire (as happened in a few cases), the survey team corrected the answer. In cases of doubt, the respondent was contacted again.

C. Limitations

10. The responses to the questionnaires need to be interpreted with much caution and are only indicative. Many PIUs, especially subnational PIUs, did not respond. Different terms used for PIUs may be an important reason for this Occasionally questions were not responded to because they were not relevant to a particular project. Other questions appeared to be misunderstood by some respondents, so the answers had to be disregarded. The pilot phase yielded some 20 responses to questionnaires which were not in the final form, and resulted in a large number of missing values for certain variables. These were excluded from the statistical analysis. The variety of project types and of EAs, IAs, and project offices was large and a series of customized questionnaires would have reflected this variety more accurately. The questionnaire presented only a snapshot of the situation at the time of the survey, and did not pursue information on the history of the PIU. For instance, the project might have used many consultants or contractual staff at an early stage, but not at the time of the survey.

11. The question of the funding of the PIU by external agencies, was not fully addressed on the assumption that other sources for this information would available, which proved only partially the case. Nevertheless, it is assumed that the quantity of questionnaire returns will average out some of the answers caused by misunderstandings of questions. The survey should be seen as exploratory. The response gives reasonable indications of overall patterns, especially when used together with data from ADB documents, databases, and interviews conducted during country missions.

Table A1.1: Project Survey Details by Major Sector

Major Sectors	Loans Included in Survey	Projects Included in Survey	Respondents	With PIU	Without PIU	Respondent from Main/ Representative PIU	Projects without Response	Project Response Rate (%)
Agriculture and Agro-Industry	81	74	60	59	1	44	30	59
Energy	24	22	23	4	19	14	8	64
Transport and Communications	58	56	30	30	0	29	27	52
Social Infrastructure	87	85	70	70	0	48	37	56
Others	26	26	23	23	0	16	10	62
Total	**276**	**263**	**206**	**186**	**20**	**151**	**112**	**57**

PIU = project implementation unit.

Source: This study.

Table A1.2: Project Survey Details Per Country

Country	Loans Included in Survey	Projects Included in Survey	Respondents	With PIU	Without PIU	Respondent from Main/ Representative PIU	Projects without Response	Project Response Rate (%)
Bangladesh	18	15	21	14	7	11	4	73
Bhutan	4	4	5	3	2	4	0	100
Cambodia	14	14	14	14	0	8	6	57
People's Republic of China	17	17	8	8	0	8	9	47
Cook Islands	1	1	1	1	0	1	0	100
Fiji Islands	3	3	2	2	0	2	1	67
Federated States of Micronesia	2	2	2	2	0	2	0	100
India	12	12	7	5	2	5	7	42
Indonesia	30	27	10	9	1	10	17	37
Kazakhstan	3	2	0	0	0	0	2	0
Kyrgyz Republic	9	9	5	4	1	5	4	56
Kiribati	1	1	0	0	0	0	1	0
Lao People's Democratic Republic	15	15	10	10	0	8	7	53
Malaysia	2	2	4	4	0	2	0	100
Maldives	4	4	0	0	0	0	4	0
Mongolia	7	7	5	5	0	5	2	71
Nepal	13	13	12	9	3	5	8	38
Pakistan	26	25	22	22	0	13	12	52
Philippines	25	20	18	17	1	14	6	70
Papua New Guinea	9	9	8	8	0	8	1	89
Republic of Marshall Islands	2	2	1	1	0	1	1	50
Samoa	3	3	2	1	1	2	1	67
Solomon Islands[a]	1	1	0	0	0	0	1	0
Sri Lanka	25	25	25	25	0	17	8	68
Tajikistan	4	4	3	3	0	3	1	75
Thailand	2	2	1	1	0	1	1	50
Tuvalu	1	1	0	0	0	0	1	0
Uzbekistan	6	6	3	3	0	3	3	50
Vietnam	17	17	17	15	2	13	4	76
Total	**276**	**263**	**206**	**186**	**20**	**151**	**112**	57

PIU = project implementation unit.

[a] Project respondents from Solomon Islands requested to be excluded from the survey since most of the projects are about to close down due to the post-conflict situation of the country.

Source: This study.

USE OF LOAN FUNDS FOR PROJECT MANAGEMENT

A. Loan Funds for Administration Costs[1]

1. The Asian Development Bank (ADB) funds the costs of project management either through a specific budget for project management, or through funding for consulting services, training, institutional strengthening, equipment, vehicles, and even construction of offices.

2. It is estimated that in recent years average project administration costs have been 2–3% of total costs. Given that such costs were not calculated for 23% of the projects in the sample, whereas all projects should in principle include such costs, the actual cost of project administration may be higher.[2]

3. ADB funded project administration under the administration component in 53% of the projects which had administrative costs specified, while in another 14% they shared funding of project administration with the government budget. In 2% of the projects, ADB technical assistance (TA) funded the project management costs. In the other one third of the projects in which the costs were estimated, either the government funded the costs outside the context of the loan (27%), or another donor agency took care of this (2%). In one case, the administration costs could not be calculated, as the project was based on a turnkey contract. The main conclusion is therefore that in half of the loans for investment projects, an administration budget is not specified.

4. A comparison with projects approved in 1980–1981 shows that the number of times administration costs are funded through loans has been rising over time.[3]

B. Loan Funds for Consulting Services

5. Of the 140 reports and recommendations of the President (RRPs) for investment projects approved between 2000 and 2003, consultants were involved in 93%, either in project management or in project implementation or both. Total consulting services for all investment projects averaged 68 person-years, with a median of 32 person-years,[4] of which 86% were rendered by domestic consultants and 14% by international consultants. As the average intended project duration was 5 years, this indicates that there were 13 full-time consultants per year per project. The corresponding average loan budget for consulting services was about $5 million, with a median of almost $3 million. Consulting services averaged 3.3% of total project costs. Consulting services for project management were included in 62% of projects, while consulting services for other aspects were included in 25%.[5]

6. In terms of person-years, transport sector projects generally required the largest number of consultants, followed by multisector and other projects (Figure A2.1). However, in terms of budget share, finance projects had the largest average appropriation for consulting services

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[1] This appendix is mainly based on the findings of the review of a sample of 140 reports and recommendations of the President for investment projects approved in 2000–2003. The terms project management and project administration are used interchangeably.

[2] Sector projects often did not specify such costs, although the government obviously incurs expenses to manage its program.

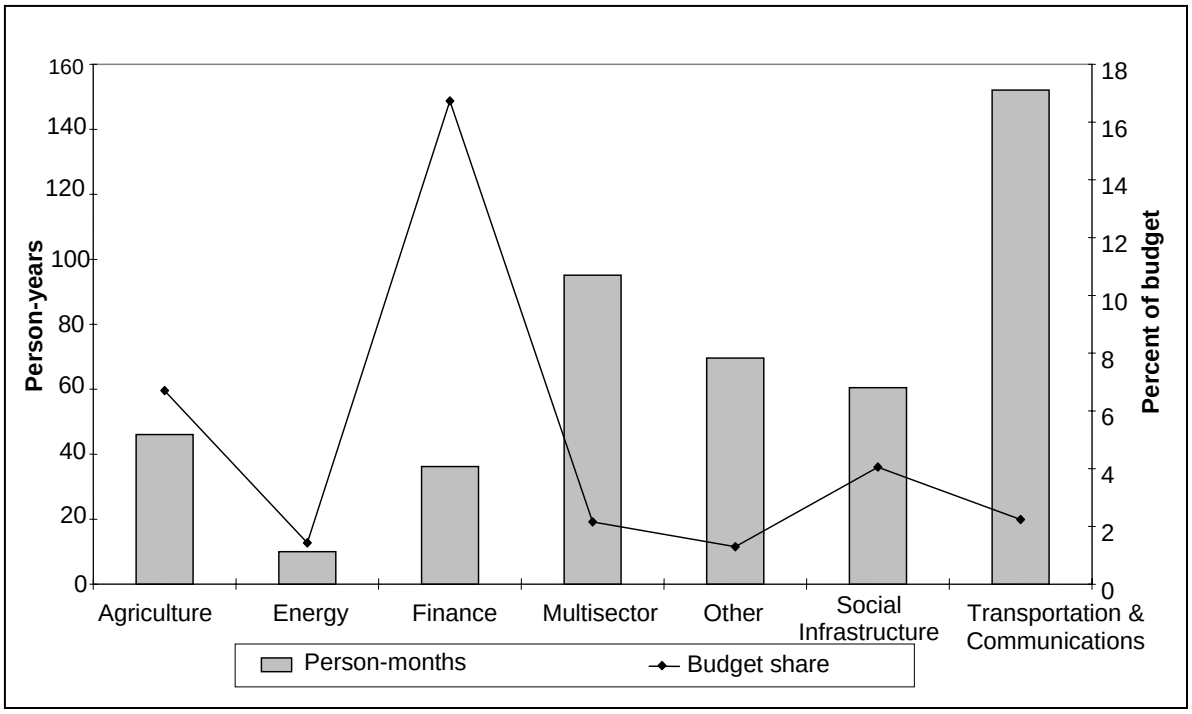
[3] ADB. 2004. *Special Evaluation Study on Project Cost Estimates*. Manila.

[4] The low median is a consequence of the skewed nature of the loan portfolio in terms of its size: there are many small loans and a small number of very large loans. The same is the case for loan consulting services.

[5] The study referred to in footnote 3 analyzed completed projects and found that actual expenditures incurred were not very different for consulting services, even when the overall cost had declined by an average of 13%.

(16.7% of base cost), followed by agriculture (6.7%). This indicates the greater use of domestic consultants in transport projects, and international consultants in finance sector projects. In financial terms, approximately similar amounts were allocated for international and domestic consultants, because international consultants are far more expensive.

Figure A2.1: Average Consulting Services Person-Years and Budget Share Planned by Sector



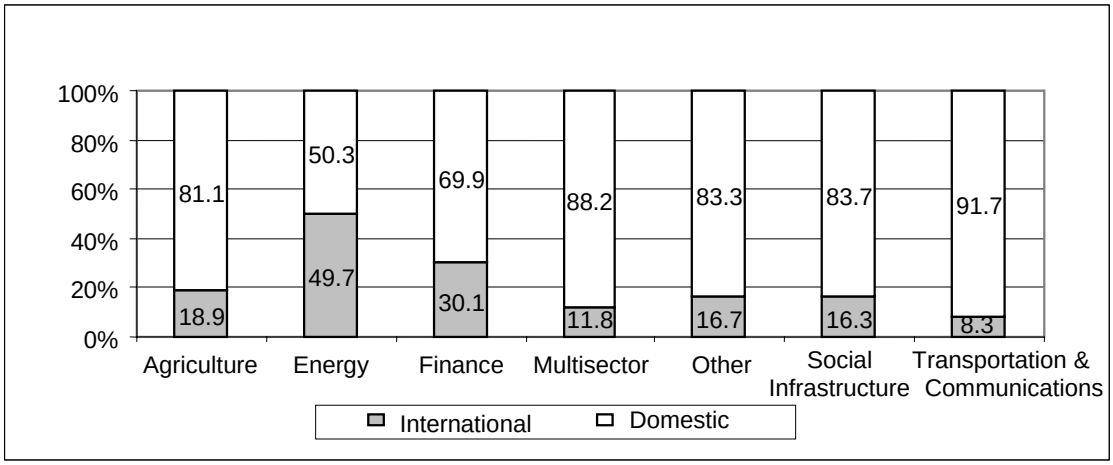
Source: Special evaluation study of 140 reports and recommendations of the President approved between 2000 and 2003.

7. Domestic consultants dominated in terms of number of person-months rendered for projects across all sectors (Figure A2.2), except in the energy sector, which employed more international consultants.

8. **Project Consultants for Project Management.** Around two thirds of all projects with consultants had some assigned to project management.[6] In the sample, 85% of social infrastructure projects, 55% of agriculture and energy projects, 52% of transport projects, and 63% of multisector and other projects had such consultants. As with the overall number of consultants used in projects, more domestic consultants than international consultants were used (Table A2.1).

[6] Project management tasks in this special evaluation study (SES) may include subtasks such as coordination and decision making, financial management, procurement, selection of consultants/nongovernment organizations (NGOs)/subprojects, supervision of works/NGOs/consultants, monitoring and evaluation, and reporting. Technical tasks, on the other hand, may include such subtasks as detailed design, technical training, studies, surveys, preparation of work plans, policy development, preparation of research and feasibility studies, resettlement, and technical advice.

Figure A2.2: Total Person-Months of Domestic and International Consulting Services Planned by Sector for Project Implementation



Source: Special evaluation study of 140 reports and recommendations of the President approved between 2000 and 2003.

Table A2.1: Consultant Provision for Project Management
(in average person-months and percent)

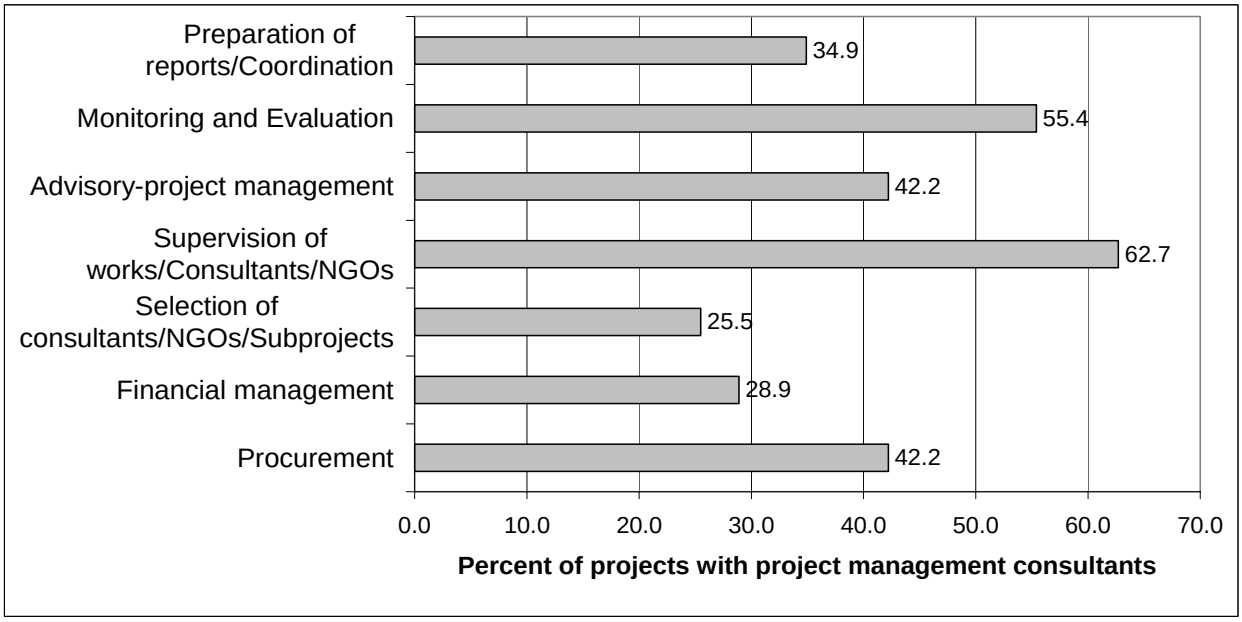
Sector	International		Domestic	
	Person-Months	%	Person-Months	%
Agriculture	40.6	29.7	95.9	70.3
Energy	30.8	35.1	57.0	64.9
Finance	0.0	0.0	120.0	100.0
Multisector	30.0	27.0	81.0	73.0
Others	60.8	28.3	154.0	71.7
Social Infrastructure	26.6	20.0	106.7	80.0
Transportation and Communication	68.7	18.2	309.3	81.8
Average	**36.8**	**22.6**	**132.0**	**77.4**

Note: Percent refers to share of international and domestic consultants to total person-months of consulting services for project management.
Source: Special evaluation study of 140 reports and recommendations of the President approved between 2000 and 2003.

9. Operational project management tasks of consultants, such as management support, procurement,[7] and construction supervision, were far more common than advisory tasks (Figure A2.3). Advisory tasks were most common in financial management, monitoring and evaluation, and procurement. In these areas, systems sometimes had to be designed and developed. In one case, there was a turnkey contract.

[7] A project counted as having consultants for procurement if it was stated in a consultant's terms of reference that he or she would be involved in procurement, although he or she may also have been tasked to carry out nonproject-management tasks.

Figure A2.3: Project Management Functions Performed by Consultants



NGO = nongovernment organization.
Source: Special evaluation study of 140 reports and recommendations of the President approved between 2000 and 2003.

10. Loans usually provided for funds for the project management consulting services, but in 2 of the 140 projects investigated, the executing agency (EA) funded the consultants. In addition, there were four cases where other external agencies funded the consultants. In two cases, a TA grant was used for project management consulting services.

C. Funding for Project Management through Other Loan Components

11. **Training.** At least 40% of the investment projects included a separate cost estimate for a training component and this proportion has not changed significantly in the last 15 years. For the projects which had a training budget, the average training budget was over 4% of the project base cost or $4.7 million, although this figure is influenced by a few projects with very large training budgets.

12. When a project had a training budget, it averaged around 7% of the loan and was usually financed by ADB. The special evaluation study (SES) reviewed the training sections in RRPs in detail, and estimated that over 40% included activities specifically to develop project management capacity (including procurement or disbursement training, project management workshops, overseas courses, and study tours). This means that, overall, 17% of investment projects had budgets for project management capacity development, averaging $0.35 million per project. Most training budgets were directed at developing technical skills.

13. **Institutional Strengthening.** Of the projects, 15% had an institutional component, sometimes in addition to consulting services, and sometimes instead of consulting services. Usually the component was not specifically intended to strengthen the PIU, but the tasks usually conducted under this component could well benefit project management capacity development in a wider sense. In these projects, the components were generally large, averaging around $4 million.

14. **Equipment.** PIU costs were sometimes hidden in equipment or vehicle budgets. A quarter of the projects had costs for the purchase of vehicles and office equipment for use by PIUs specified under equipment budgets, averaging another $0.36 million for these projects.

15. **Construction of Buildings.** Project management capacity building can include the cost of building offices, especially buildings that will be used for the project. The SES did not estimate the number of projects in which offices were constructed, but the project survey included a question on whether construction of offices, training centers, or other facilities for capacity development was part of the project. Of the respondents, 55% indicated that this was indeed the case.

TECHNICAL ASSISTANCE FOR PROJECT IMPLEMENTATION CAPACITY BUILDING

1. This special evaluation study (SES) includes a review of technical assistance (TA) grants related to capacity building and/or training of executing agencies (EAs) and project implementation units (PIUs) in areas such as project management, procurement, disbursement, and accounting extended by the Asian Development Bank (ADB) during the last 10 years (1994–2003). Although project preparatory TAs (PPTAs) also support would be or existing PIUs, particularly in preparation of contract packages and bidding documents, this review focused on advisory TAs (ADTAs) and regional TAs (RETAs).

2. From 1994 to 2003, ADB approved a total of 148 ADTAs (value $74.5 million) to build the capacity of EAs and PIUs (Table A3.1). This represented 6.1% of the TA value for the period. The average ADTA value was $503,400. This translated to 15 ADTAs or $7.5 million a year. There is no definite trend in the approval of these ADTAs, although the decrease in the amount approved for ADTAs for EAs and PIUs since 2000 was reversed in 2003. During the period, the value of ADTAs approved for EAs and PIUs was largest in 1995 ($14.2 million). Social infrastructure received 11.8% of the funds; agriculture and natural resources, 8.8%; multisector, 8.1%; energy, 7.1%; transport and communication, 6.1%; and finance, 2.5% (Tables A3.2 and A3.3). “Other sectors” accounted for 20% of the number of ADTAs and 27% of the overall value, and included TAs related to aid coordination and management, foreign aid management information and monitoring systems, resettlement management, poverty assessment, rural poverty reduction projects. There were also TAs with capacity-building components related to PIUs and project management units (PMUs) for earthquake emergency rehabilitation and flood disaster management.[1] More than a quarter of all ADTAs (41% in terms of number and 29% in terms of overall value) were for general (i.e. not sector-specific) capacity-building activities, such as seminars, workshops and training events in such areas as procurement, accounting, disbursement, engagement of consultants, project cycle management, ADB's operational policies and procedures, project implementation, and project performance management systems.

3. Indonesia received the most advisory technical assistance, 13.6% of the ADTA value from 1994 to 2003 (Table A3.4), followed by Cambodia (11%) and China, 9.4%. Viet Nam received the third highest number of ADTAs, more than half of which were small-scale.

4. Small-scale ADTAs accounted for 5.6% of the total ADTA value in support of capacity building for EAs and PIUs from 1994–2003 (27.7% in terms of number of ADTAs). A large chunk of the funds (70.8%) went to the “others” sector, followed by transport and communications (13.5%) and social infrastructure (9.5%). Among the recipients, Viet Nam received the largest value of small-scale ADTAs (13.2%), closely followed by Cambodia (13.0%) and Sri Lanka (12.9%).

5. From 1994–2003, 37 RETAs (value $12.5 million), were geared specifically towards enhancing the capacity of EAs and PIUs in such areas as project management, procurement, disbursement, and accounting. In 2003, there was an increase in the number of RETAs for this purpose, with a total of six RETAs (value $1.7 million) approved during the year. During the 10-year period 93% of these RETA funds were spent on training.

[1] Also included were technical assistance grants which are broader in scope such as the Capacity Building of the Economic Relations Division (Bangladesh), Capacity Building in the Public Debt Management Office of the Ministry of Finance (Thailand), and Strengthening Public Sector Financial Governance (Fiji Islands).

Table A3.1: Technical Assistance Funds Related to Capacity Building of Executing Agencies and Project Implementation Units ($'000)[a]

Year	ADTA			RETA
	SSTA	Non-SSTA	Total	
1994	826	6,123	6,949	1,230
1995	390	13,791	14,181	1,070
1996	416	1,990	2,406	1,430
1997	210	6,977	7,187	1,980
1998	817	6,000	6,817	1,325
1999	950	7,975	8,925	1,050
2000	150	7,595	7,745	1,900
2001	150	6,712	6,862	600
2002		5,431	5,431	250
2003	300	7,700	8,000	1,680
Total	**4,209**	**70,294**	**74,503**	**12,515**

ADTA = advisory technical assistance, RETA = regional technical assistance, SSTA = small-scale technical assistance ($\leq$$150,000).

[a] In areas such as project management, procurement, disbursement, and accounting.

Source: Asian Development Bank database on loans, technical assistance, and equity approvals.

Table A3.2: Technical Assistance Funds Related to Capacity Building of Executing Agencies and Project Implementation Units ($'000)[a]
1994–2003

Sector	ADTA			RETA
	SSTA	Non-SSTA	Total	
Agriculture and Natural Resources	0	6,575	6,575	
Energy	240	5,073	5,313	
Finance	20	1,825	1,845	150
Multisector	0	5,650	6,150	
Others[b]	2,979	38,766	41,245	12,265
General			21,316	
Others			19,929	
Social Infrastructure	400	8,400	8,800	100
Transport and Communications	570	4,005	4,575	
Total	**4,209**	**70,294**	**74,503**	**12,515**

ADTA = advisory technical assistance, RETA = regional technical assistance, SSTA = small-scale technical assistance (≤$150,000).
[a] In areas such as project management, procurement, disbursement, monitoring, and accounting.
[b] Includes both general assistance (seminars, etc.) and assistance for central agencies regarding of project management.
Source: Asian Development Bank database on loans, technical assistance, and equity approvals.

Table A3.3: Advisory Technical Assistance Related to Capacity Building for PIUs
1994–2003

Sector	No.	Amount ($'000)	Percent share	
			No.	Amount
Agriculture	10	6,575	6.8	8.8
Energy	12	5,313	8.1	7.1
Finance	4	1,845	2.7	2.5
Social Infrastructure	17	8,800	11.5	11.8
Transport and Communications	10	4,575	6.8	6.1
Multisector	5	6,150	3.4	8.3
Other sectors	29	19,929	19.6	26.7
Not sector-specific	61	21,316	41.2	28.6
Total	**148**	**74,503**	**100.0**	**100.0**

No. = number.
Source: Asian Development Bank database on loans, technical assistance, and equity approvals.

Table A3.4: Annual Technical Assistance Related to Capacity Building of Executing Agencies and Project Management/Implementation Units[a]
By Country ($ '000)

Country	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Total
Afghanistan	0	0	0	0	0	0	0	0	0	3,350	3,350
Azerbaijan	0	0	0	0	0	0	0	762	0	0	762
Bangladesh	750	431	0	222	165	1,000	0	0	1,100	0	3,668
Bhutan	0	0	0	400	500	400	0	0	0	0	1,300
Cambodia	600	5,120	1,291	0	0	1,050	150	0	0	0	8,211
People's Republic of China	663	770	0	565	1,455	900	565	1,550	500	0	6,968
Fiji	0	0	0	0	0	0	0	0	0	460	460
Federated States of Micronesia	0	2,500	0	0	0	0	500	0	0	0	3,000
India	961	100	375	0	1,000	1,700	0	0	0	1,000	5,136
Indonesia	385	0	0	1,849	0	0	4,880	500	2,200	300	10,114
Kazakhstan	639	600	100	0	0	0	0	0	0	350	1,689
Kyrgyz Republic	556	0	0	0	584	0	650	0	581	0	2,371
Lao People's Democratic Republic	20	1,560	0	1,100	400	0	0	400	0	0	3,480
Maldives	0	0	0	0	0	0	0	0	0	350	350
Mongolia	0	0	0	0	700	0	0	900	0	150	1,750
Nepal	100	400	0	500	65	820	0	0	0	1,025	2,910
Pakistan	500	0	0	600	0	0	0	900	650	615	3,265
Philippines	600	100	0	250	0	800	1,000	0	0	0	2,750
Papua New Guinea	380	0	0	0	0	0	0	0	0	0	380
Regional	1,230	1,070	1,430	1,980	1,325	1,050	1,900	600	250	1,680	12,515
Republic of Marshall Islands	0	2,500	0	515	0	0	0	0	0	0	3,015
Samoa	0	0	0	0	0	150	0	0	0	0	150
Sri Lanka	0	100	20	1,045	148	230	0	0	0	0	1,543
Tajikistan	0	0	0	0	150	205	0	0	0	0	355
Thailand	0	0	0	0	0	600	0	0	0	0	600
Turkmenistan	0	0	0	0	0	0	0	150	0	0	150
Uzbekistan	0	0	100	0	1,150	950	0	1,200	400	0	3,800
Viet Nam	795	0	520	141	500	120	0	500	0	400	2,976
Total	**8,179**	**15,251**	**3,836**	**9,167**	**8,142**	**9,975**	**9,645**	**7,462**	**5,681**	**9,680**	**87,018**

[a] In areas such as project management, procurement, disbursement, monitoring and accounting.
Source: Asian Development Bank database on loans, technical assistance, and equity approvals.

LISTINGS OF AGENCY, PROJECT, AND PROJECT IMPLEMENTATION UNIT CHARACTERISTICS

Table A4.1: Executing or Implementing Agency Characteristics and Categorization

No.	Characteristic	Categorization
1	Type of agency[a]	(i) Government agencies including ministries and local governments (ii) Semigovernment agencies, such as statutory bodies, public sector enterprises or government-owned bodies such as agricultural credit banks or fertilizer corporations (iii) Private sector agencies, such as commercial banks; public utilities; oil, gas and minerals companies; telecommunications; farmers' entities and associations; and nongovernment organizations
2	Structure of the agency and level of 'concentration'	(i) Centralized functional structure (ii) Decentralized division structure or strategic business unit structure (iii) Decentralized project management (or matrix) structure
3	Scope of agency	(i) Mainly involved in creating physical infrastructure, such as public works agencies (roads, ports, airports, housing, buildings, dams, irrigation systems, urban infrastructure) and energy producers or transmitters (ii) Providing services not related to infrastructure creation, such as those in the education, health, social welfare, justice, law enforcement, agriculture, livestock, forestry, environmental protection, and water supply sectors (iii) Providing oversight functions, not directly involved in either infrastructure creation or service delivery. Examples include central agencies such as finance, planning, audit, and civil service departments, or secretariats of ministries, dealing with policies and oversight
4	Amount of organizational 'slack'	(i) Agencies which are understaffed and do not have enough flexibility to use their own staff for temporary projects (ii) Agencies which are well staffed or overstaffed, and are able to reassign staff to run temporary projects
5	Position in inter-agency network	(i) Agencies in a superior position in agency network (ii) Agencies in a subordinate position in agency network

No. = number.

[a] ADB. 2001. *Guidelines for the Financial Governance and Management of Investment Projects Financed by the Asian Development Bank.* Manila.

Source: This study.

Table A4.2: Project Characteristics and Categorizations

No.	Characteristic	Description/Examples
1	Investment Modality	(i) disaster and emergency project (ii) investment project (iii) technical assistance project (iv) sector loan project (v) development finance institution credit line (vi) sector development program (vii) policy-oriented program
2	Coverage	(i) single location project (ii) multiple location project
3	Scope	(i) construction-oriented projects (with or without detailed design) (ii) equipment and materials-oriented projects (iii) other types of projects
4	Presence of imprest account	(i) no special accounts administered by the PIU (ii) one or more special accounts administered by PIU(s)
5	Focus	One or more of the following: (i) infrastructure (re)construction and/or provision[a] (ii) operation and maintenance of physical infrastructure (iii) policy, institutional and/or capacity development (iv) service-delivery-oriented activities[b]
6	Approach	(i) standard project approach (ii) somewhat innovative project approach (iii) highly innovative project approach
7	Staff involved	(i) project which requires many agency staff (ii) project which does not require many agency staff
8	Capacity development aspirations	One or more of the following: (i) construction of offices, training centers or other facilities (ii) individual skill development (iii) organization development[c] (iv) project management capacity (v) operation and maintenance of infrastructure capacity (vi) strategy, policy, legal capacity (vii) service delivery capacity

No. = number, PIU = project implementation unit.

[a] For example: roads, power plants, school buildings, clinics, irrigation systems, water supply systems, anti-erosion walls, bridges, dams, and port facilities.

[b] For example: salaries and/or running costs for teachers, nurses, plant operators, linesmen, road maintenance staff, and bill collectors; purchase of agricultural inputs; forest plantation, environmental protection, and improvement; extension; research, credits, and subsidies.

[c] For example: reorganization, recruitment or shedding of staff, new organizational procedures, and systems or resources.

Source: This study.

Table A4.3: PIU Characteristics and Categorizations of Particular Interest to Project Efficiency

No.	Characteristic	Description/Example
1	Type of the PIU	(i) Project coordination unit, PCU (usually at central level) (ii) Project management unit, usually at central level (iii) Project implementation unit, PIU (can be at central or subnational level)
2	Tasks of PIU	Any combination or all of the following: (i) project management including coordination within the executing agency (EA) or implementing agency (IA) and with outside stakeholders (ii) finance and accounting (iii) progress reporting including project completion reporting (iv) handling detailed design of works or specification of equipment and materials (v) handling procurement or procurement administration (vi) supervision of tasks of EA or IA staff (vii) supervision of consultants (viii) supervision of contractors (ix) monitoring and evaluation (x) managing workshops, study tours, training courses (xi) other technical tasks if these are not done by regular EA or IA staff
3	Single or multiple PIU arrangement	(i) No other PIUs (ii) PIUs in other EAs (often require PCU arrangement) (iii) PIUs in IAs
4	Number of projects covered by the PIU	(i) PIU handles only one project (ii) PIU handles more than one project
5	Legal status of PIU	(i) part of agency (no separate legal status) (ii) separate legal status, such as a closed joint stock company, foundation, registered nongovernment organization, registered society, or a limited liability company
6	Funding source of PIU	(i) regular operational budget of the government (ii) public investment program of the government (i.e., project budget) (iii) Asian Development Bank loan (iv) funds from another external agency
7	Facilities and systems in the PIU	(i) PIUs with good facilities and systems (ii) PIUs with deficient facilities and/or systems
8	Time of creation of PIU	(i) PIUs created before loan approval (ii) PIUs created after loan approval

No. = number.
Source: This study.

Table A4.4: PIU Characteristics and Categorizations of Particular Interest to their Capacity Development Potential

No.	Characteristic	Description/Example
1	Permanence of PIU	(i) PIU was created especially for the project (ii) PIU existed before the project (iii) PIU has plans to continue as PIU for other projects (iv) plans to merge the PIU (staff) with the EA
2	Staff size of PIU	Staff deployment in relation to project cost or absolute number: (i) small PIUs (ii) large PIUs
3	Composition of staff of the PIU	(i) regular staff of EAs or IAs appointed to the PIU (ii) seconded staff from other agencies (iii) consultants (international or domestic) (iv) contractual staff (sometimes casual or daily labor) In each of the categories there could be professional and support staff.
4	Previous project experience	(i) PIUs with staff from previous PIUs (ii) PIUS without staff from previous PIUs
5	Head of PIU	(i) Internal (from EA or IA), paid by EA or IA (ii) External, from another government agency (iii) Externally recruited, not part of consulting services contract (iv) Externally recruited, part of consulting services contract (v) Internal, but paid as contractual member of staff or consultant
6	Incentives provided to PIU	(i) good salaries (ii) salary supplements offered to government (iii) good office and systems facilities
7	Physical location of the PIU	(i) PIU office(s) located inside the parent agency's building (ii) PIU office(s) located outside the parent agency's building

EA = executing agency, IA = implementing agency, PIU = project implementation unit.
Source: This study.

PROJECT SURVEY SUMMARY TABLES

Table A5.1: Project Survey Responses, by Major Sector

Item	Agriculture[a]	Energy[b]	Transport[c]	Social[d]	Other[e]	Total
Total number of questionnaire responses received	62	21	30	70	23	206
A. Work of Staff Fully Employed in the PIU (Percentage rating)[f]						
1. Detailed design of works, specifications for equipment, materials	61.3	40.5	50.0	53.6	60.9	54.9
2. Project management including coordination with other agencies	87.1	81.0	95.0	90.7	100.0	90.3
3. Procurement	62.1	73.8	75.0	72.1	84.8	71.1
4. Handling finance and accounting	78.2	71.4	85.0	82.9	87.0	81.1
5. Contract supervision (for infrastructure construction or equipment/ material)	62.9	78.6	66.7	67.9	65.2	67.0
6. Monitoring and reporting of progress (other than contract supervision)	91.9	81.0	83.3	91.4	89.1	89.1
7. Drawing up terms of reference (TOR) and managing consultants	62.1	69.0	81.7	68.6	80.4	69.9
8. Managing workshops, study tours, training courses	69.4	31.0	40.0	60.0	60.9	57.0
9. Providing technical advice (not project management related) to executing agency/implementing agency (EA/IA)	54.8	38.1	50.0	40.0	47.8	46.6
10. Other work	7.4	0.0	10.0	9.3	8.7	7.8
B. Degree of Permanency and Coverage of the PIU (Percentage of category)						
1. PIU already existed before the project (servicing another or previous phase project)	25.0	52.2	50.0	28.6	43.5	35.1
2. PIU has plans to continue after the project as a PIU unit for other projects	26.8	34.8	46.7	21.4	39.1	30.2
3. PIU has plans to merge with EA after the project (for service delivery/operation and maintenance [O&M])	19.6	26.1	20.0	15.7	21.7	19.3
4. PIU has plans to close/dissolve after project completion	46.4	26.1	33.3	61.4	30.4	45.5
5. PIU handles more than one project	16.1	39.1	36.7	20.0	30.4	24.8
C. Current Availability of Facilities of the PIU (Percentage of category)						
1. Office space/aircon/power supply (for PIUs inside main building of EA/IA)	82.6	94.1	91.7	76.6	94.7	85.0
2. Office space/aircon/power supply (for PIUs outside main building of EA/IA)	72.1	88.2	82.6	81.6	88.9	80.1
3. Office furniture, fixtures, supplies, and budget for running costs	80.7	90.9	86.2	94.0	86.4	87.8
4. Vehicles	81.0	78.3	66.7	73.5	81.8	76.1
5. Communications—telephone, fax, Internet	82.8	95.7	90.0	91.2	100.0	90.1
D. Systems Available in the PIU (Percentage of category)						
1. Sufficient legal documentation and manuals, clear procedures	88.5	80.0	80.0	82.5	94.7	84.9
2. Computerized procurement database	19.2	35.0	40.0	28.6	47.4	30.2
3. Computerized finance/accounts (use of specialized software	34.6	60.0	56.0	55.6	52.6	49.7
4. Computerized detail design software packages	18.9	20.0	32.0	25.4	42.1	25.6
5. Computerized and sufficient baseline databases and for updating status	26.4	35.0	24.0	31.7	52.6	31.7
6. Computerized project progress software (fixed system, e.g., Microsoft Project)	39.6	40.0	40.0	50.8	63.2	46.1
7. Other computerized systems	13.5	25.0	8.0	15.9	10.5	14.5
E. Some of the Current Problems of the PIU (Percentage rating)[f]						
1. No proper mandate or legal status	4.2	4.5	10.7	5.1	9.1	6.0
2. Lack of staff inside PIU	30.8	29.5	25.0	29.7	13.6	27.6

Item	Agriculture[a]	Energy[b]	Transport[c]	Social[d]	Other[e]	Total
3. Insufficient budget for running costs in PIU	22.5	9.1	16.1	17.4	29.5	19.2
4. Defective design of the project	28.3	20.5	30.4	22.5	25.0	25.4
5. Dependence on progress or decision making outside the PIU and EA	41.7	43.2	57.1	40.6	47.7	44.3
6. Issues with the division of responsibilities between PIU and EA/IA	15.8	15.9	32.1	18.8	18.2	19.4
7. Issues with the division of responsibilities between PIU and other agencies	18.3	15.9	33.9	19.6	18.2	20.6
8. Reporting requirements (leaving insufficient time for work)	24.2	20.5	25.0	21.0	20.5	22.4
9. Interaction with ADB (complicated procedures, slow response, disputes)	27.5	25.0	32.1	17.4	34.1	25.1
10. Other (please specify, e.g., project budget too late/not enough)	17.5	13.6	17.9	18.8	6.8	16.4
11. Number of problems of the PIU (out of 10)	7.4	7.4	7.8	7.0	7.4	7.3
12. Perceived severity of PIU problems (percentage rating)[f]	23.1	19.8	28.0	21.1	22.3	22.6
F. Criteria Used for the Determination of the PIU Staffing Profile (Percentage of category)						
1. Standard written criteria used by the Government	50.8	33.3	48.3	39.7	31.8	42.7
2. Standard criteria not in writing used by the Government	8.5	4.8	24.1	14.7	27.3	14.6
3. Written criteria jointly agreed between the Government and ADB	42.4	4.8	48.3	33.8	40.9	36.2
4. Criteria not in writing jointly agreed between the Government and ADB	3.4	14.3	0.0	14.7	13.6	9.0
5. Standard criteria used by the company/independent body	3.4	57.1	3.4	4.4	0.0	9.0
G. PIUs Favoring Employing Staff With Previous Experience in PIUs (Percentage of category)	81.0	95.7	90.0	91.3	90.9	88.6
H. Current PIU Staff Have Previously Worked in Another PIU						
1. Percentage of sector	88.1	95.7	80.0	75.4	82.6	82.8
2. Number of PIU staff that previously worked in another PIU	16.5	36.0	8.4	12.0	5.5	15.7
I. Number of Staff in Project and PIU						
1. Total project staff in long-term positions	54.1	44.1	46.6	28.2	13.6	38.6
2. Total project staff in short-term positions	20.3	5.0	6.7	3.8	11.7	10.2
3. Foreign project consultants: long-term	1.5	1.1	3.4	1.0	1.8	1.6
4. Foreign project consultants: short-term	2.3	1.4	1.9	1.8	2.4	2.0
5. Local project consultants long-term	7.1	0.6	55.2	5.4	5.5	13.1
6. Local project consultants short-term	3.5	1.3	8.1	2.8	6.8	4.1
7. Government officials in PIU: professional staff	4.1	7.1	10.3	5.8	6.0	6.1
8. Government officials in PIU: support staff	4.3	28.7	9.3	3.1	4.2	7.3
9. Government contracted staff in PIU: professional staff	4.0	0.3	1.4	4.4	3.4	3.3
10. Government contracted staff in PIU: support staff	6.4	0.6	6.7	7.4	6.3	6.1
11. Company/bank employees in PIU: professional staff	1.1	0.8	0.0	0.5	0.4	0.6
12. Company/bank employees in PIU: support staff	0.5	2.1	0.0	0.1	0.1	0.4
13. Professional agency staff as percentage of total professional PIU staff	38.8	42.3	31.6	44.6	42.2	40.3
14. Total agency staff as percentage of all long-term PIU staff	41.2	40.2	35.8	40.6	50.6	41.3
15. Total agency staff as percentage of all PIU staff	35.7	33.4	33.0	33.6	45.8	35.7
16. Total professional staff in PIU (number)	16.7	9.1	70.3	16.6	16.6	24.1
17. Total professional and support staff in PIU (number)	33.2	41.0	96.2	31.6	36.4	43.6
J. Arrangements for Government Officials Working in the PIU (Percentage of category)						
1. They continue to work in the EA/IA as well, and draw pay from both project and EA/IA	26.0	18.2	8.0	12.5	30.0	18.5
2. They continue to work in the EA/IA as well, but draw pay only from EA/IA	38.0	45.5	60.0	33.9	50.0	42.0

Item	Agriculture[a]	Energy[b]	Transport[c]	Social[d]	Other[e]	Total
3. They continue to work in the EA/IA as well, but draw pay only from project	18.0	36.4	16.0	33.9	10.0	23.5
4. They are on leave without pay from government	10.0	0.0	8.0	8.9	10.0	8.6
5. Other arrangements	12.0	0.0	12.0	14.3	10.0	11.7
K. Regular staff of agency would do more project work if there were special incentives? (Percentage of category)	79.7	72.7	66.7	76.2	82.6	76.1
L. PIUs in which government officials resigned and joined the PIU as consultants/contractuals (Percentage of category)	34.5	8.7	16.7	13.6	31.8	21.6
M. PIU Staff Have Left During the Last 1 Year (Percentage of category)	55.7	43.5	43.3	50.0	52.2	50.2
1. Number of staff that left	6.2	2.4	4.3	5.1	3.1	4.9
N. Written Guidelines on Structure/Level/Source of Remuneration of the PIU (Percentage of category)	83.3	60.9	86.7	87.3	73.9	81.4
O. Supplemental Payment for PIU Staff (honorarium or special allowance) (Percentage of category)						
1. Government officials	31.7	4.5	33.3	29.9	30.4	28.2
2. Other employees in PIU	21.7	4.5	23.3	16.4	17.4	17.8
P. Main Purpose of the PIU (Percentage of category)						
1. To ensure efficiency in project implementation	96.6	95.5	100.0	99.3	95.5	97.8
2. To develop EA's capacity to do detailed design	32.2	43.2	33.3	32.1	31.8	33.5
3. To develop EA's capacity to manage projects	51.7	61.4	70.0	56.0	65.9	58.5
4. To develop EA's capacity for service delivery or O&M	49.2	43.2	38.3	41.8	40.9	43.5
Q. Role of International Consultants in the PIU (Percentage of category)						
1. Filling gaps due to extra work created by Project	38.2	9.1	42.9	27.0	20.0	30.1
2. Filling gaps due to need for extra quality work or integrity	27.5	28.6	41.7	32.7	33.3	32.5
3. Substituting for insufficiently motivated/paid agency staff	2.4	0.0	0.0	1.8	0.0	1.3
4. Substituting for insufficient qualified agency staff	2.5	11.8	12.0	1.8	15.8	6.4
5. Substituting for agency staff insufficiently trusted by ADB	8.9	11.8	11.5	1.7	4.8	6.6
6. Providing on the job training/advice	28.6	12.5	42.3	25.9	37.5	29.2
7. Combination of filling gaps and substitution	9.8	12.5	16.0	1.8	0.0	7.0
8. Combination of filling gaps, substitution, and advice	24.3	13.3	19.0	13.7	31.3	19.3
R. Role of Local Consultants/Contractuals in the PIU (Percentage of category)						
1. Filling gaps due to extra work created by Project	50.0	41.2	52.0	51.8	15.8	45.9
2. Filling gaps due to need for extra quality work or integrity	27.5	28.6	36.4	27.5	29.4	29.2
3. Substituting for insufficiently motivated/paid agency staff	12.8	5.9	7.4	5.1	4.8	7.6
4. Substituting for insufficient qualified agency staff	17.0	6.3	18.5	8.5	11.1	12.6
5. Substituting for agency staff insufficiently trusted by ADB	6.8	0.0	8.0	1.7	0.0	3.7
6. Providing on the job training/advice	26.8	6.7	31.8	21.6	37.5	24.8
7. Combination of filling gaps and substitution	19.6	6.7	19.2	3.4	9.5	11.4
8. Combination of filling gaps, substitution, and advice	24.3	18.8	32.0	15.4	31.3	22.6
S. Importance of Project Management Consultants' Work in PIU (from low to high on a scale of 1–5)	3.4	2.3	3.3	3.3	3.8	3.3
T. Project consultants in the PIU have done more operational tasks than as per TOR						
U. Main Staff Capacity Problems in Your Agency (Percentage of category)						
1. Project implementation experience is small or not geared to new approaches	50.0	53.3	50.0	64.8	72.2	57.9
2. Qualifications or experience for good O&M are insufficient	29.2	26.7	50.0	33.3	27.8	33.3

Item	Agriculture[a]	Energy[b]	Transport[c]	Social[d]	Other[e]	Total
3. Qualifications or experience for good policy or planning are	33.3	26.7	25.0	31.5	5.6	27.7
4. Qualifications or experience for good service delivery functions are insufficient	35.4	6.7	12.5	20.4	5.6	20.8
V. Focus of the Project (Percentage rating)[f]						
1. Emergency response	11.7	17.4	10.7	12.7	43.5	16.2
2. Infrastructure (re)construction/provision	52.5	82.6	92.9	82.1	60.9	72.4
3. Operation and maintenance of infrastructure	23.3	45.7	42.9	47.8	26.1	37.1
4. Policy/institutional/capacity development	67.5	37.0	44.6	68.7	63.0	60.7
5. Service delivery oriented activities (excluding infrastructure)	50.8	21.7	14.3	35.8	34.8	35.6
6. Number of focuses of the project	3.3	3.3	2.5	3.3	3.0	3.1
W. Does the project introduce a new approach? (Percentage rating)[f]	65.0	37.0	40.0	46.2	56.8	51.0
X. Importance of Types of Capacity Development in the Project (Percentage rating)						
1. Construction of offices/training centers or other facilities	28.8	38.6	24.1	54.5	45.7	39.8
2. Individual skills development	70.3	52.3	46.6	69.4	65.2	64.0
3. Organization development	72.0	36.4	43.1	63.4	78.3	61.8
4. Project management	78.8	65.9	84.5	67.9	80.4	74.8
5. O&M of infrastructure	46.6	65.9	51.7	61.2	41.3	53.8
6. Strategy/policy/legal development	57.6	38.6	29.3	47.0	65.2	48.8
7. Service delivery capacity development	64.4	47.7	29.3	67.2	60.9	58.0
Y. The Project will (Percentage of category):						
1. Achieve the outputs in time	45.9	68.2	46.7	64.2	52.4	55.2
2. Achieve the outputs against the allocated budget	54.1	54.5	63.3	59.7	66.7	58.7
3. Improve the sustainability of infrastructure created	49.2	68.2	63.3	71.6	52.4	61.2
4. Improve the sustainability of services delivered by the EA/IA (if any)	47.5	36.4	36.7	59.7	33.3	47.3
5. Develop project management capacity in the EA or IA	45.9	54.5	76.7	59.7	57.1	57.2
6. Develop other capacities in the EA or IA	37.7	27.3	46.7	41.8	33.3	38.8
7. Percentage efficiency (time/budget) of project (average percentage rating)	50.0	61.4	55.0	61.9	59.5	57.0

ADB = Asian Development Bank, PIU = project implementation unit.

[a] Agriculture and Natural Resources sector.

[b] Energy sector.

[c] Transport and Communication sector.

[d] Social Infrastructure sector.

[e] Other ADB sectors.

[f] Includes procurement tasks, accounting, finance, writing TORs, contract supervision, monitoring, and reporting.

[g] Weighed by response category: 'major' (1), 'minor' (0.5), and 'none' (0). For example, if 10 respondents ticked 'major', 10 'minor', and 10 'none', then the average % rating would be 50% [(10x1) + (10x0.5) + (10x0)]/30.

Source: Project survey 2004. N = max. 206; variable per item, depending on valid responses received.

Table A5.2: Project Survey Responses by Temporary, Permanent, or Merging PIU

Item	PIU					
	None	Temporary	Permanent	Merging	Unclear	Average
Total number of questionnaire responses received	18	83	22	34	49	206
A. Work of Staff Fully Employed in the PIU (Percentage rating)[a]						
1. Detailed design of works, specifications for equipment, materials	41.7	58.4	56.8	55.9	52.0	54.9
2. Project management including coordination with other agencies	77.8	90.4	95.5	89.7	92.9	90.3
3. Procurement	80.6	71.7	68.2	64.7	72.4	71.1
4. Handling finance and accounting	66.7	84.3	86.4	77.9	80.6	81.1
5. Contract supervision (for infrastructure construction or equipment/ material)	75.0	66.9	68.2	63.2	66.3	67.0
6. Monitoring and reporting of progress (other than contract supervision)	80.6	95.2	81.8	86.8	86.7	89.1
7. Drawing up terms of reference (TOR) and managing consultants	63.9	72.3	75.0	63.2	70.4	69.9
8. Managing workshops, study tours, training courses	27.8	62.0	61.4	52.9	60.2	57.0
9. Providing technical advice (not project management related) to executing agency/implementing agency (EA/IA)	36.1	44.0	56.8	52.9	45.9	46.6
10. Other work	0.0	7.2	0.0	13.6	11.2	7.8
B. Degree of Permanency and Coverage of the PIU (Percentage of category)						
1. PIU already existed before the project (servicing another or previous phase project)	50.0	9.6	100.0	44.1	37.2	35.1
2. PIU has plans to continue after the project as a PIU unit for other projects	45.0	1.2	100.0	26.5	46.5	30.2
3. PIU has plans to merge with EA after the project (for service delivery/operation and maintenance [O&M])	25.0	0.0	0.0	100.0	0.0	19.3
4. PIU has plans to close/dissolve after project completion	20.0	100.0	0.0	14.7	0.0	45.5
5. PIU handles more than one project	40.0	10.8	68.2	23.5	23.3	24.8
C. Current Availability of Facilities of the PIU (Percentage of category)						
1. Office space/aircon/power supply (for PIUs inside main building of EA/IA)	93.3	81.1	82.4	84.0	88.4	85.0
2. Office space/aircon/power supply (for PIUs outside main building of EA/IA)	86.7	81.0	92.3	68.2	78.6	80.1
3. Office furniture, fixtures, supplies, and budget for running costs	89.5	88.9	85.7	81.8	90.7	87.8
4. Vehicles	75.0	77.1	77.3	70.6	78.6	76.1
5. Communications—telephone, fax, Internet	95.0	91.6	86.4	82.4	93.0	90.1
D. Systems Available in the PIU (Percentage of category)						
1. Sufficient legal documentation and manuals, clear procedures	82.4	76.4	100.0	89.3	90.7	84.9
2. Computerized procurement database	35.3	23.6	36.8	42.9	27.9	30.2
3. Computerized finance/accounts (use of specialized software package)	64.7	52.8	36.8	50.0	44.2	49.7
4. Computerized detail design software packages	11.8	30.1	31.6	35.7	14.0	25.6
5. Computerized and sufficient baseline databases and for updating status	23.5	34.2	31.6	39.3	25.6	31.7
6. Computerized project progress software (fixed system, e.g., Microsoft Project)	41.2	52.1	42.1	46.4	39.5	46.1
7. Other computerized systems	23.5	12.5	10.5	21.4	11.6	14.5
E. Some of the Current Problems of the PIU						
1. No proper mandate or legal status	2.6	5.6	5.3	8.8	6.3	6.0
2. Lack of staff in PIU	28.9	30.2	18.4	30.9	24.0	27.6
3. Insufficient budget for running costs in PIU	5.3	21.0	26.3	19.1	18.8	19.2
4. Defective design of the project	18.4	25.9	31.6	29.4	21.9	25.4

Item		PIU					
		None	Temporary	Permanent	Merging	Unclear	Average
5.	Dependence on progress or decision making outside the PIU and EA	42.1	46.3	42.1	42.6	43.8	44.3
6.	Issues with the division of responsibilities between PIU and EA/IA	15.8	17.3	13.2	25.0	22.9	19.4
7.	Issues with the division of responsibilities between PIU and other agencies	15.8	17.3	21.1	29.4	21.9	20.6
8.	Reporting requirements (leaving insufficient time for work)	18.4	20.4	21.1	25.0	26.0	22.4
9.	Interaction with ADB (complicated procedures, slow response, disputes)	23.7	25.9	15.8	29.4	25.0	25.1
10.	Other (please specify, e.g., project budget too late/not enough)	15.8	17.9	15.8	19.1	12.5	16.4
11.	Number of problems of the PIU (out of 10)	7.3	7.3	6.7	8.1	7.1	7.3
12.	Perceived severity of PIU problems (percentage rating)[a]	18.7	22.8	21.1	25.9	22.3	22.6
F.	**Criteria Used for the Determination of the PIU Staffing Profile (Percentage of category)**						
1.	Standard written criteria used by the Government	38.9	35.4	72.7	43.8	41.7	42.7
2.	Standard criteria not in writing used by the Government	5.6	11.4	9.1	18.8	22.9	14.6
3.	Written criteria jointly agreed between the Government and ADB	0.0	41.8	31.8	31.3	45.8	36.2
4.	Criteria not in writing jointly agreed between the Government and ADB	11.1	11.4	9.1	9.4	4.2	9.0
5.	Standard criteria used by the company/independent body	61.1	5.1	0.0	3.1	4.2	9.0
G.	**PIUs Favoring Employing Staff With Previous Experience in PIUs (Percentage of category)**	95.0	83.8	86.4	90.6	93.8	88.6
H.	**Current PIU Staff Have Previously Worked in Another PIU**						
1.	Percentage of sector	95.0	82.7	81.0	81.8	79.6	82.8
2.	Number of PIU staff that previously worked in another PIU	41.0	9.8	10.7	7.7	19.4	15.7
I.	**Number of Staff in Project and PIU**						
1.	Total project staff in long-term positions	47.7	21.1	56.6	70.9	35.6	38.6
2.	Total project staff in short-term positions	5.2	3.1	6.6	42.8	4.7	10.2
3.	Foreign project consultants: long-term	0.1	1.4	3.1	1.4	2.1	1.6
4.	Foreign project consultants: short-term	1.5	2.3	1.6	1.3	2.1	2.0
5.	Local project consultants long-term	0.3	7.4	53.1	17.3	8.7	13.1
6.	Local project consultants short-term	1.7	3.4	6.6	7.0	3.3	4.1
7.	Government officials in PIU: professional staff	8.4	4.2	6.4	7.5	7.5	6.1
8.	Government officials in PIU: support staff	34.1	2.8	7.4	7.0	5.1	7.3
9.	Government contracted staff in PIU: professional staff	0.4	2.1	13.8	2.4	2.7	3.3
10.	Government contracted staff in PIU: support staff	0.7	4.7	8.9	5.3	10.0	6.1
11.	Company/bank employees in PIU: professional staff	3.8	0.3	0.8	0.4	0.0	0.6
12.	Company/bank employees in PIU: support staff	3.1	0.1	0.0	0.5	0.1	0.4
13.	Professional agency staff as percentage of total professional PIU staff	50.0	38.3	28.4	48.6	40.8	40.3
14.	Total agency staff as percentage of all long-term PIU staff	47.5	38.2	36.8	46.1	43.8	41.3
15.	Total agency staff as percentage of all PIU staff	38.9	32.8	35.2	41.5	36.5	35.7
16.	Total professional staff in PIU (number)	9.2	15.1	76.3	28.5	21.0	24.1
17.	Total professional and support staff in PIU (number)	47.1	28.4	100.8	49.1	41.5	43.6
J.	**Arrangements for Government Officials Working in the PIU (Percentage of category)**						
1.	They continue to work in the EA/IA as well, and draw pay from both project and EA/IA	18.2	7.4	28.6	20.7	32.5	18.5
2.	They continue to work in the EA/IA as well, but draw pay only from EA/IA	45.5	47.1	35.7	41.4	35.0	42.0
3.	They continue to work in the EA/IA as well, but draw pay only from project	36.4	19.1	28.6	20.7	27.5	23.5

Item	PIU					
	None	Temporary	Permanent	Merging	Unclear	Average
4. They are on leave without pay from government	0.0	13.2	7.1	10.3	2.5	8.6
5. Other arrangements	0.0	19.1	0.0	10.3	7.5	11.7
K. Regular staff of agency would do more project work if there were special incentives? (Percentage of category)	68.4	72.4	86.4	72.7	83.0	76.1
L. PIUs wherein government officials resigned and joined the PIU as consultants/contractuals (Percentage of category)	10.0	24.1	14.3	24.2	23.9	21.6
M. PIU Staff Have Left During the Last 1 Year (Percentage of category)	45.0	54.9	31.8	50.0	53.1	50.2
1. Number of staff that left	3.1	5.0	1.5	9.5	3.2	4.9
N. Written guidelines on structure/level/source of remuneration of the PIU? (Percentage of category)	60.0	78.2	95.5	83.9	87.5	81.4
O. Supplemental Payment for PIU Staff (honorarium or special allowance) (Percentage of category)						
1. Government officials	5.3	29.6	31.8	36.4	27.7	28.2
2. Other employees in PIU	0.0	18.5	18.2	33.3	12.8	17.8
P. Main Purpose of the PIU (Percentage of category)						
1. To ensure efficiency in project implementation	89.5	98.8	100.0	100.0	96.8	97.8
2. To develop EA's capacity to do detailed design	36.8	31.9	38.1	38.3	29.8	33.5
3. To develop EA's capacity to manage projects	52.6	53.6	73.8	60.0	61.7	58.5
4. To develop EA's capacity for service delivery or O&M	39.5	39.2	47.6	50.0	46.8	43.5
Q. Role of International Consultants in the PIU (Percentage of category)						
1. Filling gaps due to extra work created by Project	11.1	34.7	21.4	18.8	37.1	30.1
2. Filling gaps due to need for extra quality work or integrity	25.0	34.4	33.3	25.0	35.0	32.5
3. Substituting for insufficiently motivated/paid agency staff	0.0	0.0	5.3	0.0	2.5	1.3
4. Substituting for insufficient qualified agency staff	13.3	4.8	5.6	0.0	10.3	6.4
5. Substituting for agency staff insufficiently trusted by ADB	6.7	7.2	10.0	13.0	0.0	6.6
6. Providing on the job training/advice	21.4	33.9	41.2	13.6	28.2	29.2
7. Combination of filling gaps and substitution	7.1	9.4	5.3	0.0	7.5	7.0
8. Combination of filling gaps, substitution, and advice	14.3	15.5	21.4	26.1	22.6	19.3
R. Role of Local Consultants/Contractuals in the PIU (Percentage of category)						
1. Filling gaps due to extra work created by Project	46.7	50.0	45.0	45.8	38.9	45.9
2. Filling gaps due to need for extra quality work or integrity	25.0	31.0	36.8	31.8	21.2	29.2
3. Substituting for insufficiently motivated/paid agency staff	6.7	9.9	10.0	8.0	2.5	7.6
4. Substituting for insufficient qualified agency staff	7.1	13.0	15.0	16.0	10.3	12.6
5. Substituting for agency staff insufficiently trusted by ADB	0.0	4.5	0.0	9.1	2.4	3.7
6. Providing on the job training/advice	15.4	30.5	37.5	17.4	17.6	24.8
7. Combination of filling gaps and substitution	7.1	15.9	5.3	16.0	5.1	11.4
8. Combination of filling gaps, substitution, and advice	14.3	22.2	26.7	22.7	25.0	22.6
S. Importance of Project Management Consultants Work in PIU (from low to high on a scale of 1–5)	2.0	3.5	3.0	2.9	3.7	3.3
T. Project consultants in the PIU have done more operational tasks than as per TOR	17.6	31.1	28.6	37.0	52.5	35.2
U. Main Staff Capacity Problems in Your Agency (Percentage of category)						
1. Project implementation experience is small or not geared to new approaches	53.3	59.4	53.3	70.0	52.5	57.9
2. Qualifications or experience for good O&M are insufficient	20.0	40.6	26.7	35.0	27.5	33.3
3. Qualifications or experience for good policy or planning are insufficient	33.3	27.5	6.7	25.0	35.0	27.7
4. Qualifications or experience for good service delivery functions are insufficient	6.7	21.7	33.3	30.0	15.0	20.8

Item		PIU					
		None	Temporary	Permanent	Merging	Unclear	Average
V.	**Focus of the Project (Percentage rating)**[a]						
1.	Emergency response	15.0	14.0	22.5	10.9	21.3	16.2
2.	Infrastructure (re)construction/provision	80.0	72.0	80.0	70.3	68.1	72.4
3.	O&M of infrastructure	42.5	33.5	62.5	29.7	35.1	37.1
4.	Policy/institutional/capacity development	37.5	64.0	65.0	67.2	58.5	60.7
5.	Service delivery oriented activities (excluding infrastructure)	25.0	38.4	32.5	32.8	38.3	35.6
6.	Number of focuses of the project	3.2	3.2	3.1	3.0	3.1	3.1
W.	**Does the project introduce a new approach? (Percentage rating)**[a]	30.0	49.4	52.3	57.6	57.6	51.0
X.	**Importance of Types of Capacity Development in the Project (Percentage rating)**						
1.	Construction of offices/training centers or other facilities	34.2	45.7	31.8	46.9	30.4	39.8
2.	Individual skills development	50.0	67.9	68.2	67.2	58.7	64.0
3.	Organization development	39.5	67.3	59.1	68.8	57.6	61.8
4.	Project management	57.9	68.5	86.4	78.1	84.8	74.8
5.	Operation and maintenance of infrastructure	63.2	53.7	63.6	42.2	53.3	53.8
6.	Strategy/policy/legal development	28.9	48.1	45.5	59.4	52.2	48.8
7.	Service delivery capacity development	44.7	63.0	45.5	62.5	57.6	58.0
Y.	**The Project will (Percentage of category)**						
1.	Achieve the outputs on time	63.2	51.2	42.9	66.7	56.5	55.2
2.	Achieve the outputs against the allocated budget	47.4	63.4	38.1	57.6	65.2	58.7
3.	Improve the sustainability of infrastructure created	68.4	58.5	66.7	63.6	58.7	61.2
4.	Improve the sustainability of services delivered by the EA/IA (if any)	26.3	47.6	42.9	60.6	47.8	47.3
5.	Develop project management capacity in the EA or IA	42.1	53.7	66.7	69.7	56.5	57.2
6.	Develop other capacities in the EA or IA	15.8	37.8	52.4	48.5	37.0	38.8
7.	percentage efficiency (time/budget) of project	55.3	57.3	40.5	62.1	60.9	57.0

ADB = Asian Development Bank, PIU = project implementation unit.

[a] Includes procurement tasks, accounting, finance, writing terms of references, contract supervision, monitoring, and reporting.

[b] Weighed by response category: 'major' (1), 'minor' (0.5), and 'none' (0). For example, if 10 respondents ticked 'major', 10 'minor', and 10 'none', then the average % rating would be 50% [(10x1) + (10x0.5) + (10x0)]/30.

Source: Project survey 2004. N = max. 206; variable per item, depending on valid responses received

Table A5.3: Project Survey Responses, by Internally or Externally Staffed PIUs

Item	Staff: Internal > External	Staff: External > Internal	Staff: Internal = External	Average
Total number of questionnaire responses received	52	97	25	206
A. Work of Staff Fully Employed in the PIU (Percentage rating)	64.4	59.8	34.0	54.9
1. Detailed design of works, specifications for equipment, materials	90.4	94.8	90.0	90.3
2. Project management including coordination with other agencies	69.2	83.0	44.0	71.1
3. Procurement	76.0	88.7	76.0	81.1
4. Handling finance and accounting	63.5	76.8	52.0	67.0
5. Contract supervision (for infrastructure construction or equipment/material)	89.4	91.2	90.0	89.1
6. Monitoring and reporting of progress (other than contract supervision)	71.2	82.5	54.0	69.9
7. Drawing up terms of reference (TOR) and managing consultants	55.8	69.6	40.0	57.0
8. Managing workshops, study tours, training courses	43.3	58.8	22.0	46.6
9. Providing technical advice (not project management related) to executing agency/implementing agency (EA/IA)	11.8	8.8	2.0	7.8
10. Other work	7.9	8.7	7.4	8.2
B. Degree of Permanency and Coverage of the PIU (Percentage of category)	38.5	26.3	44.0	35.1
1. PIU already existed before the project (servicing another or previous phase project)	30.8	28.4	32.0	30.2
2. PIU has plans to continue after the project as a PIU unit for other projects	26.9	13.7	24.0	19.3
3. PIU has plans to merge with EA after the project (for service delivery/operation and maintenance [O&M])	42.3	49.5	32.0	45.5
4. PIU has plans to close/dissolve after project completion	23.1	22.1	16.0	24.8
5. PIU handles more than one project				
C. Current Availability of Facilities of the PIU (Percentage of category)	75.6	94.4	85.7	85.0
1. Office space/aircon/power supply (for PIUs inside main building of EA/IA)	81.1	83.8	66.7	80.1
2. Office space/aircon/power supply (for PIUs outside main building of EA/IA)	91.7	88.5	96.0	87.8
3. Office furniture, fixtures, supplies, and budget for running costs	70.6	83.3	68.0	76.1
4. Vehicles	88.2	96.9	80.0	90.1
5. Communications—telephone, fax, Internet				
D. Systems Available in the PIU (Percentage of category)	78.3	85.1	91.3	84.9
1. Sufficient legal documentation and manuals, clear procedures	26.1	34.5	30.4	30.2
2. Computerized procurement database	34.8	60.9	47.8	49.7
3. Computerized finance/accounts (use of specialized software package)	21.7	30.7	17.4	25.6
4. Computerized detail design software packages	32.6	31.8	30.4	31.7
5. Computerized and sufficient baseline databases and for updating status	50.0	45.5	43.5	46.1
6. Computerized project progress software (fixed system, e.g., Microsoft Project)	15.2	14.9	13.0	14.5
7. Other computerized systems				
E. Some of the Current Problems of the PIU (Percentage rating)[a]	7.0	6.4	10.0	6.0
1. No proper mandate or legal status	29.0	28.7	18.0	27.6
2. Lack of staff inside PIU	17.0	23.4	8.0	19.2
3. Insufficient budget for running costs in PIU	25.0	29.8	22.0	25.4
4. Defective design of the project	45.0	47.3	40.0	44.3
5. Dependence on progress or decision making outside the PIU and EA	20.0	22.9	18.0	19.4
6. Issues with the division of responsibilities between PIU and EA/IA	25.0	20.2	16.0	20.6
7. Issues with the division of responsibilities between PIU and other agencies	27.0	20.2	20.0	22.4
8. Reporting requirements (leaving insufficient time for work)	31.0	26.6	22.0	25.1

Item	Staff: Internal > External	Staff: External > Internal	Staff: Internal = External	Average
9. Interaction with ADB (complicated procedures, slow response, disputes)	11.0	22.9	18.0	16.4
10. Other (please specify, e.g., project budget too late/not enough)	7.2	7.6	7.3	7.3
11. Number of problems of the PIU (out of 10)	23.7	24.8	19.2	22.6
12. Perceived severity of PIU problems (percentage rating)[a]				
F. Criteria Used for the Determination of the PIU Staffing Profile (Percentage of category)	56.6	37.6	34.6	42.7
1. Standard written criteria used by the Government	13.2	16.1	11.5	14.6
2. Standard criteria not in writing used by the Government	34.0	45.2	34.6	36.2
3. Written criteria jointly agreed between the Government and ADB	5.7	8.6	3.8	9.0
4. Criteria not in writing jointly agreed between the Government and ADB	5.7	6.5	23.1	9.0
5. Standard criteria used by the company/independent body	86.8	92.8	84.0	88.6
G. PIUs Favoring Employing Staff With Previous Experience in PIUs (Percentage of category)	92.5	87.6	76.9	82.8
H. Current PIU Staff Have Previously Worked in Another PIU				
1. Number of PIU staff that previously worked in another PIU	23.6	13.3	10.8	15.7
I. Number of Staff in Project and PIU	33.2	51.4	10.1	38.6
1. Total project staff in long-term positions	5.8	13.8	5.8	10.2
2. Total project staff in short-term positions	0.3	2.7	0.1	1.6
3. Foreign project consultants: long-term	1.9	2.5	0.4	2.0
4. Foreign project consultants: short-term	0.8	23.1	0.5	13.1
5. Local project consultants long-term	4.3	4.9	1.0	4.1
6. Local project consultants short-term	11.4	4.7	0.6	6.1
7. Government officials in PIU: professional staff	16.8	3.6	1.7	7.3
8. Government officials in PIU: support staff	0.8	5.4	0.1	3.3
9. Government contracted staff in PIU: professional staff	6.9	7.1	1.1	6.1
10. Government contracted staff in PIU: support staff	0.3	0.8	0.5	0.6
11. Company/bank employees in PIU: professional staff	0.2	0.3	1.4	0.4
12. Company/bank employees in PIU: support staff	87.1	14.3	50.0	40.3
13. Professional agency staff as percentage of total professional PIU staff	83.0	18.0	47.6	41.3
14. Total agency staff as percentage of all long-term PIU staff	72.1	16.7	28.4	35.7
15. Total agency staff as percentage of all PIU staff	13.4	36.0	1.2	24.1
16. Total professional staff in PIU	43.3	54.0	5.3	43.6
17. Total professional and support staff in PIU				
J. Arrangements for Government Officials Working in the PIU (Percentage of category)	23.5	12.7	41.7	18.5
1. They continue to work in the EA/IA as well, and draw pay from both project and EA/IA	39.2	48.1	16.7	42.0
2. They continue to work in the EA/IA as well, but draw pay only from EA/IA	25.5	15.2	58.3	23.5
3. They continue to work in the EA/IA as well, but draw pay only from projects	5.9	12.7	0.0	8.6
4. They are on leave without pay from government	7.8	16.5	0.0	11.7
5. Other arrangements	80.4	72.3	84.6	76.1
K. Regular staff of agency would do more project work if there were special incentives? (Percentage of category)	19.2	25.3	20.8	21.6
L. PIUs which government officials resigned and joined the PIU as consultants/contractuals (Percentage of category)	47.2	62.9	38.5	50.2
M. PIU Staff Have Left During the Last 1 Year (Percentage of category)	6.1	4.9	4.3	4.9
1. Number of staff that left	86.5	81.4	76.9	81.4
N. Written Guidelines on Structure/Level/Source of Remuneration of the PIU (Percentage of category)	32.7	28.9	23.1	28.2

Item	Staff: Internal > External	Staff: External > Internal	Staff: Internal = External	Average
O. Supplemental Payment for PIU Staff (honorarium or special allowance) (Percentage of category)				
1. Government officials				
2. Other employees in PIU	21.2	18.6	15.4	17.8
P. Main Purpose of the PIU (Percentage of category)	98.1	96.8	98.1	97.8
1. To ensure efficiency in project implementation	36.5	32.1	36.5	33.5
2. To develop EA's capacity to do detailed design	54.8	62.1	63.5	58.5
3. To develop EA's capacity to manage projects	42.3	45.8	48.1	43.5
4. To develop EA's capacity for service delivery or O&M				
Q. Role of International Consultants in the PIU (Percentage of category)				
1. Filling gaps due to extra work created by Project	22.9	38.2	25.0	30.1
2. Filling gaps due to need for extra quality work or integrity	30.0	36.5	27.3	32.5
3. Substituting for insufficiently motivated/paid agency staff	4.5	0.0	0.0	1.3
4. Substituting for insufficient qualified agency staff	7.1	7.3	6.7	6.4
5. Substituting for agency staff insufficiently trusted by ADB	4.7	7.6	7.1	6.6
6. Providing on the job training/advice	25.0	30.1	37.5	29.2
7. Combination of filling gaps and substitution	2.4	9.4	0.0	7.0
8. Combination of filling gaps, substitution, and advice	14.7	23.0	12.5	19.3
R. Role of Local Consultants/Contractuals in the PIU (Percentage of category)				
1. Filling gaps due to extra work created by Project	32.5	50.6	43.8	45.9
2. Filling gaps due to need for extra quality work or integrity	22.2	31.6	42.9	29.2
3. Substituting for insufficiently motivated/paid agency staff	2.3	10.6	6.3	7.6
4. Substituting for insufficient qualified agency staff	7.1	16.5	12.5	12.6
5. Substituting for agency staff insufficiently trusted by ADB	2.4	3.4	13.3	3.7
6. Providing on the job training/advice	21.1	26.6	9.1	24.8
7. Combination of filling gaps and substitution	7.0	14.4	6.3	11.4
8. Combination of filling gaps, substitution, and advice	23.7	26.0	6.7	22.6
S. Importance of Project Management Consultants Work in PIU (from low to high on a scale of 1–5)	0.3	0.4	0.4	35.2
T. Project consultants in the PIU have done more operational tasks than as per TOR				
U. Main Staff Capacity Problems in Your Agency (Percentage of category)	59.0	55.4	72.2	57.9
1. Project implementation experience is small or not geared to new approaches	25.6	43.4	11.1	33.3
2. Qualifications or experience for good O&M are insufficient	30.8	30.1	22.2	27.7
3. Qualifications or experience for good policy or planning are insufficient	25.6	18.1	27.8	20.8
4. Qualifications or experience for good service delivery functions are insufficient				
V. Focus of the Project (Percentage rating)[a]	18.3	11.5	25.0	16.2
1. Emergency response	74.0	71.4	56.3	72.4
2. Infrastructure (re)construction/provision	27.9	43.8	29.2	37.1
3. O&M of infrastructure	53.8	68.8	60.4	60.7
4. Policy/institutional/capacity development	37.5	36.5	41.7	35.6
5. Service delivery oriented activities (excluding infrastructure)	2.9	3.3	3.5	3.1
6. Number of focuses of the project	50.0	53.6	56.0	51.0
W. Does the project introduce a new approach? (Percentage rating)[a]				
X. Importance of Types of Capacity Development in the Project	38.5	40.7	32.0	39.8
1. Construction of offices/training centers or other facilities	67.3	71.1	52.0	64.0
2. Individual skills development	65.4	61.3	56.0	61.8

Item	Staff: Internal > External	Staff: External > Internal	Staff: Internal = External	Average
3. Organization development	76.9	77.8	76.0	74.8
4. Project management	40.4	61.9	46.0	53.8
5. O&M of infrastructure	48.1	54.1	36.0	48.8
6. Strategy/policy/legal development	58.7	59.3	50.0	58.0
7. Service delivery capacity development				
Y. The Project will (Percentage of category)	43.4	59.6	56.0	55.2
1. Achieve the outputs in time	50.9	72.3	52.0	58.7
2. Achieve the outputs against the allocated budget				
3. Improve the sustainability of infrastructure created	49.1	68.1	48.0	61.2
4. Improve the sustainability of services delivered by the EA/IA (if any)	43.4	44.7	48.0	47.3
5. Develop project management capacity in the EA or IA	50.9	66.0	60.0	57.2
6. Develop other capacities in the EA or IA	34.0	45.7	32.0	38.8
7. Percentage efficiency (time/budget) of project (average percentage rating)	47.2	66.0	54.0	57.0

ADB = Asian Development Bank, PIU = project implementation unit.

[a] Includes procurement tasks, accounting, finance, writing terms of references, contract supervision, monitoring, and reporting.

[b] Weighed by response category: 'major' (1), 'minor' (0.5), and 'none' (0). For example, if 10 respondents ticked 'major', 10 'minor', and 10 'none', then the average % rating would be 50% [(10x1) + (10x0.5) + (10x0)]/30

Source: Project survey 2004. N = max. 206; variable per item, depending on valid responses received

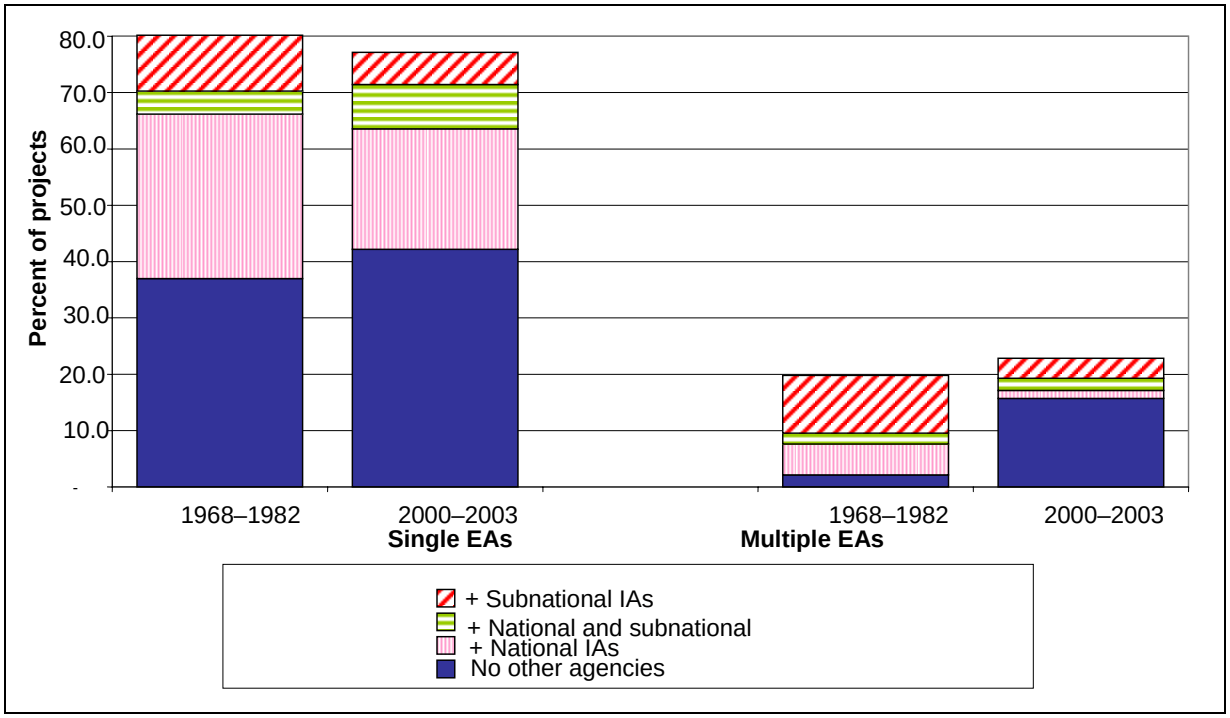
AGENCY CHARACTERISTICS AND PATTERNS FOUND

1. **Types of Agencies**. National government ministries or departments constitute some 78% of all executing agencies (EAs).[1] The predominance of government agencies in the Asian Development Bank's (ADB) programs seems self-evident but this has not always been the case. A shift in the types of agencies has taken place over time (Figure 3 in main text). In the early years of ADB, more loans were provided to semigovernment agencies, such as development finance institutions, corporations and authorities. A relatively large proportion of the initial loans were for semigovernment agencies involved in production, such as palm oil mill companies, aluminum plants, and copper fabrication plants. Such loans have become much less prevalent in the last 20 years. Within government agencies, the number of subnational government agencies that act as EAs (such as provincial and local government departments) has increased from 10% to 16% of all EAs. Most development finance institutions (DFIs) and semigovernment agencies are more specialized than government ministries or departments and can therefore implement projects without separate and externally staffed project implementation units (PIUs). These trends suggest that the number of PIUs in investment projects should have increased rather than decreased with time. It also suggests that it may have become more difficult for PIUs to be fully staffed, given that government agencies generally have more difficulty in assigning or appointing staff.

2. **Degree of Concentration.** Concentrated agencies have less need for a PIU (or at least for project coordination units, PCUs). Deconcentrated agencies on the other hand usually need to make a special effort to coordinate the various establishments involved at national and/or subnational levels. In addition, if a project is implemented mainly at the subnational level, the EA may have less experience of internationally funded projects. This has repercussions on the nature of the PIUs to be created at that level. Contrary to expectation perhaps, the number of projects with one EA and no implementing agency (IA) has gone up from 37% in 1968–1982, to 42% in 2000–2003 (Figure A6.1). On the other hand, the number of projects with several EAs has gone up as well, from 20% in 1968–1982, to 23% in 2000–2003—perhaps indicating the increased number of project components requiring EAs rather than IAs. Most surprising is the fact that that the involvement of subnational government IAs has not increased over time. The number of subnational EAs has, however, increased over time, at state, provincial, and local levels. This is another reason for the persistence of PIUs, particularly externally-staffed PIUs. It is widely acknowledged that the capacity to implement externally funded projects is lower outside the national capitals.

[1] Unless otherwise indicated, the findings in this appendix are based on analysis of all 562 reports and recommendation of the President (RRPs) issued between 1968 and 1982, as reported in (i) ADB. 1984. *Special Study of Executing Agency Arrangements*. Manila, and (ii) a sample of 140 of the 205 RRPs issued between 2000 and 2003 regarding all investment projects, DFI projects, and sector development programs.

Figure A6.1: Comparison of Types of Executing and Implementing Agency Arrangements Between 1968–1982 and 2000–2003



EAs = executing agencies, IAs = implementing agencies.
Sources: (i) ADB. 1984. *A Special Study on Executing Agency Arrangements*. Manila; (ii) 140 reports and recommendation of the President studied for the present special evaluation study.

3. **Scope of Agency.** Agencies involved in creating infrastructure, such as public works departments, should generally need fewer externally staffed and separate PIUs for projects, given that they should be already fully set up to carry out projects. Projects are their core business. It could be argued that some should not have PIUs at all, but should work through loose task groups. The actual use of PIUs depends on which aspects of infrastructure creation are contracted out, and the nature of the other tasks that the agencies may have. For agencies dealing primarily with service delivery, the question would be whether they also need to develop the capacity to create infrastructure. If so, a PIU will need to be more internally staffed and less separate from the agency, although some advisory consultants would be required. Such a PIU would eventually need to be integrated into the agency. The orientation of agencies towards infrastructure creation and service delivery differs by sector and subsector. For projects investigated in the survey, agencies in the livestock, forestry, industry, and fisheries subsectors focused less on physical infrastructure creation than on regulation and service delivery. Conversely, agencies implementing projects in the railways, urban development, housing, water supply and sanitation, roads and transport, and electric power subsectors focused on infrastructure creation rather than public service delivery. Agencies such as education and especially health focus on both infrastructure creation (school buildings and clinics) and service delivery.

4. **Position in the Agency Network.** The mandate of the agency vis-à-vis other agencies in the sector and its dominance influence the need for and likelihood of the involvement of other agencies. For example, some agencies are free to engage in activities that do not belong directly to their mandate, such as construction or provision of education. In

larger countries, for example, civil works can be handled by engineering sections of health departments, whereas in many small countries all civil works would normally have to be supervised by a public works agency. This can have consequences for the proliferation of PIUs and the need for project management capacity development. Similarly, if the mandates of various agencies are unclear, this can lead to a proliferation of temporary PIUs. This is the situation in many ADB developing member countries (DMCs).

PROJECT CHARACTERISTICS AND PATTERNS FOUND

1. The nature of the project affects whether a project implementation unit (PIU) is created and how it is staffed. This special evaluation study (SES) identifies the following project characteristics as being important to the constitution of a PIU: (i) the investment modality of the project, (ii) its coverage in terms of location of sites and number of agencies involved, (iii) its scope, (iv) the need for an imprest account, (v) the project's focus, (vi) its approach, (vii) staff involved, and (viii) its capacity development aspirations.

2. **Investment Modality.** Emergency response projects and projects dealing with postconflict reconstruction usually require PIUs, as it is essential that the project should start as soon as possible. Separate PIUs can be created quickly, and can bypass slower agencies and processes. Standard investment projects require integrated or separate PIUs to the extent that they are regarded as additional to the normal workload of executing agencies (EAs). Projects in project-oriented agencies should have less need for PIUs. Sector projects would, by the same logic, generally not need PIUs, or would need PIUs run by the agency's regular staff. Sector projects assume a greater organizational and institutional capacity of the parent agency.[1] Credit line projects are generally handled by development finance institutions (DFIs) through their regular staff, unless these projects require significant training and institutional development components, for which special arrangements would then need to be made. Program loans would not need special arrangements, as they mainly concern policy decisions to be taken by the government, unless they are accompanied by technical assistance (TA) loans to accomplish some special tasks through consultants.

3. Among the Asian Development Bank's (ADB) approved loans between December 2000 and December 2003 (numbered 1800–2075), there were 11 emergency assistance and postconflict rehabilitation loans (4%), seven project loans (3%), and three sector loans (1%) Around 53% of approved loans were investment project loans, 11% were sector loans, 6% TA loans, and 5% DFI project loans.[2] DFI loans, program loans, and agricultural credits constituted 26% of the loans in total[3] and 32% of the committed amounts.

4. **Coverage.** Projects that have more than one location and require cooperation between different agencies often have special coordination needs. This applies to many ADB projects. Sector projects usually have hundreds or thousands of sites in different provinces or municipalities. More than a fifth of all recently approved ADB projects had more than one EA, and some projects even had five or more EAs. Additionally, more than one third of all projects had one or more implementing agencies (IAs), with 7% having five or more.

5. **Scope.** At least 85% of ADB projects have a construction component, and 78% have an equipment or materials (goods) procurement component (Figure A7.1).[4] In more than half the projects, construction costs take up more than 50% of the base cost. In 17% of all cases, equipment and materials take up more than half of the base cost. The size of the construction and goods investment often requires special procurement and construction staff in PIUs, while the number of procurement packages affects the constitution of the PIU. Many ADB-funded projects have at least 10 such packages. If such projects are with agencies not normally

[1] In some cases, the large tasks related to design of individual subprojects, or large additional procurement and construction supervision tasks in practice may still lead EA to assign part of the management tasks to external project implementation unit staff.

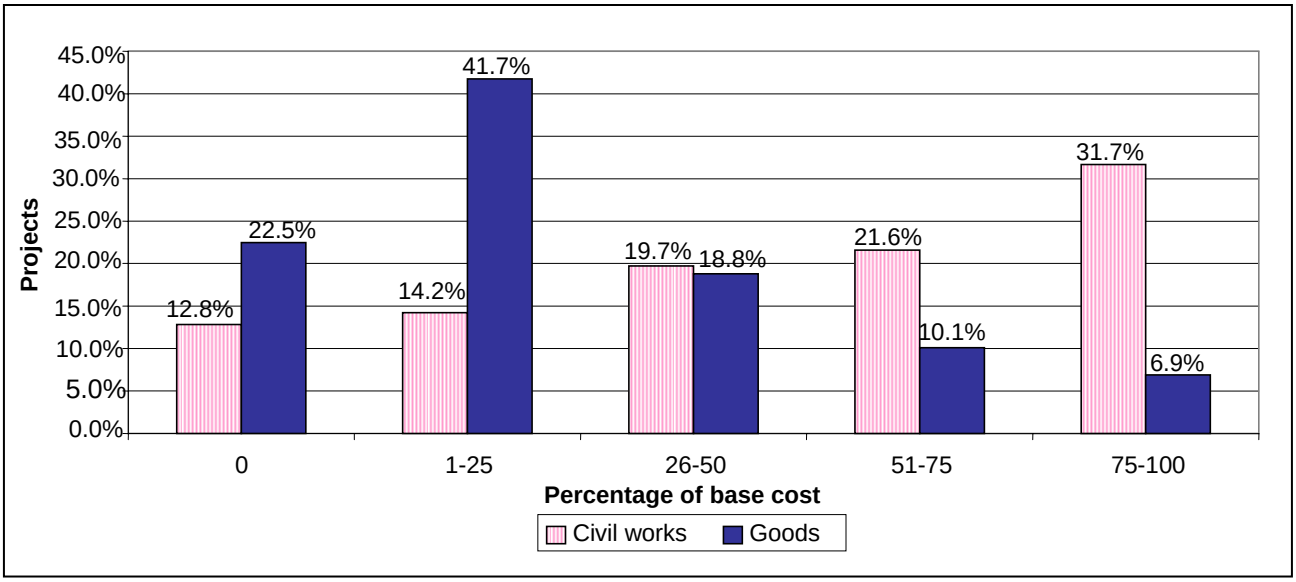
[2] The figures are based on analysis of the last 263 loans approved at the time of this study, with a loan identification number between 1800 and 2075.

[3] Three percent were development finance institution loans, 22% program loans, and 1% agricultural credits.

[4] The figures are derived from the databases used for the Special Evaluation Study on Project Cost Estimates (ADB. 2004. *Special Evaluation Study on Project Cost Estimates*. Manila).

involved in construction, equipment, and related procurement, a temporary and externally staffed PIU may be the most efficient solution.

Figure 7.1: Works and Goods in Estimated Base Cost of Projects

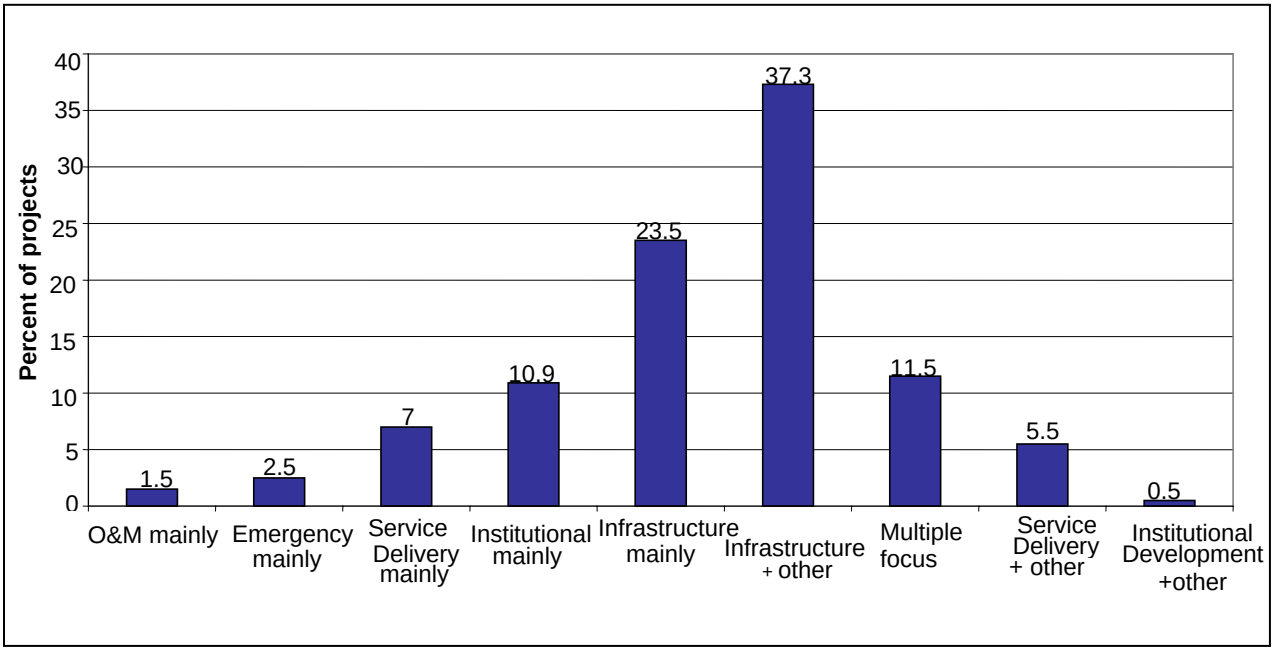


Source: Database of 220 project completion reports created for Special Evaluation Study on Project Cost Estimates (ADB. 2004. *Special Evaluation Study on Project Cost Estimates.* Manila).

6. **Presence of Imprest Accounts in the Project.** Imprest accounts have considerable implications for the administration of the project. The need for fiduciary safeguards in projects increases when special accounts are needed for the more efficient implementation of the project, and this often leads to the creation of a PIU. The use of imprest accounts is widespread in ADB projects. Only 18% of all 263 investment projects approved between 2000 and 2003 had no imprest accounts, 76% had one, and 6% had between 2 and 6. In the agriculture, social infrastructure, finance, and industry sectors, and in multisector projects, there were virtually no projects without imprest accounts. Over three quarters of projects in the energy sector, however, had no imprest account, and this correlated with the relatively lower number of PIUs established in this sector. There were also fewer than average imprest accounts in the transport and communications sector (45% of projects did not have one).

7. **Project Focus.** Projects creating infrastructure such as dams, bridges, or roads may need a PIU, depending on the nature and long-term investment program of the agency. Other types of projects need separate, externally staffed PIUs in order to be innovative. The project survey registered that 14% of respondents regarded the project as responding to an emergency of some kind, 68% saw it as focused on infrastructure creation, 24% as (additionally) focused on operation and maintenance (O&M), 51% on policy, institutional or capacity development, and 26% as oriented towards service delivery activities (Figure A7.2). Projects that dealt with O&M, service delivery, and policy, institutional or capacity development, would generally benefit from including more agency staff in their PIUs or leaving important functions of the project to regular units of agencies.

Figure A7.2: Project Focus as per Survey Respondents



O&M = operation and maintenance.
Source: Project survey 2004.

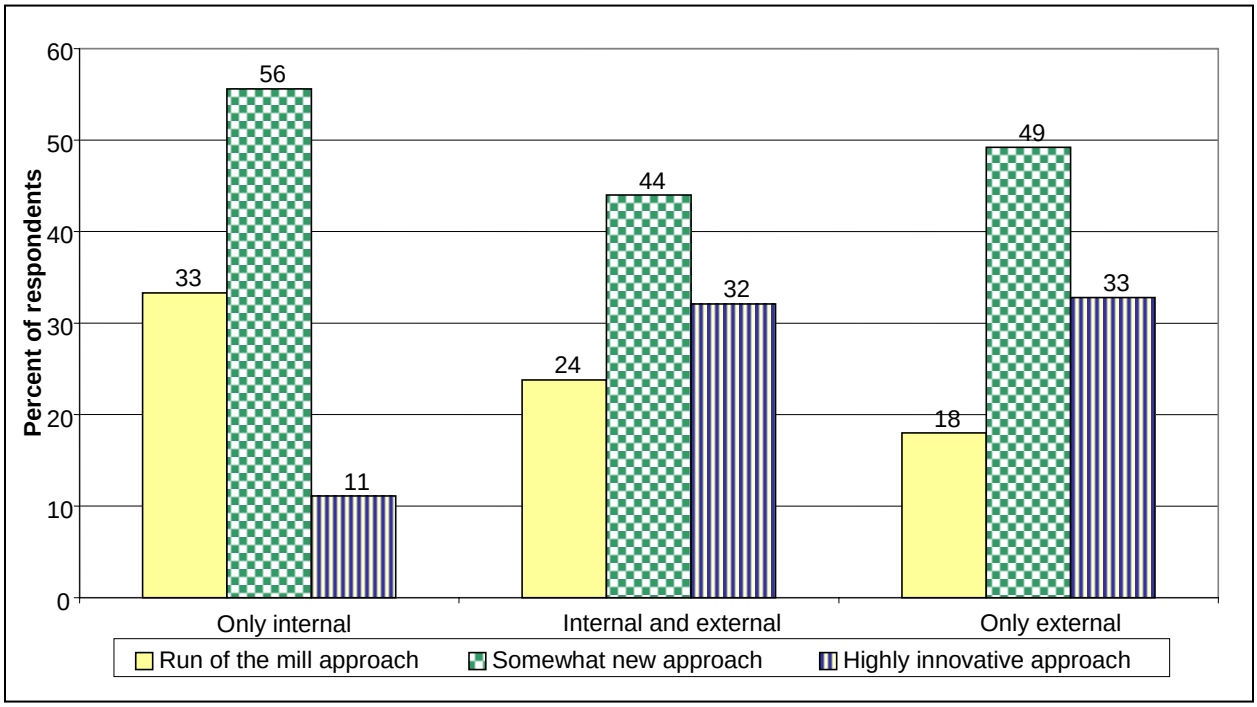
8. **Approach.** If a project employs a novel approach, this implies a greater need for capacity development within the EAs and IAs, and therefore special consideration of the need for a PIU and if so, what type. Respondents in the project survey were asked whether they considered the approach of their project as not innovative, somewhat innovative or highly innovative. Overall, over a quarter of the respondents thought their project highly innovative, half deemed it somewhat innovative, and one quarter, not innovative. PIUs staffed by a mix of internal and external staff would have more legitimacy in the case of more innovative projects, because there would be less capacity available within the parent agency, whereas there would be a need to build this capacity through on-the-job advice and training, and hands-on experience. In the agriculture and natural resources sector, almost half of the projects were seen as highly innovative, while in the energy and transport and communication sectors only 13% of the projects were seen as highly innovative. The project survey revealed that PIUs with only internal staff tended to manage projects that were regarded as run-of-the mill. However, many projects regarded as highly innovative were also handled by exclusively externally staffed PIUs instead of a more mixed staffing pattern, indicating a mismatch (Figure A7.3).

9. **Staff Involved.** The full-time or part-time involvement of agency staff in project management or project implementation is hard to quantify across sectors and countries, as it depends on the organization of the agency as well as on the nature of project activities. In many cases, the level of involvement of staff in projects is a matter of debate and depends on the perspective taken by different respondents.[5] The project survey indicated that there were an average of 53 professional project staff per project, with the PIU staff representing around half

[5] The project survey asked respondents to estimate the total number of staff involved in the project at the time of the questionnaire, but in many cases (17%), the question was left unresponded to. For one third of the projects, a number was given that was smaller than the number of consultants and PIU staff quoted subsequently. A few large numbers were quoted, along many very small numbers. To obtain an indication of the minimum number of staff involved, the study equated in these cases the total number of long-term professional staff in the PIU (including long-term consultants) with the total number of project staff.

that number. This has to be seen as a minimum; project staff might in practice well be double or triple that figure, depending on different views of who is counted as actually involved in implementation or not. In practice the question of whether the PIU covers most of the project staff involved in implementation is dealt with very differently across the sectors. The transport and communications sector usually appeared to involve most of the project staff in the PIU; in agriculture it was the reverse; in social infrastructure, half of project staff were on average counted as in the PIU and the other half outside; in energy the use of PIUs was small and therefore most staff were not involved in a PIU at all.

Figure A7.3: PIU Staff and Project Approach



Source: Project survey 2004.

10. **Capacity Development Aspirations.** When EA capacity development is a major purpose of the project, this would presuppose consultants or training programs and therefore a PIU with a mix of consultants and internal agency staff. Half of the respondents saw policy, institutional, or capacity development as a major project focus, even if this was not always an explicitly stated project objective. Slightly over half of all respondents saw capacity development in terms of skills, organizational development and project management as the most important capacity outcome of the project. Slightly under half saw capacity development in O&M, strategies and policies, and service delivery as most important. Both findings support the conclusion that, if PIUs are necessary at all, then they should be of the mixed and more integrated type.

COUNTRY CONTEXT CHARACTERISTICS AND EXPLANATORY NOTES

No.	Country Context Characteristic	Notes
1	Predominant funding source for public investment program (PIP)	Three categories: (i) development project funding mainly from internal sources, (ii) development project funding through a mix of internal and external sources, and (iii) development project funding mainly from external sources Many of the Asian Development Bank's (ADB) developing member countries (DMCs) are in category (ii) or (iii). For category (ii), at least 25% of the public investment program (PIP) is funded by external sources, and category (iii) at least 60%. For individual foreign-assisted projects, category (iii) may be preferable to category (ii), since in category (iii) projects the main source would be donor funds, which are more secure and regular (since they do not rely on matching local currency funds from the government). In category (ii) countries, funds for projects usually need to be secured both through the loan and through government sources, such as the development budget. However, counterpart funds are often delayed, because of continual, unexpected budgetary uncertainties. Category (i) countries would generally have more resources to supply counterpart funds as per project schedules.
2	Donor fragmentation	The *World Development Report 2004*[a] includes indexes for most of ADB's DMCs. The countries which host a high number of international donor agencies are often also countries with low project management capacity. The presence of many different donor procedures requires project managers to specialize, which then limits their transferability. Competition for scarce government talent to run donor-funded projects leads to a greater reliance on external project implementation unit (PIU) arrangements.
3	Level of budgetary uncertainty for government, government budgetary discipline, and quality of public expenditure management	Countries with uncertain projected government revenues, budgetary indiscipline, and insufficient public expenditure management have a tendency to "projectize" not only capital investments into small slices, but also tasks in operation and maintenance (O&M) and service delivery. Because the context favors projects and therefore temporary staff, it is also conducive to a proliferation of "separate" PIUs. Countries with fewer uncertainties, better budgets, and stronger controls can plan regular O&M and service delivery, so they need fewer projects and can confine these predominantly to capital investment and other temporary activities.
4	Government policy towards downsizing or devolution, and strategy towards involvement of private sector and civil society in public service	Central governments with new policies to reduce their civil services or programs, and/or devolve responsibilities to lower levels of government, may resort to more separate PIU arrangements for projects during the transition. They may also rely on these units at subnational levels where there is often less experience of project management for foreign-funded projects. This may lead to a proliferation of PIUs.

No.	Country Context Characteristic	Notes
	delivery	Governments with a policy to increase the level of involvement of the private sector or civil society may be favorable to contracting out projects from design to operation, accepting the risk that this may undermine capacity in their own agencies.
5	Type of civil service, and common project administration arrangement	Some civil services allow ample opportunity for the recruitment of temporary staff on contract, others have rules that make this very difficult. Some civil services do not cover all staff on the payroll of the government. The ease with which executing agencies and implementing agencies can resort to special staffing arrangements outside the context of the civil service depends to a large extent on the level of control exerted by civil service coordinating bodies and budgetary controls by finance agencies. Countries such as Pakistan allow for project staff to be funded from the national development budget; others, such as Malaysia and the Philippines, generally do not allow this and project staff need to be recruited through agencies' operating budgets. Another distinguishing characteristic of a civil service is the attitude towards staff transfers, and the policy towards staffing of senior management positions by "generalists" or "specialists". If project management experts do not have a clear career path as specialists, they may have more interest in project-based positions, and there may be fewer transfers of staff in and out of project positions.
6	Salary levels in civil service	Salary levels for senior government staff may or may not be sufficient for a decent livelihood, and may or may not be competitive with salaries in the private sector. Insufficient government salaries may be one reason for creating externally-staffed PIUs, or for inducing donor agencies to top up salaries in an attempt to attract good staff. However, this may alienate PIUs from the mainstream of the agency.
7	Depth of project management capacity within civil service	The level of education and experience within the civil service, particularly with regard to project management, varies between countries. Scarcities of some categories of staff will be one factor determining whether governments look for project management capacity outside the civil service. This can, however, create a vicious cycle and prevent project management capacity from developing.
8	Quality of domestic consultancy industry	The level of project management expertise in the private sector also varies. The expertise may be available at competitive rates or not. The availability of large number of experts at competitive rates may entice agencies to resort to ad hoc externally-staffed and temporary PIUs for projects.
9	Level of corruption in the country	External funding agencies may decide that countries perceived as more corrupt may need more ring-fencing of implementation arrangements—i.e., more separate PIUs. On the other hand,

No.	Country Context Characteristic	Notes
		more corrupt countries may have institutionalized corrupt practices to such a degree that even ring-fencing individual projects has become ineffective. Nevertheless, external agencies and governments may prefer to ring-fence projects and use consultants, which promotes the use of separate PIUs.

No. = number.
[a] World Bank. 2003. *World Development Report 2004. Making Services Work for Poor People*. Washington, DC.
[b] Huther, J. and A. Shah. 2004. *Anti-Corruption Policies and Programs: A Framework for Evaluation*. World Bank. Washington, DC.
Source: This study.

COUNTRY EXPERIENCES WITH PROJECT IMPLEMENTATION UNIT ARRANGEMENTS

A. Philippines

1. **Implementation Context.** Of the countries selected for the special evaluation study (SES), the Philippines has the second higher per capita gross domestic product (GDP) at around $1,000 (after Malaysia). The government's budget for 2004–2005 was P840 billion ($15.3 billion equivalent) and the public investment program took up around 11% of this (P100 billion, or $1.8 billion), of which 40–50% was funded by foreign assistance. A large part of nationally-sourced funds goes to cofinancing of foreign-assisted projects. In 2003 there were 189 foreign-assisted projects (at a cost of around $11 billion); the Asian Development Bank (ADB) currently has around 24 ongoing loan projects. Government agencies have long experience of managing foreign-assisted projects and programs. However, ADB has had problems with project implementation, mainly because of the much lower than average disbursement ratios achieved. This may have more to do with the project context than with low project management skills per se. Slow and convoluted decision making about procurement processes affects project efficiency, as does a lack of delegation of authority for operational and management decisions and activities by the executing agencies (EAs) or central government agencies. The scarcity of counterpart funds in recent years because of the persistence of the economic crisis has also reduced implementation efficiency.

2. The Philippines has a very evolved consultancy services sector. It has a lot of project management experience, both inside and outside the public sector. Many project management tasks are handled by either regular senior government officials detailed or seconded to a project, or by project managers hired as part of contracts with consulting firms or sometimes as individual consultants. Many standard project management tasks, such as those in procurement, finance and accounting, information and communication technology, construction contract supervision, and monitoring and evaluation are implemented by staff individually recruited by the EAs for the project on contracts for the duration of the project. The salaries of such contractual staff are roughly comparable with those of regular staff in similar capacities, but contractual staff lack job security and, until 2004, certain social insurance benefits. Recruitment of contractual staff can take place upon approval of a proposal made for the temporary creation of such positions by the Department of Budget Management (DBM). In some cases, the EAs themselves may have access to funds that can be used from other budget headings,[1] but in this case the positions are called 'contracts of service'. Finally, support functions in projects can be funded as 'daily labor' under operational budget headings.

3. The involvement of contracted staff in foreign-funded projects is often significant, especially in construction-oriented operations. Many ADB projects operate on the basis of specially contracted staff, rather than agencies' permanent staff. Their salaries may be reimbursable through an administrative cost budget line in the Loan Agreement, or through the government's own budget.

4. **Findings from Five Project Case Studies.** One of the seven agencies visited ran the project without a project implementation unit (PIU). Four ran their projects with five or more contractual staff in a PIU; one ran a PIU without contractual staff but with consultants, and one ran a PIU without contractual staff and consultants (although in the past some contractual staff had been employed), Most of the central PIUs were located in the building of the main EA. Three PIUs were temporary implementation arrangements, one was integrated into the agency,

[1] As approved by the Civil Service Commission.

and one was more permanent (i.e., to implement subsequent expected ADB-funded projects). More independent agencies, such as development authorities and development finance institutions (DFIs), used their own staff more than contractual staff.

5. Project management and administrative cost reimbursement options were provided in many but not all loan agreements.[2] At around 2% of the project budget, they were about average for the case study countries in the SES. In a number of cases, the project management related costs were not funded through the Loan Agreement. The average cost of consulting services was around 3.5% of the project budget, although there was large variation between projects. In all six countries studied, some projects combined operational and advisory project management services through consulting firms with other technical advice and operational activities. In the Philippines, this was less often the case than, for instance, the Kyrgyz Republic. The Operations Evaluation Department's recent SES on cost estimates[3] calculated average administrative loan allocations for administration in its projects; the overall average was 1.1% of the loan budget. The figure for expenditures was somewhat less. The People's Republic of China, Malaysia, and Thailand had zero administration costs, while for India administration was 0.5% and for the Philippines it was 0.6%. It is perhaps a sign of the Philippines' current budgetary crisis that the average administration cost in loan budgets has increased over the years.

6. Government staff in PIUs received modest honoraria of about P2,500 per month, but most of these had been cancelled by the DBM in 2003 because of lack of funds.[4] The honoraria were often distributed to all the agency's staff, so there was no disincentive for staff not working on projects. Some PIUs reported that staff of some regular units in EAs and IAs that were not receiving any special compensation from the project were not very cooperative. In some departments, regular staff received representation and transport allowances. This is now generally confined to project directors. The views on career opportunities offered through project work for regular government staff differ by department. Some saw it as useful experience; others argued that their career was on hold in a PIU, although the perks could be good (vehicle use, office, training opportunities). The interest of regular staff in PIU work may have declined since the honoraria were cancelled.

7. The conditions of contractual staff have changed since a DBM circular in 2003 regarding the termination of the usual 20% supplementation of the salaries of contractual staff. The measure does not seem to have led to an exodus, or even to have significantly affected work morale of contractual staff. The new regulation may have provided a further incentive for contractual staff to try to graduate to permanent positions in the EA or IA, something which is allowed but in practice depends on such positions becoming available (not often) and the passing of a civil service exam.[5]

8. In response to the perceived proliferation of PIUs in some agencies, another DBM budget circular in 2003 required the unification of the various project offices into one per agency and its fuller integration into the regular structure, functions and systems. The policy regarding the so-called unified project management offices was justified on the grounds of (i) ensuring operational sustainability and alignment of project concerns with the overall agency program;

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[2] For the purpose of this special evaluation study, the loan agreement subsumes the project agreement.

[3] ADB. 2004. *Special Evaluation Study on Project Cost Estimates*. Operations Evaluation Department. Manila.

[4] An additional reason given was that they were 'abused': all staff used to get them, even those not working in projects.

[5] Department of Budget Management (DBM) is attempting to compile an inventory of contractual staff in the Philippines.

(ii) optimum use of resources, and (iii) strengthening monitoring, accountability and in-house capability. Starting in July 2004, EAs or IAs are no longer allowed to create a PIU for each new project. DBM reported that since the issuance of the circular only one or two proposals had been received for the creation of such offices.

9. **Assessment.** Mainly because of budgetary constraints, the Government has become more aware of the costs associated with project offices. The various circulars that DBM issued in 2003 controlling payment of salaries for contractual staff, honoraria or special allowances for regular staff detailed to projects, and the unification of PIUs in each agency are witness to this. EA capacity development was a less important justification for the new policy, although DBM representatives argued to the Mission that an additional reason was the lower degree of compliance with overall financial policies by temporary units, which it hoped would be reversed by the new policy.

10. Because PIUs for projects near to completion are not affected, the new policy has not evoked much confusion or opposition. Many PIUs are mandated by agreements with donor agencies. Within some EAs, the new policy has been received favorably. PIUs are often perceived to be promoted particularly by donor agencies. The Department of Environment and Natural Resources in particular felt that the capacity built up through temporary PIUs was not very sustainable. Because they were separate from the main department, other units had sometimes been unwilling to take over such offices or their responsibilities. In other departments, less negative experiences with temporary offices were reported.

11. Contractual staff are often perceived as hopping from one PIU to the next within one agency upon completion of a project, especially in the larger agencies with many standard projects. Political and departmental changes can affect their job security. With every new Government, they run the risk of being replaced (but perhaps less so in PIUs which are assisted by external funding agencies than in other units). Yet, in large agencies some staff begin and end their careers as contractual staff. Status issues sometimes affect their performance, and they are not inclined to 'rock the boat', for fear of antagonizing senior agency staff involved. This is especially the case for contractual staff with responsibilities in finance, contract supervision and monitoring. Some observers have argued that the use of large numbers of contractual staff dilutes accountability for project implementation. However, others have argued that they were generally useful. Nevertheless, reliance on contractual staff is not ideal for long-term EA capacity building.

12. Although the development of project management skills by consultants and PIUs within agencies is limited, in a wider sense it is to some extent achieved through the maintenance of a large pool of contracted semipermanent staff with such skills. However, the situation is clearly not optimal. Project management capacity built up through individual PIUs is lost when contractual staff leave, and may have to be built up fresh with new contractual staff and consultants.

13. One contrast with some other countries evaluated in the SES was that consultants, contractual staff, and government staff in 'regular' positions, are not fluid; there is not much movement by government staff to contractual or consultant positions. This can probably be attributed to the nominal differences between contractual and regular salaries, and also to the large numbers of experienced staff available in each category.

B. Kyrgyz Republic

14. **Implementation Context**. As one of the Central Asian republics, the Kyrgyz Republic is undergoing a transition from a command to a market-oriented economy. Implementation of foreign-assisted projects has taken place in a context of major changes since the country's independence in the early 1990s. In part because of a breakdown of the system in the early years, and later a deep economic crisis, the public sector has shrunk significantly. As a consequence of ongoing reforms, there may be further reductions in government staff. Many ministries therefore see project activities as an additional burden, and the remaining staff working at the policy level cannot easily be freed to take on extra work for projects. The Kyrgyz Republic has witnessed a very significant brain drain of many of its most educated and experienced people to Russia and Germany. This has affected the speed with which ministries can build capacity to manage projects in accordance with international practices.

15. The organization of the civil service has been a problem for EA project management capacity. Public service laws were first enacted in 1992 but they were imperfect and were not always adhered to. The result was that public sector vacancies were not always filled through transparent and merit-based processes. The civil service is not unified or well organized. The laws were changed in 1999 and are being refined further in 2004 to bring more order, better conditions, stability, transparency, and accountability to public service. The new laws strengthen safeguards against conflict of interest in the performance of duties by civil servants. They also try to restrict replacement of civil servants when there are political changes through an independent Agency for Public Service. The new law ties recruitment of civil servants to competitive examinations. It is intended that in each ministry a permanent 'state' secretary will head the administration, with the status of first deputy minister. The rationale is that this would increase the stability of both government staff in ministries and consultants employed in projects. It is also the intention to increase the remuneration of government employees—which is currently extremely low (between $9 per month for teachers and $200 for ministers)—significantly over the next three years.

16. The civil service is losing expertise because staff are transferring to more lucrative positions in the many foreign-assisted projects in the country. Most of these projects are administered and implemented by international and domestic consultants, with almost no involvement by regular government staff.[6] The Ministry of Finance has argued that skilled government staff would need to be paid from an equivalent of $300 to $1,500 per month in order to be able to resist the temptations of employment by the sector of externally-funded projects.[7] Currently their salaries are often not more than $100 per month equivalent which leaves their households below the poverty line.

17. There is some confusion as to whether the civil service laws prevent government staff from receiving honoraria from project funds for services rendered for projects. One official argued that there was nothing in the old and new laws preventing this, as long as there was no conflict of interest. Others stated that this was not allowed, and that audits by the Chamber of Accounts made an issue out of this. External agencies may have become stricter in this respect since the mid-1990s; most do not allow honoraria. Many government officials, including ministers (except in the Ministry of Finance) would, if external funding agencies allowed it, favor

[6] Many projects have a project director who can be a regular staff of the executing agency, but often the function is partly ceremonial, whereas the position is hardly ever on full time basis.

[7] Ministry staff pointed out that research shows that civil servants will not easily leave for employment as consultants outside government when their salaries are over $600 per month.

the use of honoraria or moonlighting arrangements for government staff needing to perform functions in projects.

18. The development of project management capacity has been hampered by a slow-down in project approval and implementation since 2001. The public investment program (PIP) has been reduced from the equivalent of 11% of GDP in 1999 to less than 5% at present. The Government finances 1.2% of this from its own sources and donor agencies contribute 3.6% (in part through loans). The reduction is mainly because of the rising debt burden, which led to an agreement with the International Monetary Fund to impose a ceiling on the PIP.

19. There is increasing influence of the Ministry of Finance in project implementation, quite apart from the release of counterpart funds to projects.[8] For example, the Ministry of Finance is represented on tender committees. As far as PIUs are concerned, the Ministry of Finance would like to see their integration into ministries, their unification within each ministry, and a much larger share of PIU activities conducted by ministry staff as part of their normal duties. On the other hand, the Ministry of Finance favors the use of former government officers as domestic consultants on projects, since it considers that many of these are among the most qualified and experienced experts in the country.

20. The Ministry of Finance supports the resolution issued by planning agency Goskominvest 4 years ago, and 2 years ago the State Commission on Foreign Investment & Economic Assistance, to tie the rates for domestic consultants to certain (low) ceilings. Since the dissolution of Goskominvest and the transfer of its PIP functions to the Ministry of Finance, the ministry has promoted adherence to these ceilings for all contracts for domestic consultants. With some other government agencies (notably the Prime Minister's Administration) it has also initiated a discussion with donor agencies regarding what it views as the need to reduce the use of international consultants and increase use of domestic consultants.

21. **Findings of Project Case Studies**. Very few cases were found of projects running without PIUs, and in the cases observed, the institutions implementing projects or programs, such as the Corporate Development Center, were funded by donor agencies. Their sustainability in the absence of external agency funding is uncertain. All ADB projects were administered through PIUs; only 2 of the 14 World Bank funded projects were not administered by PIUs. In terms of their location, three of the five PIUs studied were 'separate' from the EA's main building, and two were housed in the EA building, i.e. 'integrated' into the EA. Most PIUs were temporary arrangements to be dissolved after the project. All PIUs were driven by consultants (not by salaried contractual staff, as in the Philippines).

22. **Assessment**. The Kyrgyz Republic projects have to operate in an unstable context because of frequent political changes and departmental senior management changes, and also because of a buoyant market for experienced consultants, given the large numbers of foreign-funded projects and the scarcity of experienced project management consultants. The continuing reforms in the public sector, and political influence on regular government staff, the ultimate level of project management capacity building in EAs and IAs through PIUs is difficult to assess.

23. **Implementation Efficiency of PIUs**. The distinct impression is that the PIUs are the most efficient implementation arrangement under the present circumstances, in terms of

[8] Public sector capital investment in Kyrgyz Republic is mainly organized through foreign (co-) funded projects. There are very few exclusively nationally funded projects. Government funds for capital investment are mainly used as 'counterpart' shares in these externally funded projects.

producing outputs in accordance with budgets available, set time limits, and required quality standards. The lack of specific expertise in some project management positions in some projects seems to be compensated for by a high degree of enthusiasm and commitment. The main problems encountered by PIUs are to do with external factors such as delays in the release of ADB and counterpart funding, and in some ministries the frequent political changes, leading to replacement of PIU staff. The involvement of international consultants in project management tasks in the five projects studied has generally been appreciated by the domestic consultants operating the PIUs, especially at the start of the projects. Administrative and consulting services budgets in projects are not high by international standards

24. **EA and IA Project Management Capacity Building through PIUs**. PIUs and the project management consultants have had little success in building capacity, because of the minimal involvement of regular staff in the management of the projects. ADB and international consultants have generally had to focus on developing the capacity of domestic consultants and contractors. In this their efforts have been broadly successful. These groups are now much more familiar with internationally accepted procurement systems, contracting systems, and bank guarantees.

25. Most of the activities of project management consultants can be described as “filling gaps” in EAs and IAs which do not have operational staff themselves. Some substitution of such staff by consultants was occasionally admitted to. This is also evident from a number of statements regarding the need to pay government staff for activities which are perceived to be necessary for project success. This implies that regular government staff could do project work in addition to their normal tasks, but in the current climate want to be paid for this.

26. The discrepancy between remuneration of staff working in projects and government staff not working in projects but in positions requiring at least as many skills if not more, is a matter of some concern. If it persists, it may lead to a lack of cooperation between the two groups, instability in the civil service because of the opportunities created through the projects, and a lack of sustainability of the outputs produced by the projects.

C. Papua New Guinea

27. **Implementation Context**. At its independence in 1975, Papua New Guinea (PNG) inherited a public service sector that provided reasonable services to most parts of the country. However, it also depended on bilateral aid and international consultants. The Government’s efforts to make its public service more sustainable over the years concentrated on reducing its size as well as its reliance on international consultants, while simultaneously improving its capacity. However, deteriorating economic conditions since the 1990s have been a major constraint. The result has been a loss of capacity within the public service.

28. Political instability has played its part in the decline. Since independence a number of reforms have been implemented. The first in 1977 increased the role of provincial governments in service delivery through amendments to the Organic Law. A second Organic Law was passed in 1995, devolving powers and responsibilities to the districts. In addition there have been several rounds of retrenchments and reforms in the public service. The reforms consisted of restructuring departments and transferring powers to suit changing political priorities. In 2000, a wide-ranging reform called “Making the Public Sector Work” was begun. Currently, the reform process is being carried out through the Public Sector Reform Management Unit. The reforms have so far not been able to arrest the perceived decline in the quality of the public service. In fact they may have been disruptive and may have even led to capacity reductions.

29. The gradual devolution of responsibilities to provincial and district levels has increased the size of the public service from 50,000 in 1976 to around 78,000 in 2003. This is in spite of retrenchment programs and little economic growth. Devolution has increased the need to implement projects at the local level. However, efficient implementation requires project management capacity that is scarcer at this level.

30. Weak human resource management has led to poor utilization of human resources and increased cost of wages and salaries. In 2003 these consumed 54% of the total recurrent government expenditure (excluding interest). This reduced the space for funding of development activities. There is not enough pressure on government departments to keep payrolls within budget appropriations. Mechanisms to control payroll costs—such as cash-limiting funds through the annual budget and central control of vacant positions—have not worked well. Large numbers of nonexistent and "unattached" officers inflate payroll costs. It is estimated that the total payroll could be reduced by 10% if nonexistent officers were removed. Through a process of "fill and spill" there are over 2,000 unattached officers on the payroll. These officers receive full pay but do no work. There is no incentive for departments to eliminate unattached officers as they exist outside their department's position structure. Payroll costs are also inflated by the common practice of departments to upgrade positions and to pay allowances where there is no entitlement.

31. Human resource management weaknesses extend to the selection and appointment of domestic consultants. There was little evidence that departments sought to minimize domestic consultant costs by negotiating reduced remuneration rates. Domestic consultant pay rates appear to be determined by the budget figure in the loan agreement rather than by value for money considerations. Costs of domestic consultants were generally much higher than in other developing member countries (DMCs) with comparable economic development. Even when domestic consultants were paid from counterpart funds, they were paid many times the remuneration an equivalent public servant would receive. The high cost of domestic consultants arose from the procurement and financial management systems. Even when a consultant responded to an advertisement, the selection process concentrated on technical criteria and failed to fully consider value for money. Although the State Solicitor scrutinized most contracts for legal correctness, they were rarely scrutinized by the Central Supply and Tenders Board, but were awarded by the Department of Finance. Many weaknesses arose from the fact that payments to domestic consultants were made from trust or imprest accounts. Once funds were in a trust account, they were not subject to the normal appropriation and warrant limitations. Many trust accounts had their own bank accounts, used manual cheque books and could be overdrawn.

32. Bilateral grant aid is a significant source of developmental funding in PNG. In 2004, nonloan aid comprised 65% of the total development budget of $391 million equivalent.[9] As the large bilateral program in PNG competes for project management and implementation resources with multilateral loan funded projects, it influences the availability and cost of these resources. The development of project management capacity of multilateral donor funded projects is hampered by a slow-down in project approval and implementation.

33. In 2004, external agencies supplied 80% of the PNG development budget. There are two multilateral and six bilateral agencies. This is fewer than in many other DMCs, yet the Government finds it difficult to comply with their requirements and procedures.

[9] Papua New Guinea Department of National Planning & Rural Development.

34. The largest bilateral agency is the Australian Agency for International Development (AusAID). AusAID is currently seeking to move from project aid to program-based assistance. Historically, AusAID has tended to develop parallel systems and appointed managing contractors to deliver project aid. Under the new program-based approach, it is seeking to work wherever possible within the PNG system while managing the risks. This means fewer projects and fewer consultants, whose role will be changed from responsibility for project delivery to filling skill gaps and monitoring performance. AusAID considers that this will have a significant positive impact on project management and implementation resources.

35. Government salaries in PNG are high in comparison with those in other DMCs at the same GDP level. However, the differential between government salaries and domestic consultants appears to be high. The examples obtained during the study show that former public servants can receive remuneration packages for jobs in projects which are up to five times the government salaries at that level. Anecdotal evidence suggested that domestic project managers could receive up to $9,000 per month. Apart from the effects on project budgets, this must have significant effects on government staff morale and desire to leave the public service.

36. There is considerable interest from public servants and project managers with project management experience gained from working with external agencies or nongovernment organizations (NGOs) in leaving government service and switching to consultant positions in externally-funded projects. One project that recently advertised for a project manager position received 80 responses, most of which came from government officers. In addition to the higher salaries, working for PIUs offers opportunities for training and more continuous employment on externally-funded projects.

37. **Capacity Development**. Capacity development has been a priority of the Government since before independence. The failure to achieve it, however, has resulted in the continued use of international consultants. PNG has not seriously considered the possibility that this continued use of consultants may have contributed to capacity reduction. The main reason for lack of capacity is seen as the loss of expertise within the public service as a result of budgetary problems, leading to resignation and retrenchment of experienced public servants. Other reasons offered are shortage of operational funding leading to inaction of civil servants, a deterioration in public service training institutes, and lack of funds for staff training.

38. A number of factors constrain the planning and delivery of a capacity building program. The professional ethos of the public service is undermined by corruption and political patronage. Departments are not performance-oriented. They do not have the plans or direction to identify the skill set needed to deliver their programs. This leads to a lack of demand for capacity building, or to inappropriate capacity building. Personnel management systems have not been merit-based or transparent and are affected by political interference. Officers see little benefit in gaining skills when these are not used effectively. Although these constraints are being addressed by recent public sector reforms, their influence continues.

39. As part of public service reforms, a number of statutory authorities have been developed, often assisted by an externally-funded project. In such projects, the PIU is often the nucleus of the proposed statutory authority organization.

40. The Ministry of Finance in PNG has not issued executive orders like those issued in the Kyrgyz Republic and the Philippines designed to curtail the proliferation of PIUs and reduce salaries of contractual staff and consultants.

41. **Findings of Five Project Case Studies**. In terms of location, three PIUs were physically located within the EA while two were located outside it. Most PIUs were temporary arrangements, although on one project the EA had a long history of continuous PIUs and expected this to continue. There was considerable variation in the role of consultants in PIUs. One project PIU did not employ consultants, two PIUs were fully staffed by consultants and two PIUs had a mixture of EA staff and consultants. No PIUs worked with special incentives for government staff but there was evidence that on three projects EA personnel had resigned and been re-employed as consultants to improve their conditions of employment.

42. **Conclusions**. Factors beyond the PIUs' control complicate an assessment of their performance. These include lack of counterpart funding, political instability, and slow land acquisition.

43. **Implementation efficiency**. Remuneration levels for domestic consultants seem to be significantly higher than those for equivalent public servants. Domestic consultants can receive up to five times more than they could expect in the public service. Even considering the security of employment offered in the public service, the differential appears to be large. This has led to many government staff leaving public service to become consultants in foreign-financed projects, sometimes in their own departments. Unlike some other countries studied, there were no remuneration guidelines in PNG to help departments when procuring consultants and no rules against change-overs from government staff to consultants.

44. **Project Management Capacity Development**. Consultants were dominant in PIUs relating to policy and institutional development. In PIUs relating to infrastructure development, EA staff or former EA staff were found almost exclusively. PIUs relating to policy and institutional development may be less integrated into the EA than those relating to infrastructure development. The probable reason for this is that the EAs involved in infrastructure development had a much longer history with PIUs and are more likely to be involved in donor funded projects in the future. Therefore infrastructure development agencies attempted to maximize the involvement of their personnel and systems in the project to improve capacity development.

45. Unless an agency has a history of using PIUs, there appears to be a reluctance to appoint public servants as project managers. Even when a suitable regular officer is available, it is accepted practice that he or she would leave public service and join as a consultant. This is one of the reasons why the pool of domestic consultants consists largely of former public servants.

D. Bangladesh

46. **Implementation Context**. In spite of economic progress during the 1990s, averaging 5% GDP growth per annum, weak governance has continued to stand in the way of improvements to public service delivery. Overstaffing, poor compensation and inadequate training have led to poor public sector performance.

47. Project implementation is complicated in Bangladesh by ambitious targeting, new policies and procedures to foster transparency (e.g., greater ministry involvement in clearances on procurement), increased emphasis on decentralization, and the privatization of state-owned enterprises.

48. Over 30% of the country's development budget is funded by international agencies, and most large projects are foreign-assisted. Given the political pressures to approve many new locally-funded projects, there is pressure on the release of counterpart funds, which continually leads to problems for ADB projects and their PIUs.

49. The Government has been dependent on consultants and contractual staff to assist in implementing development projects. Donor support to NGOs has increased over the years, to help in implementing projects but also to bring reforms closer to grassroots levels.[10]

50. Project staff were hired as contractual staff at fixed rates of pay and no annual increment or benefits, which made them an unstable work force, always looking for better alternatives and moving on. The Forest Department's Coastal Greenbelt Project funded by ADB included about 400 contractual staff paid from the loan, and the proposal to fund their positions from the government revenue budget 6 months before project closure was not approved. As a result, many tree plantations established under the project were left unmanaged.

51. The resort to the use of consultants and temporary staff was widely justified by the argument that insufficient staff would be available in the EAs to work in foreign-funded projects. The use of external staff to implement projects was often a contentious issue between donors and the Government, because of the difficulty the Government had in regularizing contractual staff after project closure. The problem was not so acute for large construction projects, where extra staff funded from the development budget were needed to supervise construction but not to operate project facilities. However, it was a significant problem in agricultural projects, for example, where continuing organization and extension support was needed to ensure long-term project success. Occasionally, the EA was able to transfer some contractual staff to a subsequent project funded by the same or another donor. More often the contracts were just terminated. Even when the financial resources were available to move staff into regular government positions, the actual process was onerous.

52. **ADB Project Case Studies**. The study found a variety of staff employed in PIUs in Bangladesh. Some PIUs ran with only regular staff, others only with external staff such as local consultants and to a lesser extent contractual staff. Most had a mix of both categories. Regular government staff working in PIUs generally did not receive extra monetary benefits for the assignment. However, the other benefits were appreciated, such as the opportunity to work with international experts, additional training, and improved access to vehicles, computers and other equipment. Many PIU staff mentioned that the provision of additional monetary incentives, i.e., topping up salaries, could elicit more commitment for the project. However, this would necessitate a significant change in Government policy and procedures and was therefore regarded as unlikely. In the transport sector, all ADB-supported road projects were implemented by the Office of ADB projects under the Director of the Roads and Highways Department (RHD), with a separate Deputy Director responsible for each project. The consolidation of projects under a central authority was seen as fostering mutual support and sharing of experiences. However, the Government had recently decided to split the RHD Directorship into two positions, each presiding over a mix of loans and Japan-funded projects. Some respondents saw this as an example of high-level interference in otherwise effective PIU functioning.

53. ADB projects in the power sector ran mainly without PIUs. The power sector has been partially corporatized through a series of sector reforms supported by ADB. Before 1994, all

[10] Westergaard, Kirsten. 2000. *Decentralization in Bangladesh: Local Government and NGOs*. Copenhagen: Centre for Development Research, Denmark.

power generation was through the Bangladesh Power Development Board (BPDB), under the Power Division of the Ministry of Energy and Mineral Resources. The Dhaka Electric Supply Authority (DESA), created in 1991, was the chief municipal authority. Today there are several public–private and private sector entities that have been licensed to construct and operate power-generating facilities. These new companies include the Power Generating Company of Bangladesh (PGCB), and the Dhaka Electric Supply Company (DESCO), which is 100% owned by DESA. Corporatization has eliminated many of the more onerous procurement procedures, and reduced the possibility of outside interference making the hiring of consultants more difficult. Yet considerable problems affecting the overall management and morale of these units remain. Although PGCB and DESCO have improved their operations and broken even on current operations, their previous liabilities prevent them from becoming profitable. Another unresolved issue is the reluctance of the ministry to relinquish direct control over power projects using Government funds, despite the fact that the ministry had very few technical staff.

54. In the forestry and water sectors, project staff were either seconded or recruited. Seconded government staff were assigned to their project positions based on their position in the Department (they did not apply for positions, and there was no consultation). Lack of operation and maintenance funds at project closure often led staff to leave the Government for better jobs in the private sector or to take up consulting positions, causing a ‘brain drain’ in government agencies.

55. One disincentive of working for a PIU for seconded staff approaching retirement stems from a recent Government regulation requiring them to show clean accounts to qualify for their pension. Project directors must now ensure that all audit discrepancies on their project have been rectified before their retirement. Such clearance is, however, sometimes a problem, since not all auditors fully understand the intricacies of technical projects. Conflicts between regulations within particular sectors and those of the Ministry of Finance can leave project directors caught in the middle.

56. **Assessment**. Many factors beyond the PIUs’ control complicate the assessment of the performance of PIUs in Bangladesh.

57. **Implementation Efficiency**. Regular government staff often cannot be assigned on full-time basis, and senior staff are often transferred during a project. Remuneration problems for domestic consultants were less prominent than in PNG or the Kyrgyz Republic. Neither domestic consultants nor contractual staff received significantly higher salaries than regular staff in EAs.

58. **Project Management Capacity Development**. Consultants were dominant in PIUs relating to policy and institutional development. In PIUs relating to infrastructure development, more EA staff or former EA staff were found. The most probable reason for this is that the EAs related to infrastructure had a much longer history of working with PIUs and were more likely to be involved in externally-funded projects in the future. Therefore these EAs attempted to maximize the involvement of their personnel and systems in the project to improve capacity development. Representatives of these EAs stressed that the presence of one or more international consultants on their projects would be beneficial, mainly for the training of local consultants.

E. Viet Nam

59. **Implementation Context**. Viet Nam has a population of around 80 million. Despite its relatively recent emergence from conflict, Viet Nam GDP growth averaged almost 8% annually from 1990 to 2000. The country has undergone many institutional changes over the past decade. Decentralization of administrative functions to provincial and district levels has been an important priority. Pilot "one-stop shops" for administrative services and lump-sum allocations to local governments were successfully introduced in many provinces.[11] The Constitution and the Law on Organization of the Government were recently amended, the number of ministries reduced, and a decree issued in 2002 to refine ministerial functions, authority, and structure.[12] A 38% increase in the minimum wage for state employees, and new regulations on civil servants' promotion were issued in January 2003.

60. However, several problems remain: progress in reforming state-owned enterprises has been modest; a wide development gap among regions (with the central highlands and north central region falling behind); weak managerial capacity in public administration, particularly at the grassroots level; and an incomplete monitoring and evaluation system.

61. Long delays in implementation seem to be endemic to foreign-funded projects in Viet Nam. Major contributors include: (i) the government's arduous approval processes, and the tendency for decisions to be made only at the top; and (ii) unfamiliarity with donor requirements and procedures of external agencies among PIU, EA and IA staff.

62. Major efforts have been made by ADB and other donors to harmonize and communicate their external funding and partnership arrangements. ADB co-chaired the poverty task force, supported incorporation of the Viet Nam Comprehensive Poverty Reduction and Growth Strategy into provincial planning in the central highlands, and is leading efforts to harmonize implementation frameworks in the forestry sector. ADB has identified many cofinancing opportunities with bilateral donors. Several donors recently joined the ADB, World Bank, Japan Bank for International Cooperation pilot initiative to harmonize procedures for procurement, financial management, portfolio management, and environmental and social safeguards within the framework of the Organization for Economic Cooperation and Development (OECD) Development Assistance Committee.

63. **PIUs**. PIUs are a part of the standard operating procedure in donor programs throughout the country. Viet Nam is a transitional economy, and has had less experience than many DMCs in managing and implementing large development projects in accordance with international procedures and standards. Despite its efforts to decentralize public sector decision making, the implementation environment for large development projects is still highly centralized, with approval authority concentrated at the top. At the national level, many project decisions are made by the Prime Minister's office. PIUs must routinely forward their recommendations for action to a vice minister or even a minister for approval, especially regarding financial matters. As a result, the approval process tends to be slow, and often delays project implementation.

64. The PIU structure varies considerably at the national level from one ministry to the next. Some ministries have permanent project management boards that provide staffing and support and control all of projects funded by external agencies. Some boards have functional divisions for common project activities such as finance and accounting, procurement, and resettlement.

[11] ADB. 2004. *Country Strategy and Program 2005–2006: Socialist Republic of Viet Nam*. Manila.
[12] UNDP. 2002. *Vietnam Country Evaluation: Assessment of Development Results*. Hanoi.

Other ministries, such as the Ministry of Health, did not have permanent management boards, and preferred to have an individual PIU for each project.

65. In Viet Nam, most PIUs have permanent EA staff as opposed to contractual staff or consultants. In many cases, a ministry staffed a PIU with its own staff plus staff drawn from associated research institutes and companies. While staff tended to remain in a PIU for a prolonged period once assigned, and moved from one project to another only upon project completion, many clear examples were provided of staff transfers back to the EA, of staff promotions both with the PIU and upon reassignment to an EA line department. Some contractual staff were appointed as permanent EA staff while working at a PIU. All of this suggests that in Viet Nam the PIU remains closely attached to the EA, and that capacity building activities carried out in the PIU thus also benefited the EA in the longer term.

66. The degree of integration of the PIU in the EA is, however, hindered because PIUs report not only report to EAs but directly to the Minister (through a Vice Minister). Sometimes this results in the construction of facilities that are underutilized, and the preparation of operational plans that are not carried out. Circular No. 6 (Decree 17CP) defining the functions of the PIU was under revision at the time of the Mission.

67. There is no standard staffing pattern to PIUs in these projects, and no standard ratio of regular staff to consultants. Generally staff are appointed to a PIU, and although the assignment is not voluntary, it often appears to be well received, and is sometimes sought after. One of the important benefits of being assigned to a PIU is the higher salary—in most PIUs, staff receive salaries up to 2.5 times their base salary level. Other important benefits usually include more access to better vehicles and equipment, and more secure and timely access to funds for project implementation. The fact that this does not appear to cause significant jealousy or morale problems in the line departments suggests that ministry staff also receive compensatory benefits in one form or another.

68. **Provincial PIUs (PPIUs)**. The provincial government mirrors the national government, with authority concentrated at the top in the provincial people's committee (PPC). Provincial PIUs (PPIUs) were generally not under the direct control of the national PIU, but reported directly to the PPC. There were also district level PIUs (DPIUs) for smaller local projects. The PIU could request information and reports only from the PPIU. In the two provincial projects studied for this SES, there were significant differences in their relationship with their parent department. One was noted for poor contract performance, and was relatively isolated from its parent department.[13] The other was noted for its high standards of performance, and, not only were the PIU offices located inside the provincial department building, there were many organizational and operational linkages. The director of the department was formerly a PIU head, illustrating the career path possible from PIU to a provincial government posting.

69. At the national level, the PIU is under the jurisdiction of the ministry. At the provincial level the PPIU is under the jurisdiction of the PPC. The current tendency is to increase decentralization to the provincial level, and even the district level.

70. At the PPIU level, payment was seen as a major inhibitor both to employment and staff motivation. A supplementary salary factor (2.4) applied to PPIU staff in the water sector. Water

[13] The same lack of interest in coordination was reflected at the national level in this project. EA and PIU staff so no problem with the insularity of the PIU, and actually advocated keeping separate roles as long as 'communication' was maintained.

supply company staff were paid slightly more.[14] Average salaries in the PPIU were D1.5 million ($95.14) per month, with water company staff receiving about D1.6 million ($101.5) per month. Apparently state-owned enterprises had slightly more resources for payment than the government allowed the PPIU, although this practice was regarded by some as unfair.

71. External funding agencies voiced considerable concern about the nature and proliferation of PIUs for foreign-funded projects in Viet Nam, and the consequent implications for EA capacity-building over the longer term. One issue was the tendency for PIUs to form parallel structures in EAs, reporting directly to the Minister and bypassing line departments. Another concern was that increasing decentralization was seen as contributing to proliferation of PIUs, while project management capacity was often lower at district and province levels. Some donors suggested that "flashy" short-term investments and large amounts of funds provided to weak ministries had resulted in economic and administrative distortions, and structures that were difficult to sustain financially.

72. To the extent that it contributed to these problems, the proliferation of PIUs was seen as less desirable than working directly though more regularized structures within the line ministries. The Government's intention to decentralize may just push the problems down to the provinces. The country's senior leaders are on record as expressing concern about growing corruption. Public administration reform, adequate and merit-based pubic sector salaries, transparency, accountability, and rigorous local media scrutiny are seen as key ways of minimizing corruption.

73. Although more than $1 billion in overseas development assistance is now being pledged annually to assist Viet Nam's development programs, and hundreds of national and local projects are also begun every year, the country has no tertiary-level educational program for project management. On 22 July 2004, Viet Nam University invited donors to a seminar at which they presented and discussed a proposal to establish a project management training center at a preliminary cost estimate of $1.5 million. The seminar recommended that: (i) further work be done to refine the proposal and provide more technical details; and (ii) the proposal be presented to bilateral donors in addition to the multilateral donors, to generate support and assistance. There was also general support for such a center among the EA and PIU staff met by the Mission.

74. **Conclusion**. PIUs are a subject of debate in Viet Nam. Although most donors are concerned about the proliferation of PIUs, and the tendency for them to become semi-permanent institutions that operate independently of line departments, they are still acknowledged as necessary in the current development context. While most donors would like PIUs to be more integrated into normal departmental functions, none has yet come up with a solution that can be generally applied. The problem is exacerbated by a fledgling governance capacity, fundamental differences among sectors, the hierarchical structure of the government, and separation of powers between national and provincial governments. Different requirements and procedures of the many external agencies also make it difficult to fully integrate externally funded projects into EAs and IAs.

75. One important issue is frequent lack of participation in the planning and implementation of a project by the agency that will ultimately be responsible for the operation and maintenance of the facilities being developed. This is closely related to the nature of most PIUs, being external or parallel to the line departments. Typical problems include lack of ownership, which is

[14] According to the Director, this is Instruction #2 in the referenced MOLSA regulations.

frequently accompanied by lack of adequate resources to sustain project facilities, and ultimately, government services.

76. Both Government and donors generally recognize the need to continue capacity building within EAs, IAs, and PIUs. However, the following concerns were put forward: (i) if capacity building is focused primarily on the PIU, the divide between the PIU and the line agency will increase; (ii) if capacity building for the line agency is controlled by the PIU because it depends upon project funds, it may not be properly focused and administered; and (iii) the tendency for trained staff of both the line agency and PIU to seek more lucrative employment opportunities as consultants or in the private sector is a cause of 'brain drain'.

77. External funding agencies can do several things immediately to improve the situation with regard to their projects. First, they can help the government by accelerating their efforts at harmonization. Second, they can make a concerted effort to conduct business in the Vietnamese language as much as possible. Third, they can provide more program assistance.

F. Malaysia

78. Malaysia's well-developed national planning process plays an important role in the implementation context for projects. The Malaysian public service is characterized by strong central agencies and political stability. Five-year plans form the basis for the approval of individual projects and the release of funds to these projects. Given the strong political support for the plans, they have been well adhered to and the practice has been that, generally, sufficient funds have been released to approved projects. Budgetary certainty means that PIUs do not need to waste much time in lobbying and waiting for funds.

79. Funding of projects by international agencies comprises a decreasing portion of the total development budget. Projects that are to cofunded by international sources are assessed, planned, and prioritized by the economic planning unit (EPU) in the Prime Minister's Department, which has led to a high level of government ownership of foreign-funded projects.

80. Another important feature of the national planning process is the provision of monitoring and evaluation through the implementation coordination unit (ICU) in the Prime Minister's Department. The ICU is independent of the planning units and monitors the implementation efficiency of all projects. The EPU monitors all projects for the achievement of the stated development objectives.

81. The level of government salaries, access to pensions, and other benefits, including a large measure of job security, makes jobs in project management and engineering roughly competitive with many positions in the private sector. This has allowed departments to retain expertise and allow an orderly transfer of expertise between succeeding officers. There is a considerable pool of expertise within government agencies in planning and implementation of projects. Although there has been a drain of project management staff to the vibrant private sector, notably to consulting services firms, this has not generally been a serious threat to the public service. The benefits of an increasingly mature private consulting services sector have outweighed the negative effects of the drain on project design and implementation capacities.

82. The training of public servants is a high priority for the government. The Public Service Department (PSD) has developed a comprehensive training program. A network of training institutions has been developed. At the federal level the National Institute of Public Administration (INTAN) provides courses of up to 6 months to train civil servants not only in

public administration but also in communication, leadership, diplomacy, and language skills. In addition to INTAN there are over 30 departmental training units, as well as private sector and tertiary institutions that provide services for government officers. The Government funds international scholarships for short- and long-term professional development. Promotion to senior positions is linked to completion of training courses, and the examinations have been set at such a high level that pass rates have been low. This means that only the best and most serious government staff are able to obtain a promotion to a more senior position.

83. Particularly in the last 10 years or so, the Government has attempted to maximize the involvement of the private sector in the delivery of public services. This has led to many O&M and service delivery tasks being outsourced. Integral to this has been a strategy to increase the use of consultants and consulting firms to implement projects. In the 1970s, engineering departments mainly designed their projects themselves, and often implemented these without the help of contractors. Currently, the main model is the use of consultants to conduct studies, design infrastructure, supervise construction by contractors, and conduct institutional analyses as well as some training activities. Particularly in sectors with little in-house engineering capacity, some projects have recently been implemented by the private sector on a turnkey basis, and others are being managed with the help of project management consultants (PMC). Turnkey and PMC-based projects have, however, had mixed success, mainly because of the difficulty of establishing the right prices for works and, in the case of PMC projects, high administrative costs and difficulties with consultant time accounting. The current perception of the EA staff interviewed is that engineering departments need to retain control over the design and implementation of at least a portion of their projects so that the hands-on experience of their staff is built up and the long-term capacity for adequate supervision of consultants and contractors is maintained. As a consequence, the model of farming out projects to the private sector on turnkey and PMC basis may not expand much further in Malaysia in the near future. There has been a government order from the Ministry of Finance not to use the PMC model any longer for new projects. Since its restructuring in 2002, the role of the Public Works Department (PWD) in project implementation has been consolidated and recently some 500 of its staff were promoted, indicating that the Government retained confidence in the department. The predominant model of project implementation is still that of projects implemented through consultants and contractors, but managed and coordinated through PIUs, staffed by regular EA staff.

84. **PIUs**. The Malaysian model is that PIU staff (both professional and support staff) are funded by the operating budget of their departments and not by the development budget. As a consequence, ADB loans for the projects visited have not had allocations earmarked for administrative costs. In many other DMCs, such allocations have been a reinforcing factor in the employment of contracted staff for the management of projects, as well as in the topping up of salaries for the government staff involved in such projects. Reliance on regular government staff to manage projects has the advantage of capacity development within the EA. When relying on regular government staff, staffing of PIUs therefore becomes an issue for the PSD as much as the Ministry of Finance. PSDs are usually more concerned with long-term issues of capacity development. The practice of funding project staff through the regular budget on supernumerary positions also promotes more centralized project implementation mechanisms, and diminishes the risks of proliferation of temporary project offices within organizations, staffed by temporary personnel.

85. PIU support staff are hired externally only when vacancies cannot be immediately filled internally. This happens only to a limited extent, although approval by the PSD for new positions is often slow.

86. The PWD has retained important functions in many government agencies not specialized in infrastructure construction. It was restructured in 2002 along sector lines to improve its efficiency. Previously it was organized along functional lines (with general design and procurement sections, etc.) but the bureaucracy involved in dealing with different sections was perceived as reducing the central drive and responsibility for speedy completion of works. The PWD now has specialized large divisions dealing with roads, health, and education, and smaller divisions dealing with security, general buildings, slopes, and maritime affairs. The divisional set-up makes a PIU structure in the PWD redundant—a project management unit within each division assigns project managers for each major project, who in turn call in assistance from other units. If more staff are needed than are available within the division, other divisions are called upon to second staff. The PWD does not work with temporary staff, but can decide to have consultants appointed to do design and charge this to the project cost. PWD is perceived to be generally competitive with private services in construction design for standard jobs and supervision. Salaries of PWD staff are directly financed through its operational budget and not through project budgets. PWD's services are provided without a fee to the departments and are provided in two ways. PWD can undertake project works under its own responsibility, handing over works to sponsoring departments upon completion. PWD personnel can also be seconded to sponsoring departments, on 3–6 year terms. In the latter case the seconded engineering staff become responsible to the agencies with which they are placed.

87. **Conclusions**. PIUs in Malaysia are common implementation tools, used for ADB projects and for large nationally funded projects. There are no fundamental differences between PIUs in ADB-supported projects and projects which are entirely nationally funded. The PIUs are however of the integrated type.

88. Within the Public Works Department, there are sectoral divisions which handle the projects jointly without formal PIUs. Every year a proposal is submitted to Ministry of Finance for the funding of its overall staff based on the project work load, and this may include a proposal to hire new staff through the Public Service Commission and Department.

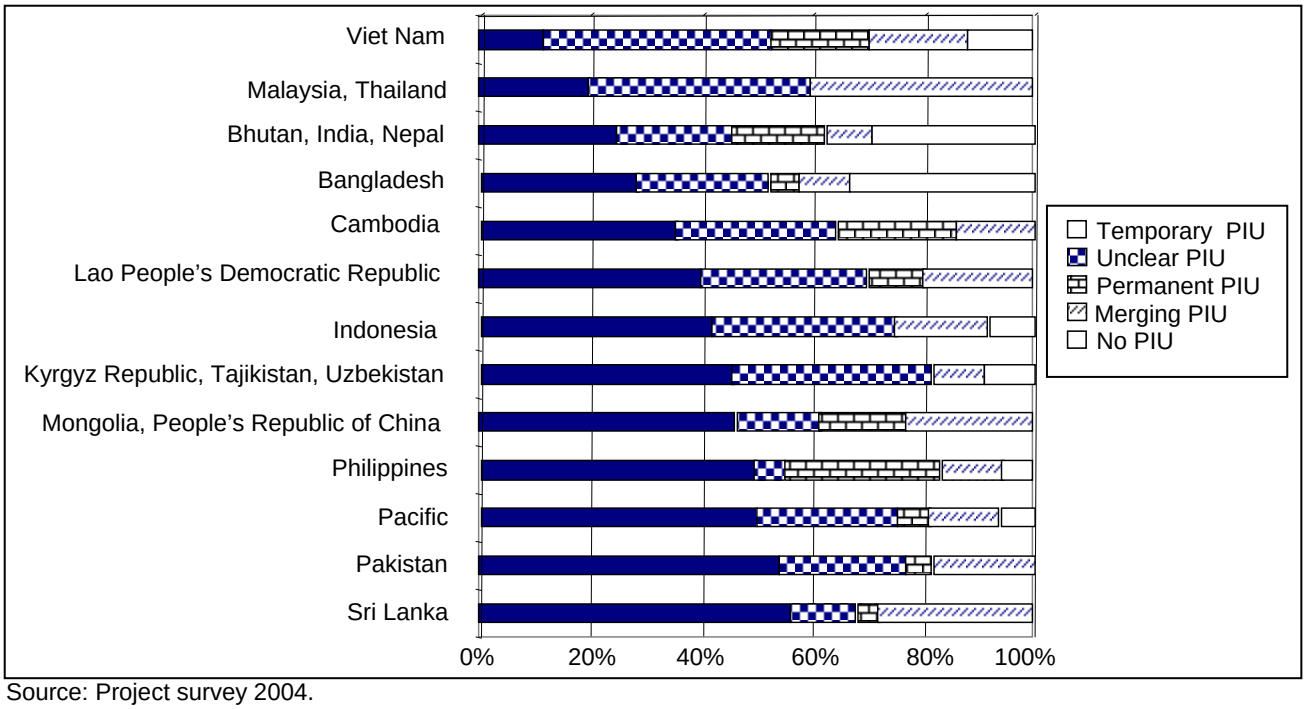
89. Malaysia has also built up experience with large projects not implemented through PIUs. Projects are implemented without clear PIUs when (i) the project is implemented by a regular unit specialized in project implementation, such as the infrastructure unit in the development and procurement division of the Department of Education; (ii) when it is decided to implement a turnkey project, and (iii) when it is decided to use the PMC model. The turnkey model may still be employed in some cases, but the PMC model has been largely abandoned at least for a project that can be in part implemented through the PWD.

PROJECT IMPLEMENTATION UNIT PATTERNS FOUND IN DEVELOPING MEMBER COUNTRIES

1. The project survey showed the considerable variety in types of project implementation units (PIUs) in the Asian Development Bank (ADB) project portfolio. Figure A10.1 shows the status and permanence of PIUs; Figure A10.2 shows the breakdown of internal or external staff in PIUs, and A10.3 shows the degree of "separateness" of PIUs, i.e., the proportion of PIUs which are temporary and mainly externally staffed. The country groupings include both single countries and regional groupings of countries. The main criterion for reflecting a country on its own or not was the number of projects and the number of questionnaire responses received; most categories are based on 12 to 25 cases; only the category of Malaysia and Thailand had fewer cases (5 PIUs). The conclusion is that countries can be in very different positions in terms of their use of temporary PIUs and merging PIUs, externally staffed PIUs, and "separate" PIUs.

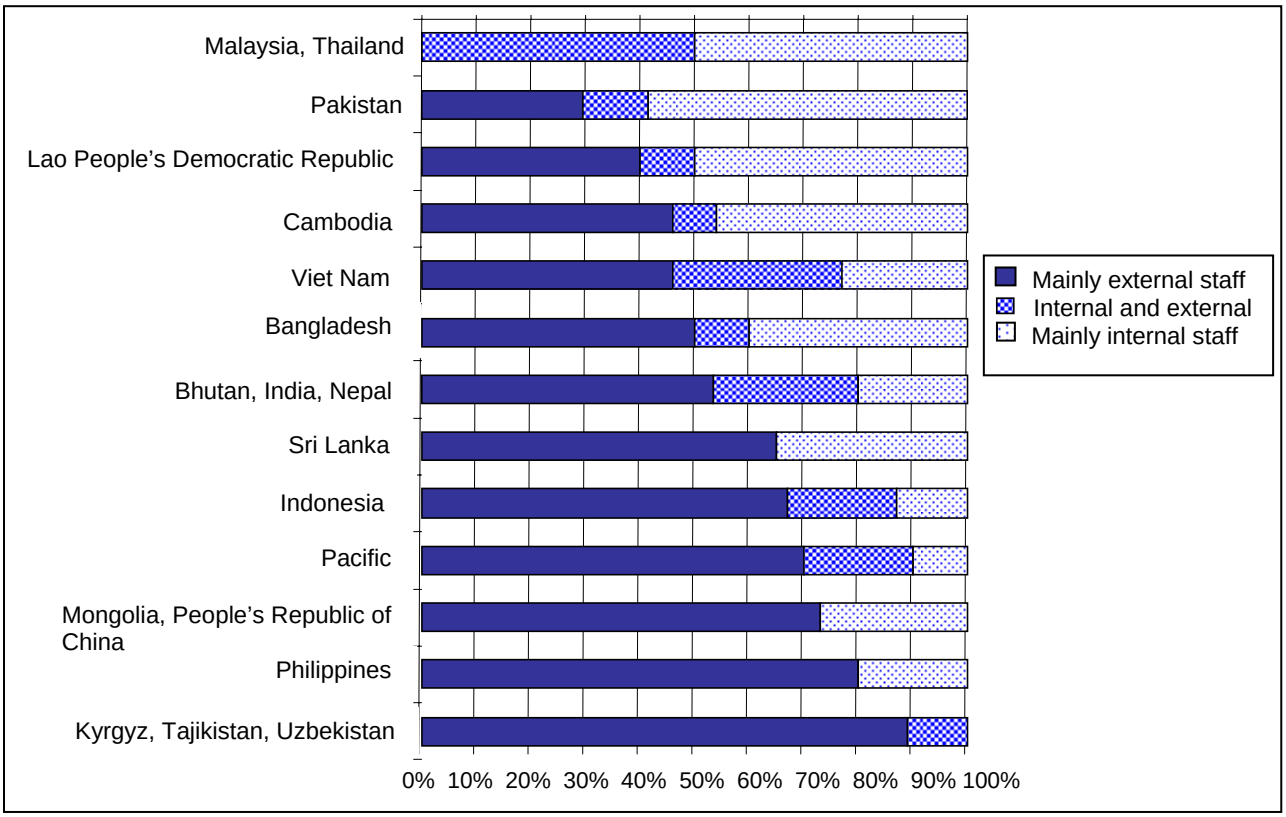
2. These different positions depend not only on national contexts, but also on the sectoral composition of the projects in the various countries (Table A10.1). A relatively large proportion of ADB projects in the energy sector were run without PIUs irrespective of the country, but not all countries had energy projects. Only indicative conclusions can be drawn. Whereas on one side of the scale, Malaysia and Thailand had very few temporary PIUs, a number of other countries had many, such as Pakistan; the Pacific islands, including Papua New Guinea; the Philippines; and Sri Lanka. On the other hand, some countries had many temporary PIUs yet staffed them predominantly with internal staff from the executing or implementing agency. Bangladesh and Pakistan are cases in point. In these countries, regular government staff can be temporarily funded through project budgets. Predominantly externally-staffed PIUs were found mainly in Central Asia and in the Pacific, and in Bhutan, India, Indonesia, Nepal, and the Philippines. When combining the two characteristics, the countries with most PIUs that are both temporary and externally staffed (i.e., separate PIUs) are in Cambodia, Central Asia, Indonesia, the Pacific, the Philippines, and Sri Lanka. In all these countries more than 40% of all PIUs are separate. Malaysia, Thailand, and Viet Nam, on the other hand, had none in this category in the project survey.

Figure A10.1: PIUs by Degree of Permanency and by Country (Grouping)



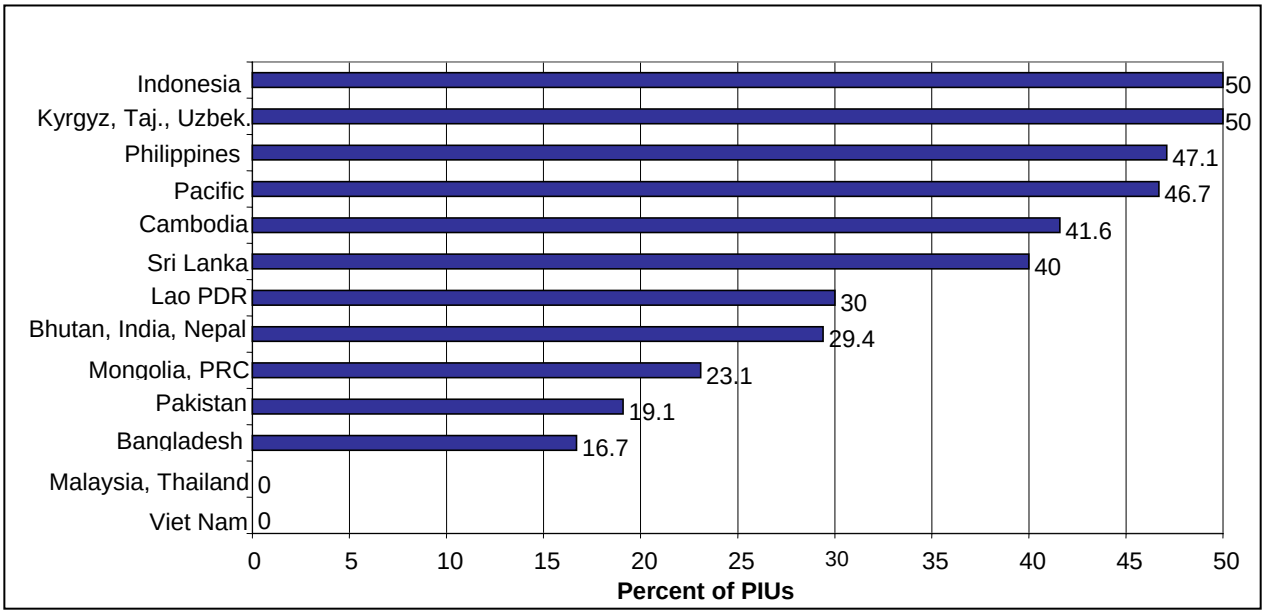
Source: Project survey 2004.

Figure A10.2: Internally and Externally Staffed PIUs by Country Grouping



Note: PIUs with mainly external staff have more than 50% of their staff as consultants or contractuals. PIUs with mainly internal staff have 50% or less staff as consultants or contractuals.
Source: Project survey 2004.

Figure A10.3: 'Separate' PIUs by Country Grouping



PRC = People's Republic of China, PDR = People's Democratic Republic, Taj. = Tajikistan, Uzbek. = Uzbekistan.
Note: Separate PIUs have more than 50% external staff, and are to be dissolved upon completion.
Source: Project survey 2004.

Table A10.1: Country Groupings of Projects Effective and Ongoing by Mid-2004 by Major Sectors (%)

Countries and Country Groups	Sector					Total
	ANR	EN[a]	TC	SI	OTH	
Bangladesh	48.0	28.0	12.0	12.0		8.0
Pakistan	41.2		5.9	41.2	11.8	10.8
Sri Lanka	30.3	3.0	21.2	39.4	6.1	10.5
Bhutan, India, Nepal	25.6	23.1	15.4	28.2	7.7	12.4
Kyrgyz Republic, Tajikistan, Uzbekistan	10.5	5.3	31.6	31.6	21.1	6.1
Mongolia, People's Republic China	12.0	12.0	40.0	16.0	20.0	8.0
Indonesia	41.4	13.8	3.4	37.9	3.4	9.2
Philippines	33.3	4.2	8.3	41.7	12.5	7.6
Cambodia	25.0	5.0	20.0	15.0	35.0	6.4
Lao People's Democratic Republic	41.2		17.6	35.3	5.9	5.4
Viet Nam	13.6	9.0	27.3	50.0		7.0
Malaysia, Thailand	16.7		16.7	66.7		1.9
Pacific Island Countries[b]	23.8	4.8	23.8	33.3	14.5	6.7
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Number of Projects	**92**	**30**	**56**	**103**	**33**	**314**
Percentage of all projects	**29.3**	**9.6**	**17.8**	**32.8**	**10.5**	**100.0**

ANR = agriculture and natural resources, EN = energy, OTH = other, Lao PDR – Lao People's Democratic Republic, PIU = project implementation unit, SI = social infrastructure, TC = transport and communication.

[a] Only energy projects with PIUs (4 PIUs in the project survey).

[b] Includes Papua New Guinea.

Note: All 314 investment projects are included which were effective for a year or longer by mid-2004.

Source: Project survey 2004.

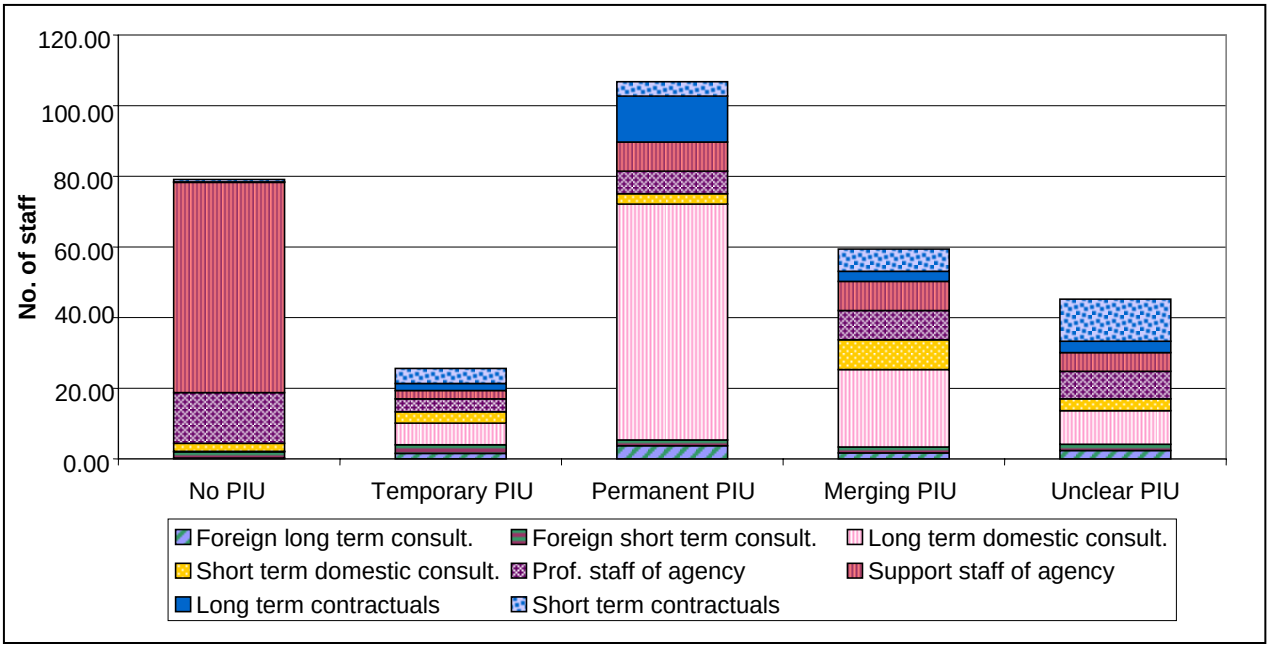
ANALYSIS OF EFFECTS OF PROJECT IMPLEMENTATION UNIT ARRANGEMENTS ON PROJECT IMPLEMENTATION EFFICIENCY

1. To quantify the effects of different types of project implementation unit (PIU) arrangements on project implementation efficiency, a large number of completed projects would ideally need to be studied in terms of the nature of their PIU arrangement, as well as their efficiency in helping to achieve the objectives of the project. In spite of the fact that reports and recommendations of the President (RRPs) have become increasingly specific with regard to PIUs, they are still not consistently clear about the internal or external nature of their staff or the exit strategy.[1] An analysis of the efficiency of single PIU arrangements versus multiple PIU arrangements would be fraught with methodological difficulties, as the prevalence of such PIU arrangements differs for each country and sector. A comparison of arrangements with PIUs with those without PIUs (the next best alternative) would be difficult for the same reason—most of the projects without PIUs being in the electricity production subsector. This special evaluation study (SES) therefore had to rely in large part on the project survey to obtain facts and perceptions of PIU stakeholders themselves about their efficiency and the anticipated effectiveness of their projects. The Asian Development Bank's (ADB) project performance report (PPR) database and the file study of 140 projects complement this analysis. The following variables were seen as indicators of implementation efficiency, to be compared for different PIU arrangements: (i) efficiency in the use of staff, (ii) relative economy (the cost of project management per $1 million of loan or project), (iii) process efficiency in terms of the relative absence of problems confronting the PIU, (iv) process efficiency in terms of the project output being produced on time and within budget, (v) process efficiency in terms of variables tracked through the PPR, and (vi) effectiveness in achieving the project's outcome. Only partial indications of the overall effects of various types of PIU arrangements can be mustered by these indicators.

2. **Efficiency in the Use of Staff.** In terms of the efficiency in the use of PIU staff, projects with temporary PIUs used least long-term staff overall, whereas projects with permanent PIUs used most (Figure A11.1). The permanent PIUs however often managed more than one project. Projects without PIUs, used most government staff for project management and implementation, and external staff least. In these terms, they were the most staff efficient. The applicability of such arrangements in the types of projects which now have PIUs is, however, questionable, not least because most of the projects without PIUs are in the energy sector. The country missions to the Philippines and some other countries observed that the "permanent" PIUs, with their large numbers of contractual staff and consultants, seemed indeed most staff-inflated. Because of the long periods of recruitment required for new staff, temporary PIUs, on the other hand, often reported that they had too few staff.

[1] Neither project completion reports nor project performance audit reports systematically discuss the role of the PIU as separate to that of the executing agency. The performance of the executing agency has been assessed in recent years, often in combination with that of the borrower (usually the Ministry of Finance).

Figure A11.1: Composition of Staff by PIU Arrangement



Consult. = consultant, no. = number, PIU = project implementation unit, prof. = professional.
Source: Project survey 2004.

3. **Economy.** The use of staff is, however, also correlated with the size of the loan and the project as a whole. Whereas the average loan size in the project survey was $60.6 million, projects with no PIUs had loans averaging $107.4 million, projects run by permanent PIUs $81.8 million, projects with temporary PIUs $44.7 million, projects with merging PIUs $64.3 million, and projects with PIUs that were unclear about their future $63 million. Combining this with the staff size data, permanent PIUs seemed to use most project management staff per quantum of loan (Figure A11.2). Projects without PIUs used least project management staff per quantum of loan, but as mentioned, this category may not be completely comparable. Respondents from this category may have included only those professional staff[2] in the agency with a full-time assignment to the project, such as project directors and perhaps a few others.

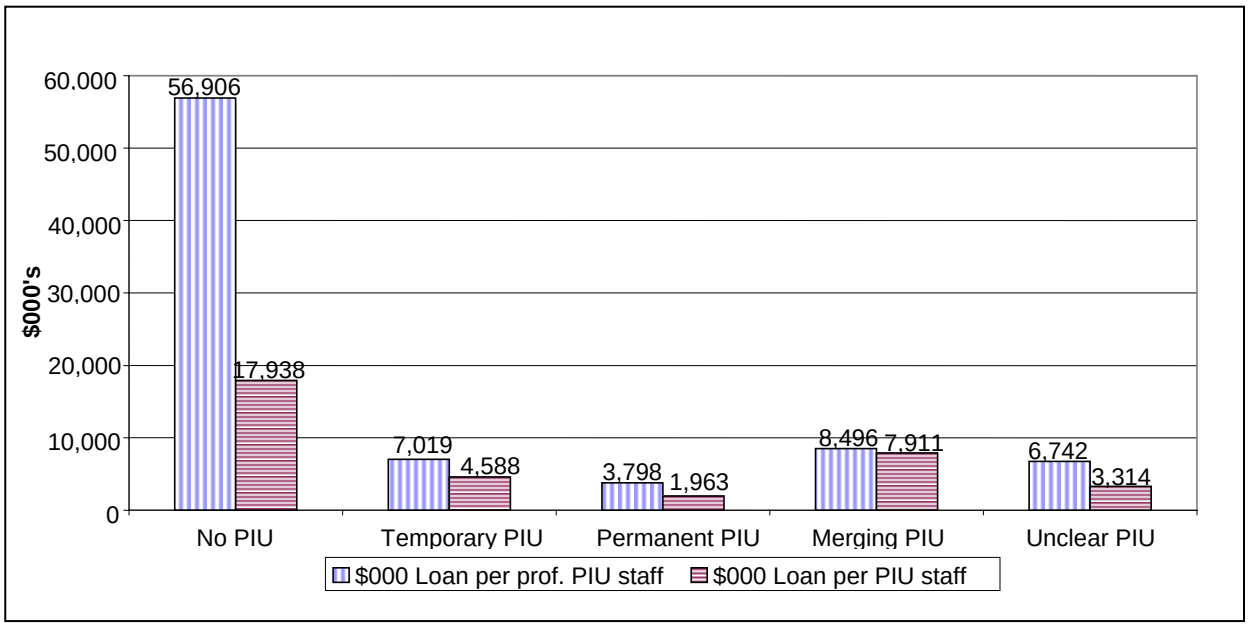
4. Of special interest is the comparison between temporary PIUs, merging PIUs, and PIUs with an unclear future. Merging PIUs seem to use staff most efficiently in terms of loan amount per staff member.

5. **Process Efficiency 1.** Process efficiency is in the first place indicated by the absence of major problems of the PIU, such as (i) no proper mandate or legal status, (ii) lack of PIU staff, (iii) insufficient budget for running costs, (iv) defective and unresolved design of the project, (v) dependence on progress or decision making outside the PIU and parent agency, (vi) issues with the division of responsibilities between PIU and executing agency/implementing agency (EA/IA), (vii) issues between the PIU and other agencies, (viii) heavy reporting requirements, (ix) interaction with ADB, and (x) other problems (e.g., receiving project budgets too late or receiving insufficient project budget). When rating the problems as “major” (100%), “minor” (50%), or “not applicable” (0%), the average “severity of problems” for a PIU could be calculated based on perceptions of problems reported by respondents to the project survey (no problems =

[2] Support staff are not counted as professional staff.

0%; one problem ticked as major gives 10% severity of problems). The differences in severity of problems reported for the different PIU arrangements identified turned out to be not very significant: all remained within 18% and 26%, the projects with no PIUs having somewhat fewer problems and the "merging" PIUs somewhat more. Perhaps projects handled fully by specialized and well-established agencies without PIUs do indeed have fewer problems connected with their implementation arrangements. Merging PIUs on the other hand may have slightly more problems because of their transitional status.

Figure A11.2: Loan per PIU Long Term Staff ($'000)

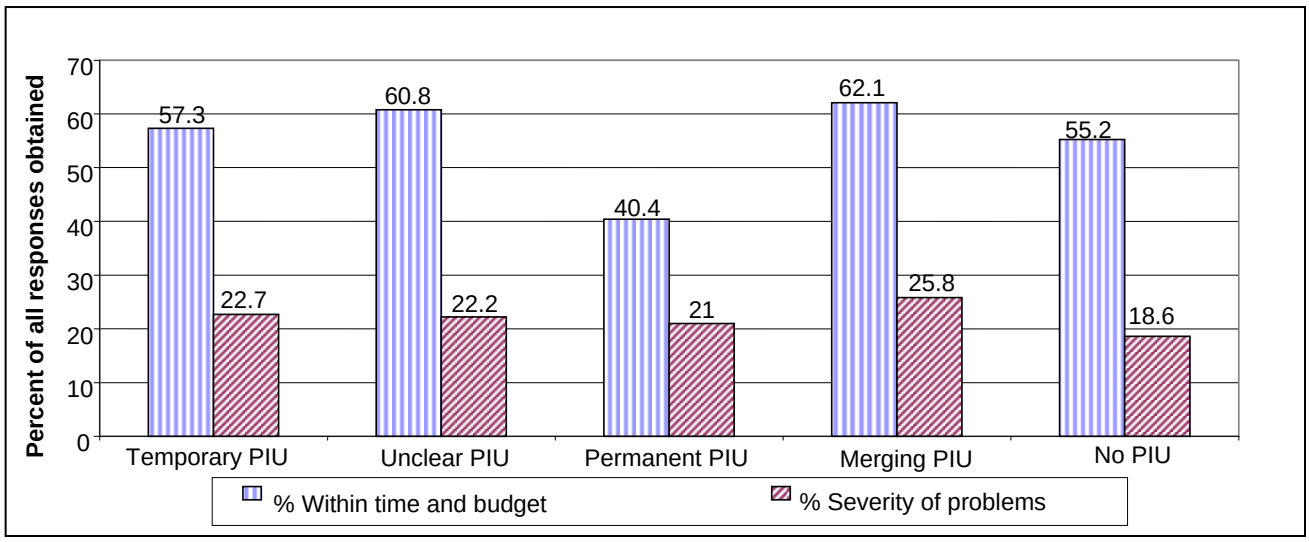


PIU = project implementation unit, prof. = professional.
Source: Project survey 2004.

6. **Process Efficiency 2.** Some measure of process efficiency can also be indicated by expectations of the project being completed in time and within budget. Permanent PIUs[3] reported on average the lowest expectations in this respect among the various categories. Their average score was around 40%, significantly less than the overall sample average of 57%. The reasons for this are not very clear, but may have to do with the fact that many permanent PIUs handled more than one project, needed more spacing of activities during peak periods, and therefore anticipated more delays. Respondents working under other PIU arrangements generally all had similar scores (Figure A11.3). It is meanwhile noteworthy that projects with implementation arrangements not relying on a PIU were neither significantly more efficient, nor less efficient.

[3] PIUs already in existence before the project, and with plans to continue as PIU.

Figure A11.3: PIU Arrangements and Efficiency



PIU = project implementation unit.
Source: Project survey 2004.

7. **Use of PIU Staff, PIUs, and Process Efficiency.** The SES correlated PIU staff size and the number of PIUs in a project with the level of efficiency and severity of PIU problems (Supplementary Appendix H). No correlation was established between staff size and level of efficiency (in terms of staying within budget and being on time), but a positive though weak relation (r = .1752, significant at P = .011) was found between PIU staff size and severity of problems. The larger the PIU, the more problems were reported.[4] This could be seen as an argument in favor of leanness of PIU staffing. There was also a negative although weak correlation between the proportion of agency staff in the PIU and the efficiency of the project (r = -.1776 at P= .015), implying that external staff in PIUs may speed up project implementation and increase the likelihood of the project staying within budget. On the other hand, there was no statistically significant correlation between either agency staff or external staff in the PIU and the severity of problems. Especially in noncentral PIUs, the level of efficiency seemed to rise with the involvement of external staff in the PIU, implying that agency staff may be less experienced in such PIUs. Lastly, it seemed that the more PIUs in a project, the more problems (r = .2244 at P = 0.01), although no statistical relation was established with the level of efficiency.

8. **Effectiveness of Various Types of PIUs in Achieving the Project Objectives.** A test was performed on the assessments of project survey respondents as to whether the project's aspirations would be achieved. The project focus was compared with the respondent's expectations regarding the project achieving (i) improved sustainability of infrastructure created, (ii) improved sustainability of services delivered, (iii) increased project management capacity, and (iv) increased other capacities in the EA. This was then broken down for the main categories of PIU arrangements distinguished by this SES (Supplementary Appendix I). Although the assessments of the level of achievement varied significantly in the survey by type of focus, on average they were similar for the various types of PIU arrangements distinguished, indicating a lack of causal relationships between the nature of the PIU and the quality of achievement. This

[4] A correlation between staff size and number of components (i.e., project complexity) could, however, not be established.

was similar to a World Bank finding based on analysis of its projects in Latin America and the Caribbean.[5] A few relationships could nevertheless be established.

9. On average, 74% of projects with a focus on **infrastructure provision** were thought to achieve sustainable infrastructure, but mostly so projects managed by a majority of external staff (consultants and contractual staff) (80%). The figure for projects with mostly internal staff was 62%. This finding again coincides with a finding of the World Bank—that PIUs run by consultants are more likely to achieve outcomes for infrastructure projects, at least in low-income countries (footnote 5).

10. On average, even 83% of the respondents in projects with a **focus on operation and maintenance (O&M) of infrastructure** considered themselves likely to achieve the objectives in this respect. Again, the variation among different types of PIU arrangements was small. In a few cases, energy projects without PIUs thought themselves less effective (67%), but possibly that was because they they were themselves in agencies specializing in infrastructure creation rather than the O&M of infrastructure. On the other hand, PIUs staffed fully by external staff thought themselves somewhat less likely to achieve the objective (75%) compared with internal PIUs (83%). This is consistent with the idea that O&M-oriented projects need more internal staff to be fully successful.

11. Two thirds of the respondents in projects with a **focus on service delivery** thought themselves likely to be successful. There were very few projects with a focus on service delivery running without PIUs or with permanent PIUs, and these thought themselves on average significantly less successful (33%) than other projects did (over 64%); perhaps for the same reasons as expressed in the previous paragraph. Merging PIUs and internally staffed PIUs in particular thought themselves likely to be successful in this respect (86% and 75%).

12. Only half of projects with a **focus on policy development, institutional development, or capacity development** thought themselves likely to be successful, indicating the greater difficulties of such projects. However, in this case permanent PIUs (67%) and merging PIUs (61%) were relatively more confident that they would achieve the target than temporary PIUs (49%) and particularly unclear PIUs (40%). Here the internal or external nature of the PIUs seemed to matter little for the average likelihood of success, depending perhaps on the type of project and whether it relied on advice from consultants or operational activities of agency staff in PIUs.

13. Combining the various types of focus of the projects and their anticipated achievements, projects without PIUs seemed to have somewhat lower expectations of success (61%) than other categories, with permanent and merging PIUs having the highest expectations (75% and 74%). PIUs with internal staff were thought about equally effective on average as PIUs with external staff (68% and 69%). Temporary PIUs occupied a middle position coinciding with the overall average success expectation (66%), and unclear PIUs were slightly below this (63%). With all the provisos made because of the systematic differences between projects without PIUs and projects with various types of PIUs, it seems reasonable to conclude that there is little evidence to suggest that arrangements without PIUs are significantly more effective than arrangements with PIUs.

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[5] World Bank. 2001. *Thematic Review on Project Implementation Units: An Analysis of Ongoing and Completed Projects in Latin America and the Caribbean.* Washington, DC. This study found a stronger correlation between project performance and (i) country wealth and (ii) low level of corruption in the country, than between project performance and project organizational structure.

14. **Efficiency of Various Types of PIUs in Terms of PPR Satisfaction Rates.** The findings of the project survey were broadly corroborated by an analysis of PPRs maintained by ADB project officers. The progress of projects is captured in a number of key variables such as the satisfaction rate with the status of development objectives, implementation progress, disbursement delays, annual project audits and financial statements submitted, compliance with covenants, and counterpart funds. This may trigger “red flags” to be assigned to certain projects, and the demarcation of an “at risk” or “potential problem” status. When the average scores were compared between various groups, it was first of all clear that current energy projects had more problems than other sectors, and that this affected the scores of the category of implementation arrangements without PIUs. Other than this, however, the scores generally remained close, and showed little consistent pattern for temporary, permanent, or merging PIUs, or for internally or externally staffed PIUs. Like the finding of the analysis of the project survey, merging PIUs seemed to do somewhat worse in terms of their at risk status, possibly because of the lower availability of counterpart funds and greater disbursement delays.

ANALYSIS OF EFFECTS OF PROJECT IMPLEMENTATION UNIT ARRANGEMENTS ON CAPACITY DEVELOPMENT

1. This appendix is based on what the project staff themselves said about capacity development and the effects various project implementation unit (PIU) arrangements have on this. The indicators used are (i) perceptions about capacity substitution effects of consultants and contractual staff, (ii) perceptions regarding the role of special incentives in getting agency staff outside the PIU more involved in the project, (iii) the number of staff that had left executing agencies (EAs) and implementing agencies (IAs) to work as consultants in PIUs, (iv) the number of staff that had left PIUs, (v) handling of projects developing capacity in operation and maintenance (O&M) and service delivery by internally staffed PIUs, and (vi) perceptions about the chance of success of projects dealing with capacity development depending on their being handled by integrated PIUs. The perception about the overlap of the work of the PIU with that of the parent agency was used as a proxy for the tendency of PIUs to become parallel institutions, a concern often voiced about PIUs.

2. **Capacity Substitution Aspects of External Staff in PIUs.** The special evaluation study (SES) investigated whether EA project management capacity building was best served by a predominant involvement of agency staff in PIUs, rather than by a predominant involvement of consultants and contractuals. The World Bank's study on PIUs in Latin America and the Caribbean found that implementing a project through a more separate PIU with more external staff may have less institutional impact.

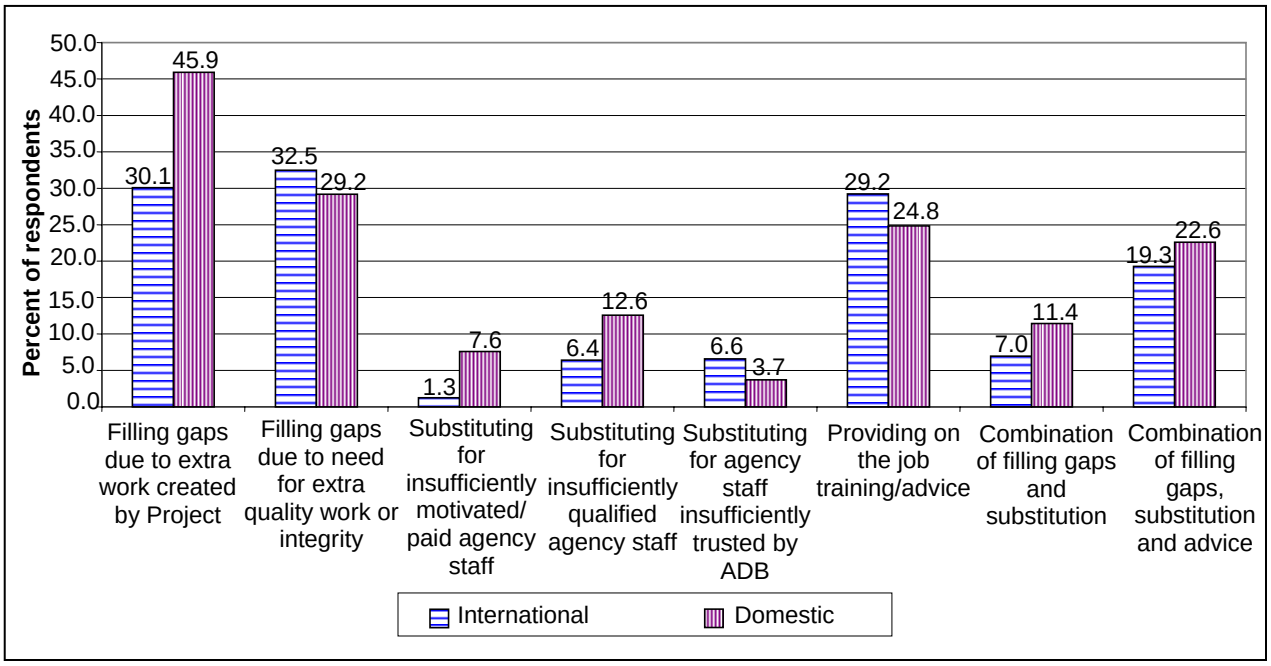
3. Whether the exclusive or predominant involvement of consultants and contractual staff in PIUs constitutes an opportunity or a threat with respect to capacity development depends on their actual role as well as the overall nature of the project. Notably, it depends on the extent to which consultants can avoid the relapse from advisory and training functions into operational activities, which would mean that they would substitute for agency staff that would normally do these activities. The degree to which this might happen was investigated in the project survey. A distinction was made between three possible roles of consultants: (i) filling gaps in agency staffing, (ii) substituting for agency staff, and (iii) providing advisory or training related tasks to PIUs. It was asked which role the consultants and contractual staff played. Although the number of international consultants working in PIUs at the time of the survey was not large, the respondents judged most of them to be of the operational type, filling gaps because of the extra work created by the project, or because of the perceived need for extra quality or integrity of work (Table and Figure A12.1 provide detailed reasons). This was in spite of their terms of reference, which usually stressed advisory or training roles. The advisory and training tasks were in second place. However, around a fifth of the respondents said that international consultants were partly or wholly subsituting for agency staff for various reasons.

Table A12.1: Summary of Perceptions of Project Survey Respondents Regarding Role of Consultants in the PIU (%)

	Consultants	
Roles	**Domestic and Contractual Staff**	**International**
Filling gaps in agency staff	58.4	48.8
Substituting for agency staff	22.2	16.3
Advice to/training of staff	38.6	35.0

Note: Figures in percentages of total number of respondents. Figures do not need to add up to 100%.
Source: Project survey 2004.

Figure A12.1: Roles of PIU Consultants and Contractuals



Source: Project survey 2004.

4. Substitution was a slightly larger issue for domestic consultants and contractual staff, but the difference with international consultants was not large. The influence of substitution might be in part induced by generous administrative loan and consulting services budgets.

5. It is possible and even likely that there was a bias in the response by the PIU or project heads. Substitution may be a bigger issue than the respondents reported. Of the survey respondents, 64% mentioned that project consultants had done more operational tasks than specified in their terms of reference. When asked about the importance of project management consultants (PMCs) in the PIU, almost 30% of the survey respondents answered that some were not so important, and 8% that all were not so important.[1] However, if external PIU staff were engaged in substitution activities, then the level of capacity erosion would depend on the exit strategy of the PIU: in PIUs that were planning to merge with the parent agency upon project completion, many of the external staff might be absorbed. "Permanent" PIUs, however, represented a different level of capacity building. If substitution of regular agency activities by external staff takes place in these permanent PIUs, then this may ultimately constitute a major lost opportunity in terms of capacity development. Even then the question is how likely it is that the EA will replace the contractual staff from one project to the next. In some countries, this happens more than in others.

6. **Incentives Offered to Agency Staff.** The question of whether PIUs contribute to depleting agency capacity can be answered from another angle, and in this case the likelihood of damaging effects arising from substitution looks more real. Three quarters of the PIU and project heads responded that agency staff would probably do more work for their project if they were offered incentives. Thus one reason for agency staff not to getting involved in the project is that they feel PIU staff are paid to do the job, and perhaps offered special incentives, and that

[1] On the other hand, 24% answered that all were crucial, and a further 23% answered that some were crucial.

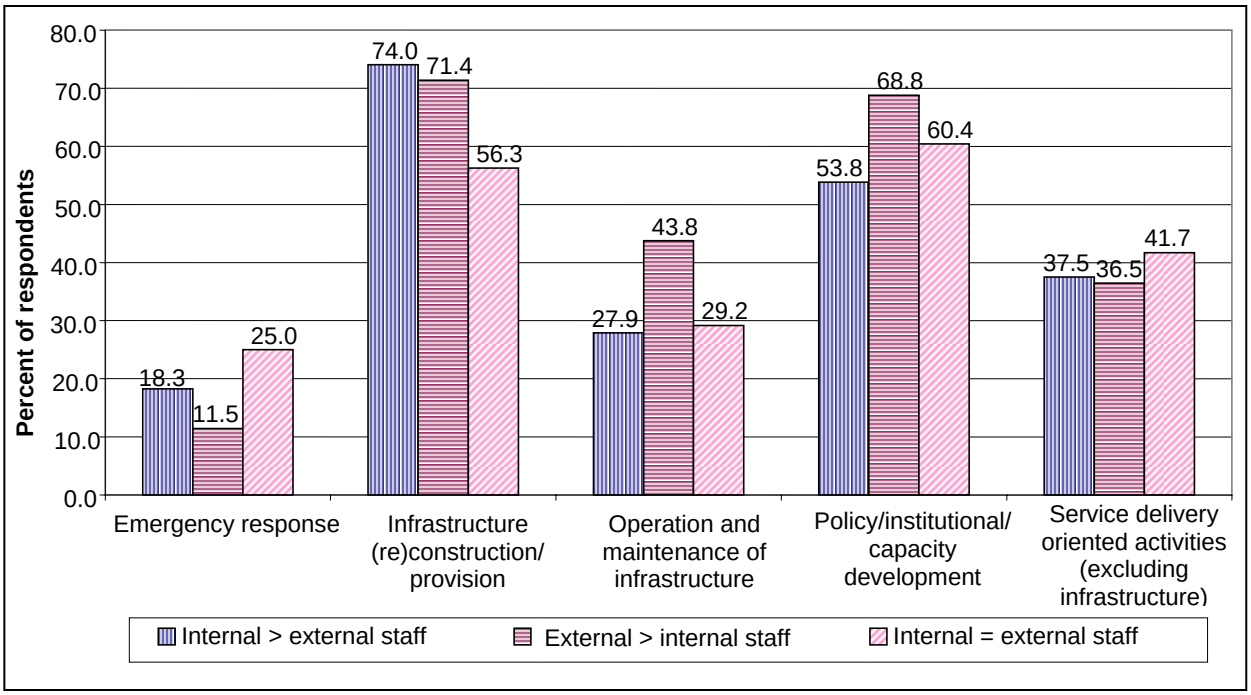
agency staff therefore need not associate themselves with the project.[2] Such an attitude may be reinforced by the view of the project as an additional task. It is however not conducive to long-term agency capacity development, especially since more and more projects are geared to regular long-term agency tasks such as O&M of infrastructure and service delivery (22% and 27% of the projects in the sample had a major focus on this).

7. **Agency Staff Leaving for Consultancy Assignments**. As was noted by some of the country studies, the creation of PIUs may lead to complex issues with respect to long-term agency capacity development. The project survey confirms this. Half of all respondents reported that one or more staff had left the PIU in the last year, the average being almost five per year. Almost 22% stated that one or more government officials had resigned from their parent department and had joined the PIU as consultants or contractual staff. Particularly in (i) the agriculture and natural resources sectors, and (ii) finance and industry (i.e., classified as 'other sectors'), this occurred frequently (35% and 32%, respectively). Five percent of PIU heads were agency staff who had resigned in order to be paid as consultants. In some countries, the re-absorption of such staff into public service at a later stage was easier than in others. In most cases, however, such government officers were counting on further employment in other PIUs and projects subsequently, trusting foreign-funded projects to last throughout their careers. In a narrow sense, such behavior constituted agency capacity depletion; in a wider sense, it may not have many consequences for the country's ability to draw on national capacity to implement projects.

8. **Need for Capacity Development and Nature of PIU.** The need for agency capacity development through PIUs depends on the focus of the project. Three quarters of the survey respondents stated that their project had a focus on more than just the creation of infrastructure. For project focuses such as O&M of infrastructure, service delivery, and development of policies, institutions or capacity, there is a greater need for retention by the agency of the experience gained through the PIU, and therefore a need for greater involvement of their own agency staff in the PIU. Forty-four percent of all respondents argued that the PIU was supposed to develop EA capacity for service delivery or O&M. Unfortunately, when comparing the main focus of the project with the type of PIU, the projects which had more focus on O&M and policy, institutional, capacity development had also more externally-dominated PIUs (Figure A12.2). Ideally, externally-dominated PIUs should be tolerated most in cases of emergency projects and infrastructure creation projects in agencies not primarily dealing with this. When compared with the various types of PIUs studied here, a similar conclusion applied: merging PIUs were not used more frequently in projects with a focus on service delivery and were used even less than average in projects with a focus on O&M of infrastructure. A significant number of the projects with special focuses on O&M, service delivery, and policy, institutional, capacity development had temporary PIUs, presumably because such an approach was perceived as innovative and therefore required more input from consultants. There is therefore a paradox: projects with more components dealing with other aspects than infrastructure creation often have more consultants although from the perspective of sustainability it would be assumed that they would need more internal staff.

[2] The offering of incentives for regular government officers in PIUs was however not a very common phenomenon: only 28% of PIUs reported that their officers received supplemental payment (honorarium or special allowance). And when this happened, the payment was usually within 25% of the base salary (over 50% of the cases; an additional 21% between 26 and 50% of base salary). Supplemental payment for other staff was less common and was reported by 18% of the respondents.

Figure A12.2: Internally and Externally Staffed PIUs and Focus of Project



Source: Project survey 2004.

9. The project survey asked respondents whether they felt that the project would help develop project management capacity in the EA or IA. Fifty-seven percent of all respondents thought that it would (implying, however, that almost half of the respondents thought that it would not. However, in permanent PIUs the figure was 68% and in merging PIUs it was 70%, indicating the possibility of better results for PIUs whose staff remained in the agency.

10. **PIUs' Parallel Structures?** A last question to be addressed here is whether there were signs that the PIU would be, or would become, a parallel structure. There were only one or two true free-standing units in the sense of PIUs being legal entities such as foundations or joint stock companies. This phenomenon is less prevalent in ADB projects than in World Bank projects. Some further indication was obtained through the project survey. Twenty-two percent of respondents stated that the work of the PIU overlapped with that of the main agency. In addition, more than a quarter of these stated that there was competition for staff. A further 9% of respondents stated that, although there was no overlap between the work of the PIU and the work of the main agency, there was competition for staff with the parent agency. This confirms that there is a risk of some PIUs causing dissent within their agencies and thereby becoming parallel structures within these agencies.

CHECKLIST FOR THE INSTITUTIONAL ANALYSIS TO DETERMINE THE NEED FOR, AND NATURE OF, A PROJECT IMPLEMENTATION UNIT

A. ADB Characteristics

(i) Can the Asian Development Bank (ADB) negotiate implementation arrangements and initiate new project implementation unit (PIU) systems and practices?[1]

(ii) Does ADB have a resident mission in the country which is adequately staffed with specialists in project administration, to support the extra demands posed by integrated PIUs?[2]

B. Country Context Characteristics

(i) What are the general characteristics of PIUs in the country and sector in terms of composition and status?[3]

(ii) Is there a government policy towards PIUs in general, for instance regarding their constitution and consolidation within agencies?[4]

(iii) Does the Government have a policy towards downsizing of (certain) agencies and/or towards outsourcing the management of investment projects?[5]

(iv) Does the Government have a policy towards private sector or nongovernment organization involvement which may have consequences for project management? (footnote 5)

(v) Is the Government involved in decentralization or deconcentration exercises, which has consequences for project implementation?[6]

(vi) Does the civil service system allow for a quick establishment of PIUs, and can it prevent the risk of transfers of staff out of PIUs?[7]

(vii) Are Government salaries in the country (a) significantly above the poverty line; and (b) competitive with private sector salaries for project management positions?[8]

(viii) Does the Government allow payment of government staff and other staff in PIUs from its public investment budget or only from the agencies' operating budgets? (footnote 8)

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[1] This will depend on the relative importance in the country of ADB as an external funding agency, the role of ADB in coordination forums in the country, and the effectiveness of such forums. If the answer is Yes, there is more opportunity to introduce implementation arrangements either without formal PIUs or integrated PIUs (i.e. PIUs that are either fully internal, or with a mix of internal and external staff). If No, the scope for introducing changes to current PIU systems may be more limited.

[2] If ADB's resident mission has sufficient experienced staff in the sector concerned, and is able to provide assistance to EAs and IAs, there is a greater chance that integrated PIUs, or implementation arrangements without PIUs, will be successful. If not, the PIUs to be created will need training and/or staff experienced in ADB systems.

[3] If most existing PIUs are separate and donor fragmentation in the country is high, there will be not much leeway for creating different PIUs.

[4] The government may have issued decrees about consolidation of PIUs, recruitment of international and domestic consultants, staff salaries, and procurement systems, which need to be taken into account when designing implementation arrangements.

[5] There will be a better justification for having project management consultants in such cases; the government staff's supervision capacity may need to be addressed; training in public private partnerships may be required.

[6] Proliferation of PIUs may be an issue in countries in process of decentralization; additional project management capacity development may be required. Mini-PIUs may be better organized through regular subnational structures.

[7] If so, this is an argument in favor of creating integrated PIUs; if not, there needs to be agreement during project preparation regarding early establishment of PIU, and nontransferability of essential PIU staff.

[8] If Government salaries are not significantly above the poverty line (say, $2 per capita per day or higher), this is an argument in favor of salary top-ups and performance bonus systems, rather than recruitment of external staff. This practice would need to be agreed with Government, and linked to performance targets.

(ix) Does the public service or civil service system allow the hiring of project management staff on contract?[9]

(x) Does the Government have a policy towards government staff resigning or going on leave of absence to join PIUs as consultants?[10]

(xi) Is there a government policy towards topping up of government salaries in PIUs? (footnote 8)

(xii) Are there risks related to the amount and timing of the release of government funds for project management?[11]

(xiii) Are there risks from competition from other projects for scarce project management consultants?[12]

(xiv) Is there a depth of project management capacity in the private sector of the country, and is there significant competition so that fees are competitive (consultant salary kept within 1–5 times the salary of a senior government officer)?[13]

(xv) Is there a depth of project management capacity in the public sector and is it readily available to the project at hand?[14]

(xvi) Are there indications that corruption may be institutionalized within agencies and that external staffing of PIUs is necessary?[15]

C. Agency Characteristics

(i) Is the core business of agency the implementation of investment projects?[16]

(ii) Is the agency subject to civil service conditions and external determination of budget?[17]

(iii) Does the agency implement more projects and does it have more PIUs?[18]

(iv) Is the core business of the agency construction and/or procurement?[19]

(v) Does the agency want a separate PIU and if so, what is the justification?[20]

(vi) Is the project policy of the agency to outsource project management tasks?[21]

(vii) Is the agency overstaffed or understaffed? Does it have adequate "organizational slack" (spare capacity) to handle all the tasks normally assigned to a PIU?[22]

(viii) Does the agency have many subsidiaries that need to be engaged in implementation?[23]

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[9] If so, this may be less costly than hiring consultants. It needs to be checked whether central government agencies support recruitment of such staff. Authority problems of temporary staff also need to be assessed.

[10] If so, this needs to be taken into account when designing PIU solutions.

[11] If so, timely release of funds needs to be covenanted, or a provision needs to be made for this in the loan.

[12] If so, there is a greater need for internally staffed PIUs.

[13] Combined with positive answer to (iv), this favors use of consultants in PIUs (if no internal staff can be found).

[14] This favors more integrated PIUs, and salary supplements. The Government might consider other incentives.

[15] It needs to be checked whether external staff are more immune, if not, other solutions need to be found.

[16] If so, project management capacity is central to the agency and needs to be handled through long-term planning; integrated PIUs or PIU-less arrangements are needed, possibly aided by specialized consultants.

[17] If so, early negotiation on an 'integrated' PIU is essential and may need to include agreements with civil service and budget agencies. If these cannot be reached, the importance of project management capacity development in the agency will need to be weighed against the overall importance of the project, and the likelihood of undermining capacity as a result of externally-staffed PIUs.

[18] If so, the possibility of joining an existing PIU needs to be investigated. Plans for the restructuring of the agency into a matrix-structured organization, or a unit-managed structure, and PIU consolidation, need to be checked.

[19] If so, there need not be a focus on this in the PIU.

[20] If so, advantages and disadvantages (e.g. undermining of agency capacity) may need to be discussed.

[21] This may be a justification for reliance on project management consultants (PMC), making sure that the agency's capacity to manage such consultants is maintained and if necessary expanded.

[22] If overstaffed, this is an excellent opportunity for creating capacity in the agency for project management.

[23] If so, strong coordination channels are needed; in agencies with less capacity, a PCU.

(ix) Is the agency competing with agencies with similar mandates?[24]
(x) Is the agency allowed implementation support from other agencies or supposed to receive such support (for instance mandatory involvement of a works department)?[25]
(xi) Does the agency have the discretion to expand into new fields of activity?[26]
(xii) Does the agency formally depend on decisions of other agencies? Can it delegate tasks to other agencies?[27]
(xiii) Does the agency need capacity development in project management?[28]

D. Project Characteristics

(i) What is the type of the project: (a) emergency response; (b) infrastructure construction; (c) infrastructure construction plus nonconstruction components;[29] or (d) without a significant infrastructure construction component?[30]
(ii) Is a significant portion of the project management budget to be supported by government funds?[31]
(iii) Is the project sensitive to ADB's environmental, social or fiduciary safeguards and does it need special implementation arrangements from this perspective?[32]
(iv) Does the project have single or multiple project implementation locations?[33]
(v) Does the project have many components and need special arrangements and coordination? (footnote 33)
(vi) Does the project need large amounts of funds to be administered through special accounts?[34]
(vii) Does the project require significant involvement of staff from the agency (and consequently need more coordination and management)?[35]
(viii) Is the project innovative, and hence in need of outside expertise?[36]
(ix) Does the project have project management capacity development objectives?[37]

[24] If so, this presents a very significant risk because of the likelihood of reinforcing parallel structures. The project concept needs to be rethought.
[25] This needs to be carefully checked as PIUs in such situation may create problems in agency networks and may lead to the creation of parallel structures.
[26] If so, the agency may want to invest in new fixed staff seconded to the PIU, and this needs to be discussed as part of project preparation.
[27] If the agency is dependent, this calls for flexible and internal PIUs with consultants who are on standby. If it is independent, external PIUs may be efficient, depending on of the agency's outsourcing policy.
[28] If so, integrated PIUs, with mostly internal staff, coupled with separate advisory/training oriented consultants may be the best option.
[29] Such as in operation and maintenance, service delivery, research, capacity development, organizational development, institutional/policy development.
[30] (i) and (ii) may wish to rely on externally staffed PIUs most, if supply of internal staff is difficult. The other types of projects mainly need mixed PIUs or integrated PIUs. All need exit strategies for the project as well as the PIU(s) after project completion.
[31] If so, the hiring of permanent agency staff, seconded to the PIU, may need to be negotiated with the funding agency, depending on whether the core business of the parent agency is infrastructure creation or projects.
[32] If so, this may require special assistance in building capacity of project managers and implementers. It may also require ring fenced implementation arrangements, or a rethinking of the project concept.
[33] If so, a PCU is required; these generally lend themselves better to internal staffing. Agency ownership of the project will also be improved.
[34] If so, mixed staffing arrangements, or arrangements supplemented by an ADB TA may be a safeguard against the possibility of malpractices.
[35] If so, this is an argument in favor of the establishment of an integrated PIU.
[36] If so, this needs a separate capacity development TA, coupled with a mixed PIU; possibly an integrated PIU.
[37] If so, preferably no experiments with PIUs; TA and/or a loan component for advice and training is required.

E. PIU Characteristics

(i) What are the exact tasks required of the PIU(s)?[38]
(ii) What are the qualifications does the project manager need?[39]
(iii) Can the PIU be located within the parent's agency building?[40]
(iv) Are there vested interests of external PIU staff in perpetuating separate PIUs?[41]

[38] This and the availability of expertise within the agency and its subsidiaries determines the PIUs staff composition.
[39] These need to be determined at early stage and described in the report and recommendation of the President, as well as internal or external nature of the head of the PIU.
[40] If so, there will almost always be good capacity development, although the potential loss in terms of efficiency due to lack of space and facilities need to be taken into account, possibly leading to special project arrangements for improvement of overall agency space and facilities.
[41] This possibility needs to be investigated in relation to the staff in other PIUs in the agency and PIUs of predecessor projects.