Guidance Note for
Project Management

Strengthening Institutional Capacity
during Project Implementation

October 2005
FOREWORD

Helping to build country institutional capacity is at the heart of the World Bank’s mission to promote sustainable development and poverty reduction. Greater integration of project management in a country’s existing institutions and systems is important to this goal, and to the Bank’s effort to move toward greater use of country systems in lending. The Paris Declaration on Aid Effectiveness adopted at the High-Level Forum in March 2005 reaffirmed the donor community’s commitment to align their programs to national development strategies, institutions, and procedures. It identified a reduction in the number of parallel project implementation units (PIUs) as one of the key actions the aid community could take to promote greater capacity development within our borrowers, and thus increase aid effectiveness.

The organizational structure for project management is often chosen to mitigate risk in a weak capacity environment, but it may also reflect internal incentives that focus on speed of project processing and disbursement, and perceived stigmas in low implementation performance ratings. The result is often the use of PIUs—sometimes semi-permanently—even though regional studies have shown that they are suboptimal organizational arrangements and create problems of morale among government officials. While there are examples of good efforts during project design and implementation to focus on sustainable institutional capacity development and use of country systems, they are rare.

This note aims to encourage operations managers and staff not only to give priority to project implementation performance but also to balance it with sustainable institutional capacity development beyond the project. To that end, existing country institutions should be the “default” mode, and PIUs—especially parallel “stand-alone” PIUs—should be phased out. This note reflects lessons learned and draws on existing good practices in the expectation that they can become the rule rather than the exception. I encourage all operations staff and managers to read this note as they plan for new operations and to reflect its recommendations in their ongoing work.

James W. Adams
Vice President
Operations Policy and Country Services
Abbreviations and Acronyms

CAS    Country Assistance Strategy
ECA    Europe and Central Asia Region
OED    Operations Evaluation Department
PAD    Project Appraisal Document
PIU    Project implementation unit
SWAp   Sectorwide approach
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I. Introduction

1. This note is intended to help shift the implementation paradigm for Bank-financed operations toward organizational structures that systematically foster more sustainable capacity development through greater use of and support for country systems and institutions, while ensuring timely project implementation and disbursement. The Bank has long recommended that stand-alone project implementation units (PIUs) be mainstreamed into existing ministry structures, because they are inconsistent with the Bank’s mission of capacity development and institutional strengthening in developing countries.¹ However, many projects continue to

¹ As long ago as the early 1980s, the Bank issued a Central Projects Note on Project Management to this effect. Later, the Bank’s Senior Vice President, Operations, determined that operations and maintenance expenditures, including special pay for government officials assigned or released to PIUs, were ineligible for financing with loan/credit proceeds, as operations and maintenance costs should be financed by government budgets. In 2003, the substantive message on PIUs was repeated by the Operations Evaluation Department, which also noted that capacity development within a PIU does not spill over into the ministry where it is located, and that the selection and composition of technical assistance through PIUs reflect donor rather than government preferences; see Toward Country-led Development: A Multi-Partner Evaluation of the Comprehensive Development Framework, 2003.
rely on PIUs because external and internal incentives work toward organizational arrangements that favor the short-term goal of safeguarding project fiduciary and performance objectives.

2. **Focus.** The focus of this note is twofold: (a) on the nature and design of organizational structures for implementation of Bank-financed projects and the priority accorded to sustainable country institution development; and (b) on internal incentives and practices to support Bank staff in assisting borrowers with project management.

3. **Purpose.** The note aims to raise awareness among Bank staff and managers, stimulate sharing of experiences across Regions and sectors, and foster deeper reflection on development effectiveness during the preparation and implementation of lending operations. It is primarily intended as internal guidance to Bank staff and managers, but is also expected to contribute to knowledge on good practice that can be shared with borrowing country officials and other external partners.

4. The note recognizes that the approach and pace of transition from PIUs to government ministries and institutions will vary by country and by project. Therefore, it does not attempt to prescribe “how to” because of the wide differences among countries and sectors in their implementation capacity and specific needs and circumstances.

5. The note by itself is not sufficient to make a difference in practice; the new implementation paradigm will have to be applied in day-to-day operations by staff and managers—for example, task team leaders, who lead project

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2 The issue is not the title “PIU” per se, but the organizational structure designed for project implementation and its effects on the longer-term capacity of local institutions. The aim is to make attention to institution building and country systems more systematic.
appraisal and the dialogue with clients on implementation modalities; country directors, who are responsible for addressing systemic issues of long-term capacity development with countries; sector managers, who are responsible for providing guidance and recognition to front-line sector staff; and senior managers in the Regions and Networks, as well as staff engaged in portfolio monitoring and operational support in the Regions, who will need to address issues of staff incentives, training, cost, and quality.

6. Section II provides background on PIUs, their consequences, and their typology. Section III contains guidance in project management, describing how Bank processes and systems can be better adapted to achieve greater focus on sustainable institutional capacity development. Section IV points to the critical roles of incentive systems and Management actions in changing staff behavior. The Annex presents “good practice” examples of project management to illustrate ways of addressing both implementation performance and sustainable institutional capacity development.

II. Background

7. Organizational structures for project management should be responsible and accountable for implementation of the project and for timely progress and expenditure reporting that adheres to Bank policies and guidelines. The common approach, introduced over 40 years ago as a technical solution to deliver engineering projects in newly independent developing countries, is to create a “cell” dedicated to implementing the project. Over time, PIUs became vehicles to bypass local bureaucracies to “get the job done.” Since the Bank’s internal incentives—such as lending cycles that

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3 Such dedicated structures go by several names: PIU, project management unit, project coordination unit, and so forth. This paper uses the term PIU to refer to any such structure.
emphasize fast delivery, strict fiduciary requirements, and focus on disbursement speed in portfolio monitoring—favor known and tested arrangements for implementation, PIUs are used even in countries that have well-established institutions.

8. **PIU Consequences.** In all Regions and types of projects, PIUs have often undermined long-term institutional development in countries’ line ministries, sustainability, and ownership, and have often created tensions with sector ministries.

- A study by the Middle East and North Africa Region found that while PIUs have facilitated monitoring and implementation of Bank-financed projects, they have “failed dismally in terms of any positive long-term impact on capacity building and institutional development” in line ministries; they “supplant rather than supplement existing capacity.”

- A study in the Latin America and the Caribbean Region found that implementing projects “within government structures” enhanced administrative and operational coordination with government support and “provided greater opportunity for capacity building and institutional development,” and that such projects were “more likely to be sustainable.” Locating PIUs outside the government structure resulted in a lack of learning and of coordination across agencies, eroding performance.

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A comprehensive review on PIUs in the Eastern Europe and Central Asia Region (ECA) analyzed the pros and cons of different types of PIUs, and led to the issuance of a regional guideline on PIUs in April 2001, advising staff to start moving beyond PIUs to address countries’ institutional capacity development.

In the Africa Region, the Operations Evaluation Department (OED) documented the detrimental impact of PIUs on local capacity, noting that stakeholders in Africa “heavily criticized the Bank’s use of PIUs, typically staffed by technical advisers and established outside the regular government structures.” OED considered that PIUs, which had assumed many routine ministerial functions, hired away the most competent staff, and created friction with ministries, “have promoted rapid and efficient project implementation at the expense of long-term capacity building.”

Although PIUs can include government staff to varying levels, frequently they employ contracted national and expatriate staff whose pay scales, financed by loan/credit proceeds, are much higher than those of government staff at equivalent skills/grades—a source of tension with ministries. Some countries give government employees leave of absence without pay to enable them to accept the higher salaries from projects while serving on a PIU.

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10 For example, in Georgia, the average civil service salary is US$50 per month, while the average monthly fee for a local consultant is in excess of US$300. In Yemen, salaries paid to PIU staff are some 8 to 10 times greater than government salaries.
10. **PIU Typology.** In practice, PIUs vary in size, function, physical location, legal status, degree of integration into existing country structures, and effects on the country’s long-term capacity. In general, the degree of integration into existing institutions is positively correlated with the projects’ contribution to developing the capacity of implementing agencies.

- **“Stand-alone” or “enclave” PIUs** are generally considered most detrimental to long-term institutional development. They are typically created outside the structure of an implementing ministry/agency. They often recreate (or even duplicate) functions and capabilities of the ministry that oversees the sector, and are responsible for all implementation in a “turnkey” fashion, handing over the completed project to the administration for operation.

- **Semi-integrated PIUs** partially use existing structures augmenting them with some capacity. For instance, a PIU may be headed by one of the directors responsible for the project area, while long-term technical assistance and/or specialists address some functions and capabilities. Alternatively, a ministry may retain responsibility for managing content (e.g., planning, finance, administration) while outsourcing the fiduciary management of the Bank-financed project (e.g., procurement, financial management and reporting).

- **“Super” PIUs,** a variant of the stand-alone or semi-integrated type, handle multiple projects in a sector (financed by different donors), multiple sectors financed by a single donor, or related projects in a region.¹¹ The key difference from the first two types

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¹¹ For instance, this type of PIU is used in a group of very small countries where capacity is overstretched—e.g., Organization of Eastern Caribbean States.
is that these PIUs consolidate the management functions of several donors’ or countries’ projects. While such PIUs do not integrate all PIU functions into the government’s structures, they do reduce the number of PIUs.

- **Semi-autonomous agencies** are structures outside regular government structures (either newly created or already existing) that serve as project implementing agencies for programs (e.g., newly created social funds or independent “authorities”). These agencies assume all PIU functions, thus obviating any need to create an additional project implementation unit.

- **Fully integrated PIUs** promote institutional development, as the project implementing agency/ministry takes full responsibility and implement a project using its own structure and staff. In some cases, the ministry may reassign staff to carry out project activities by releasing them from other ministry functions. Fully integrated PIUs may be supported by limited technical assistance for specific areas that require additional skills or expertise.

11. Since country institutions are not always sufficiently developed to undertake project implementation, there may occasionally be a place for PIUs. Particularly challenging may be multisectoral projects that involve multiple ministries and implementing agencies, or projects with new clients (e.g., subnational governments) that lack experience with Bank projects.

12. When establishing project management arrangements, however, *in all cases* it is essential to maximize the use of existing staff and institutions, and integration into the
country’s structures and processes. It is also important to agree on a strategy for full integration, and for phasing out any enclave units as rapidly as possible, by preparing a time-bound action plans for necessary capacity development, such as training.

### III. Good Practice Guidance—Adapting Bank Processes and Systems

13. This section describes ways of better adapting and exploiting Bank processes and systems to help develop country capacity. The Annex provides good practice examples of using a country’s systems and institutions to address both implementation performance and capacity development.

#### A. Country/Sector Dialogue Issues

| Country Dialogue/Country Assistance Strategy (CAS) Process: | Bring the issue of country capacity development and project implementation arrangements into the country-level dialogue and CAS discussions. |

14. The issues of capacity development and the impact of PIUs should be a regular part of the Bank’s dialogue with countries on its overall country assistance. Especially in areas in which continued Bank engagement is foreseen, an explicit discussion with country officials during each CAS cycle on potential negative effects of PIUs would strengthen the strategic focus on capacity development. Such a CAS dialogue might cover a range of areas:

- The scope for public sector reform issues—such as accounting, audit and financial management, procurement, and civil service pay reforms—may be reviewed.
Use of the Bank’s analytic and advisory activities to study specific institutions’ capacity to perform would merit discussion, since a better understanding of such details would permit tailoring project-related technical assistance to fill gaps.

Greater selectivity and fewer lending operations may be considered, to increase support and continuity for selected ministries or agencies where lending is concentrated.

Sectorwide approaches (SWAs), which strive for greater use of country systems and capacity, may be pursued where appropriate.

**Country Incentive Issues:** Increase understanding of the country’s internal incentive mechanisms and broader systemic issues that affect implementation of individual projects.

15. In designing project management arrangements, staff should be fully aware of the country’s internal incentive systems related to project implementation arrangements. Views on PIUs often vary across different parts of the government—for example, between sector ministries and central authorities, and sometimes between the top management and technical level officials within the same ministry.

Sector ministries or implementing agencies may favor PIUs for efficient project implementation, while central authorities such as ministries of finance may have concerns over proliferation of PIUs across government agencies. Implementing agencies’ incentives may also be rooted in circumventing civil service salary levels.

When Bank-financed projects call for procedures that differ markedly from regular government procedures (procurement, accounting, financial management,
flow of funds, audits, and reporting, etc.), government officials may have an incentive to create a separate unit for these projects rather than to train their own staff in skills needed only for Bank-financed projects.

16. The recent shift toward greater use of country’s procedures and institutions, with proper fiduciary safeguards, means that Bank staff should have detailed knowledge about country’s rules and practices, especially in sectors where the Bank expects to be engaged over a long period. Then, during project preparation, they can agree with the borrower on appropriate measures to align procedures, and can design safeguard measures that are as closely integrated with government systems as feasible.

**Countrywide Interim Measures:** In the short to medium term, establish country-level strategy/guidelines on project implementation arrangements (including PIU staff remuneration and other incentives) to minimize distortions, while pursuing broader civil service pay reforms.

17. In most low-income countries and in some lower-middle-income countries, the fact that civil service salaries are considerably lower than those in the private sector contributes to poor performance in public sector agencies. The preferred solution—systemic civil service reform, including pay structure reforms linked with performance—should be pursued vigorously, but it is often quite unrealistic to close the salary gaps even in the medium term. Therefore, for agencies and officials responsible for managing project implementation, interim solutions need to be found that minimize distortions:

- A countrywide strategy or guidelines can be agreed under which PIU staff salaries would not be significantly higher than those of government
employees. Because there are also non-salary incentives, special measures could be arranged to facilitate day-to-day operations and address constraints for operational funds.

- At a minimum, varying levels of PIU salaries across donor-financed projects in a sector or Bank-financed projects for different sectors can be rationalized on standard scales. This approach helps minimize distortions in the system and discrepancies across projects.

- To foster consensus and momentum to tackle the issue, the first step could be to carry out a stocktaking of present situations and document the number of PIUs, the range of PIU salaries, and the effects of PIUs on long-term institutional development. Bringing the issue to attention of high-level officials and finding a “champion” among the government leadership, who would advocate greater integration of PIUs, would help promote good outcomes. Use of technical assistance may help address short-term

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13 Tanzania, for example, decided to introduce a medium-term pay reform as part of a wider public service reform program, whereby in the short term, selected ministries benefit from the upgraded salary scale in advance of its government-wide implementation, using donor funds.

14 For example, under a Bank-financed project, after abolishing stand-alone PIUs, the government established an operational fund to which it contributed initial resources, to be replenished from the project, to cover operational expenses of officials in the implementing ministry (e.g., site visits, phone calls, local travel). See Annex, Case 2.

15 In the Philippines, the Government has issued guidelines on streamlining the numerous PIUs. To reduce the disparities caused by salary supplements in PIUs, which are staffed by government officials on leave of absence, limits have been placed on their terms; they are expected to return to their ministries and give other officials a turn at working in PIUs.
needs for capacity and ensure continuity during the transition period.\textsuperscript{16}

18. Whatever the project implementation modalities, it is important for all implementing agencies to take a similar approach, suited to the country’s existing system, for project staff remuneration, technical assistance arrangements to ministries/agencies, and means of meeting officials’ operational expenses.

**Sectorwide Strategies for Institution Building:** Address broader institutional capacity development issues at the sector strategy level, and align projects’ implementation arrangements with the sector’s technical and institutional goals.

19. A government’s sector strategy provides the framework and underpinning for long-term Bank engagement and for the CAS lending program. Sound sector strategies identify constraints affecting sector performance and include appropriate policy and institutional measures to relieve these constraints. However, the ministry/agency for the sector does not always have the capacity to implement these measures. An institutional capacity analysis could facilitate building consensus on key capacity gaps in such a ministry/agency, and on sustainable ways to address them.

20. Borrowers indicate that occasionally Bank-financed projects are designed to fit the Bank’s vision without regard to government programs in a sector, and that such projects “crowd out” existing national programs. To enhance local capacity and program sustainability, it would be worth considering ways to support existing programs and tackle systemic issues that affect the entire sector—for example, by

\textsuperscript{16} One country (Morocco), is working to build permanent implementation capacity through a program of “training of trainers,” designed to assist line ministries in executing both donor-financed and locally financed projects.
supporting a sectorwide program under a SWAp—rather than a discrete set of investments.

21. Solutions will vary depending on the circumstances—e.g., first-time clients, borrowers launching multisectoral projects, and so on. Special analysis of existing institutional capacity may be needed before organizational arrangements for project implementation are agreed. In addition, coordination arrangements will be needed for multisectoral projects that span agencies.\(^\text{17}\)

### B. Project Design and Implementation Issues

| Project Implementation Arrangements: Use existing institutional structures as the default mode, and use “enclave” PIUs as an exception. Set realistic expectations on the speed of implementation. |

22. To increase the likelihood of sustainability, the use of existing institutional structures should be the default option to implement Bank-financed projects. Project implementation plans and disbursement forecasts should reflect realistic expectations based on the current capacity and needs for training and capacity development. Even when existing structures are not totally suitable for successful project implementation, they should be used to the maximum extent possible, and the project should include measures to minimize distortions in the government’s internal incentives. Stand-alone PIUs should be used only as an exception—for example, when there is a virtual absence of functioning government entities because of emergency or conflict, in exceptionally large or complex projects, or when there are

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\(^{17}\) In India and some other South Asia countries, an existing country institution is normally assigned responsibility for project implementation, but a separate project coordination unit is also set up at a higher level to ensure that decisions that cross jurisdictions and require high-level attention are taken in a timely manner.
issues of shielding projects from political influences. In preparing such projects, staff should give attention to strengthening country institutions and planning for a transition of the PIU functions.

23. Rather than financing PIU salaries, a project could incorporate necessary operational costs for the project-related incremental expenses of government officials, with the levels determined on the basis of project needs and the country parameters under Operational Policies 6.00, Bank Financing.

| Project Processing: | Provide clear justification for non-integrated PIUs in the Project Appraisal Document (PAD), along with a strategy for institutional capacity development and greater integration over time. In overseeing project processing, country and sector management should give particular attention to the institution-building aspects. |

24. To maximize sustainability and development effectiveness, the organizational arrangements proposed for project implementation should be consistent with the country’s institution-building strategy for the sector. Management’s signals to staff are critical in influencing staff behaviors and practice on the ground.

- Country and sector management, as well as Regional operational support/quality groups, should provide guidance to staff on appropriate project management, encourage use of existing institutions, and demand clear justifications for non-integrated PIUs.  

- While the Project Concept Note stage is usually too early to discuss specific project implementation arrangements, it is the most appropriate time for staff to begin thinking of using existing institutions for managing implementation. Often needs for PIUs arise from certain project designs that require special skills or a designated unit; it is important to design a
guide for project management

project taking into account the existing institutions and capacity.

- Project preparation should include an adequate assessment of institutional capacity, particularly identifying the strengths and weaknesses of existing systems and institutions and setting out the risk mitigation mechanisms needed when these structures are used for project implementation.

- The PAD should clearly describe and justify the organizational arrangements for implementation, and explain how the project would contribute to sustainable long-term country capacity, linking it as appropriate with any country or sectoral institution-building strategy. In particular, the PAD should justify any proposal to use non-integrated PIUs, and should discuss the transitional arrangements to move to use of the country’s institutions, along with the upstream preparatory actions required (such as recruitment and training).

- Where possible, monitorable performance measures and indicators related to project management and capacity development, including intermediate progress benchmarks, should be agreed with clients and included as part of the project’s key monitoring indicators.

**Ongoing Projects with Non-integrated PIUs:** Take advantage of all opportunities to increase integration, enhance the development of capacity/systems, or restructure implementation arrangements.

25. While supervising projects, Bank staff should seek and take advantage of all opportunities to deepen the integration of project management into the country’s existing
institutions. Some PIUs may be quickly integrated into existing government structures, while others may take longer.

- While ensuring that effective project implementation is not seriously compromised, staff should explore alternative organizational options for project management, giving priority to structures that would be integrated with existing institutions.

- If a PIU phase-out within the project life is not realistic, government and Bank staff should discuss and implement measures to prepare for integration in the follow-up operation or to ensure institutional sustainability in the post-completion period.

- For each country and sector, staff should discuss with the government a strategy to phase out stand-alone units and integrate them into government structures over time, while preserving the features that enable timely implementation. Progress in this regard should be monitored every 6 to 12 months as part of regular sector/country/Regional portfolio reviews. The ultimate goal is to use country systems and institutional structures for all projects.

**Dynamic Implementation Monitoring:** Monitor changes in project implementation capacity and periodically adjust implementation arrangements or risk mitigation measures.

26. Bank staff should begin to use portfolio monitoring and project reworking in a dynamic way, making adjustments in project management even during implementation, and providing feedback to Regional managers on progress.

- As part of regular project supervision of ongoing projects, staff should continuously assess changes in the implementing agency’s capacity and revisit risk mitigation measures. For instance, have government
staff gained sufficient skills and experience that technical assistance could be phased out and implementation responsibilities handed over for certain functions?

- The Implementation Status and Results reports, which provide the institutional record on each project’s implementation status and progress in achieving results, could be used to highlight progress and issues in strengthening country implementation capacity.\(^{18}\)

- Country Portfolio Performance Reviews, which generally focus on generic implementation problems and achievements, can also be a vehicle to report on issues related to PIUs and the contribution of Bank-financed projects to strengthening sustainable institutional capacity across sectors in a country.

### IV. Management, Skills, and Incentives Issues

27. This section deals with issues internal to the World Bank. If staff are to change behaviors and adopt the good practices described above, line managers up the chain—from Regional vice presidents and Network chairs to Regional front-line managers and the management in the Human Resources Department—will need to address internal incentives and practices. Managerial attention and leadership

\(^{18}\) The Implementation Status and Results report has a rating for Project Management, but it refers to the capacity and performance of any current project management arrangements, thus providing an incentive to substitute stand-alone PIUs for weak implementing agencies. When appropriate, broader capacity- or institution-building issues or sustainable institutional impact could be addressed as part of the project development objectives and/or key performance indicators.
are critical to building staff skills and expertise in project management.

28. **Leadership.** Country directors are best placed to provide leadership in implementing the new paradigm in each country, with support from sector managers. For example, country directors should require sound justification for the use of a PIU, and should encourage staff to experiment with different models for capacity development, giving preference to use of existing country systems and institutions. They should also ensure that their country management units monitor and report on progress in this regard in each country.

29. **Staff Skills.** Project management has evolved into a specialized profession within the field of management. Staff should therefore have access to technical support, particularly in the area of organization and management, during the organizational design stage. The Human Resources Department’s Leadership Unit has a pool of experts who could provide such support. In addition, the Bank’s training programs on project preparation and appraisal could include a module on alternative organizational models for timely implementation and disbursement of Bank-financed projects that also foster long-term country capacity development. In this module, task team leaders who have instituted good practices could explain how they achieved consensus on the specific solutions they designed.

30. **Portfolio Monitoring and Incentives.** Line managers, from the vice president down, need to consider the incentive effects of current practices in portfolio monitoring and staff performance evaluation. Because staff often perceive lagging project performance indicators, such as disbursement lags, as affecting their performance evaluation by managers, they may overstate a project’s development effectiveness or opt for PIUs that would ensure efficient project management and faster disbursement. Managers
should encourage staff to highlight implementation problems candidly, and should recognize and reward staff who work actively to resolve such problems—even if resolution takes longer than projected. Disbursement forecasts must reflect realistic estimates aligned to existing capacity, especially during a project’s early years.

31. **Cost Implications.** While there are benefits to strengthening country institutional capacity during project implementation, the incremental financial and nonfinancial costs associated with upstream analysis or enhanced supervision, and for restructuring ongoing projects, are less clear. However, preparation and implementation costs may fall gradually for later operations because there will no longer be a need for borrowers to create and maintain, and for the Bank and other development agencies to supervise, parallel systems for “ring-fenced” projects. Another potential effect of adopting the good practices identified in this paper is a decline in lending targets for a transitional period, and even in some of the portfolio performance indicators (e.g., disbursements). However, such potential incremental costs would be more than offset by the longer-term benefits of stronger, more sustainable national institutions, and by greater overall development effectiveness.

32. **Staff Recognition.** Greater attention to incentives for changes in staff behavior will pay off in encouraging a sustained effort to address capacity development in project management. One positive incentive would be to recognize the contributions of staff who use lending operations to help countries develop sustainable institutional capacity, through such instruments as Overall Performance Evaluations, spot awards, Awards for Excellence, and other instruments. To encourage dynamic monitoring of projects, staff should also be rewarded for responding to changes in implementation progress and for initiating such actions as project redesign or restructuring.
33. **Country Recognition.** Countries that make rapid and sustained progress on building capacity in key sectors could be recognized through annual awards or in other ways to showcase their accomplishments. The Grants Committee could be asked to explore the possibility of designing grants (possibly supported also by bilateral donors) for those countries. The Bank-Fund Annual Meetings could be an appropriate forum for announcing such awards. Country departments, with inputs from sector managers, would nominate countries from each Region. The number of countries that receive an award would be a function of grant amounts available, but should be limited to two or three.
ANNEX

Good Practice Examples

This Annex describes good practice examples that address implementation performance and sustainable institutional capacity development. Further details may be found in individual Project Appraisal Documents (PADs).

Cases:

1. China—Using Existing Organizational Structures for Project Implementation

2. Lao PDR: Road Sector—Integrating Multiple PIUs into Combined Implementation Responsibilities

3. Tanzania: Health Sector—From PIU to Government Structures under a Sectorwide Approach

4. Albania: Public Administration Reform Project—An Integrated Implementation System
Project implementation in China has consistently been satisfactory. Because China has highly decentralized administrative structures, implementation of World Bank-financed projects tends to be the responsibility of provinces and municipalities, through locally established project management offices (PMOs). Multiprovince projects typically have a central office in the ministry in Beijing, with lower-tier offices at each subnational level involved. (World Bank-financed railways projects in China are an exception, and are administered centrally by the Ministry of Railways in Beijing.)

Good project implementation practices include the following:

- **PMOs established as part of government structures.** Even though PMOs have quasi-independent status, they are attached to one of the line departments (e.g., urban construction department of the Ministry of Construction for urban projects; communications department for a highway project). When projects are completed, the PMO may continue to manage the successor project or other externally assisted projects.

- **Management responsibility.** Typically the director of the parent agency exercises control over the PMO. Higher-level offices are responsible for overall project
coordination and equipment procurement, while lower-level offices are responsible for implementation and procurement of works.

- **Staffing.** Staff in PMOs can be seconded from the parent agency or the subnational office, but often there are only three or four staff for large projects, and only one or two at the municipal level.

- **Pay scales.** PMO staff receive the same salary as they would for other government functions, and the Government covers operational expenses (such as site visits and meals). By law, international procurement in China is undertaken by tendering agencies, which typically pay higher salaries than the government does.

- **Operating costs.** Projects generally do not cover operating costs of PMOs, but typically finance all equipment needs.
CASE TWO

LAO PEOPLE’S DEMOCRATIC REPUBLIC

Road Sector—Integrating Multiple PIUs into Combined Implementation Responsibilities

The World Bank, Asian Development Bank, Japan International Cooperation Agency, and Swedish International Development Agency had been financing projects in the Laotian roads sector for many years. Each donor had established its own PIU, outside the structure of the Ministry of Construction, Transport, Ports and Communications (MCTPC). The PIUs bypassed the MCTPC bureaucracy, reporting directly to the vice minister, to whom donor task managers had direct access through their PIU. Each project followed its donor’s own procurement, financial management, and reporting systems, complicating matters for private contractors and others. The salaries of PIU staff were much higher than those of regular MCTPC staff, who thus had little incentive to work hard.

- **Leadership for paradigm change.** In 2000, the new Bank task manager, recognizing that the Lao roads sector would require donor assistance for many years and needed a sound maintenance program to protect road assets, assisted the government to bring donors together to produce a long-term sector strategy, including donor partnership and institution building in MCTPC to put the government in the driver’s seat.

- **Initial resistance.** The idea met with stiff initial resistance by donor agencies and staff. Eventually it was agreed to harmonize standard bidding documents
for the roads sector, adopt a single financial management system, disband multiple PIUs, and shift responsibility for implementation—including procurement, financial management, disbursement, and reporting—to MCTPC departments.

- **Integrated implementation responsibility.** MCTPC departments took responsibility for maintenance, construction, monitoring, financial management, and human resource development financed under the project. Appropriate devolution of these responsibilities to MCTPC’s subnational offices was also put in place. Consultancy assistance was financed by the project.

- **Self-evaluation.** The strategy built in self-evaluation of consultants and ministry staff, along with a technical audit of the whole project, paid with credit funds.

- **Staff operational expenses.** An operational fund was set up—with initial financing from the government, to be replenished from project funds—to pay out-of-pocket operational expenses of local staff. This arrangement replaced the salary supplements that had been paid to PIU staff.
Tanzania’s health sector had received considerable attention from the government and several donors for many years, but the country still suffered from high rates of malaria, diarrhea, and perinatal maternal conditions, along with inadequate capacity to manage resources or provide effective service delivery. Multiple donor-assisted projects duplicated generic functions, leading to much inefficiency; ad hoc approaches were driven by availability of funds rather than by an integrated sector plan. Under a new government-led program for the whole sector, donors agreed to follow a sectorwide approach (SWAp) in a phased manner.

The World Bank provided its support through a phased adaptable program loan (with the first phase approved in May 2000, and the second phase in December 2003), pooling funds with several other major donors. Donors agreed not to use any project-specific PIU-type structures in the SWAp. The stand-alone PIU used for the previous Bank-financed operation was phased out at its closing in 1999.

➢ Use of existing structures. Existing institutional structures and government’s budgeting mechanisms were used to manage program implementation, including the pooled fund. Responsibility for oversight and coordination of the program rests with the Permanent Secretary (PS) of the Ministry of Health (MOH) in close collaboration with the PS for the Regional Administration and Local Government of the President’s Office (PORALG). The Director
for Health Policy and Planning (DHPP) is responsible for day-to-day coordination and monitoring, including donor coordination. The MOH strengthened its existing Primary Health Care Secretariat as a Health Sector Reform Secretariat under the DHPP to support this coordination. Accounting, financial management, and procurement are carried out by the MOH’s Department of Administration and Personnel as part of its normal functions. To facilitate sustainable institutional development and avoid remuneration distortions, the practice of paying higher salaries to project staff was discontinued, and program implementation and reporting are carried out by civil servants.

**Coordination mechanisms.** A SWAp committee and a basket financing committee provide mechanisms of continuous policy dialogue, communication, and coordination among over 15 external partners. The SWAp committee, chaired by the PS/MOH, is the forum for coordinating all the donor-assisted activities, financed through parallel or pooled funds. The basket financing committee, co-chaired by the PS/MOH and PS/PORALG, oversees the pooled funds, including approval of work plans, budgets and quarterly release of funds, quarterly reviews of progress and expenditures, and monitoring of achievements against performance indicators.

**Refinement.** All donors introduce refinements to the joint systems under the program at a feasible pace and scale. Over the past five years, the number of administrative steps has been much reduced, and capacity has been strengthened as government staff received needed training and gained experience.
The Albania Public Administration Reform Project (PARP) has four primary counterpart agencies, three of which are lodged within the Council of Ministers (CoM): the Department of Public Administration (DoPA), the Secretary General of the Government and the Minister of State for Policy Coordination and Anti-Corruption, the Public Procurement Agency, and the Ministry of Finance. Because the CoM plays a central role in the reform agenda that PARP supports, and to ensure seamless integration of the various components of the project, implementation management was housed within CoM.

Because one of PARP’s core objectives is to create a meritocratic civil service, during preparation the DoPA leadership was adamant that the unit responsible for project management administrative tasks should be part of CoM’s regular organizational structure, and should be staffed not by consultants but by civil servants, who would be paid civil service salaries from CoM’s annual budget.

This unit—the Unit for Implementation of the Public Administration Reform Program (UIPARP)—has performed excellently from its inception, and has handled all project administrative responsibilities (monitoring and reporting of project impact indicators, procurement, and financial management, including accounting, oversight of all contract execution, and preparation of quarterly implementation reports). Each of the project’s counterpart entities prepares its own terms of reference (TOR), while UIPARP ensures
that TOR and bidding documents meet all Bank requirements and obtains the Bank’s feedback and no-objections. UIPARP has representatives on all bid evaluation committees (including, at least, a procurement specialist, and usually one or two other members), along with representatives from the beneficiary entities who have prepared the TOR. Its project implementation reports are good practice models for tracking all stages of project execution (TOR preparation, procurement, contracting, and contract execution, including both reporting on the work undertaken and accounting for the financing flows).

Four factors largely account for UIPARP’s excellent performance.

- **Qualified and motivated staff.** Civil service salaries were made roughly competitive with relevant private sector comparators shortly after UIPARP was formed. Staff have the due process protections provided to all civil servants, and are recruited through the competitive and transparent recruitment and selection procedures mandated by the Civil Servants Law.

- **Properly managed staff.** The Director of DoPA at the time the UIPARP was staffed was a civil service reform champion. She made clear during recruitment that she expected competence, professionalism, and performance from UIPARP staff, and she provided clear guidance to UIPARP staff regarding performance expectations. Moreover, she acted as an advocate for UIPARP staff within CoM.

- **No threat to beneficiary entity authority.** UIPARP’s role is clearly defined as an administrative support function—providing project administration services to support beneficiary entities in mobilizing and overseeing the investments and technical assistance made available through PARP. All substantive aspects of the public
administration reform effort are left to the relevant entities.

- **No source of envy for beneficiary entity staff.**
  UIPARP’s staff are civil servants, subject to the same due process protections (including transparent, competitive recruitment and selection procedures) and paid the same salaries as their colleagues in the beneficiary entities.