

Project Implementation Units

- In the context of donor-funded projects in developing countries, the term project implementation unit generally refers to any kind of project office that has made special staffing and "ringfencing" arrangements to implement projects more effectively.
- Many in the development community think that project implementation units have high direct and indirect costs, tend to develop into parallel organizations, and dilute central government policy through their allegiance to donor agendas.

Background

Project implementation units (PIUs) are commonly assigned authority and accountability to implement donor-funded projects in developing countries. In many cases, the need for skilled human resources in such units is temporary.

The Asian Development Bank (ADB) provides a great deal of project management support to its developing member countries. Such support includes grant or loan-based funding of administration costs and consulting services and ADB review missions.

Most ADB-assisted projects also rely on PIUs to manage project implementation. The assumption is that implementation will be helped by a unit able to employ and retain project staff under special conditions, access more regular budgets and better facilities, avoid bureaucratic constraints, and cater to ADB's need for fiduciary arrangements. However, to what extent do the short-term objectives of efficiency and expediency—which are important practical reasons for establishing PIUs—prevent the partner country from building up more regular units and more sustainable project management capacity?

In 2005, the Operations Evaluation Department conducted a **Special Evaluation Study on the Role of Project Implementation Unit** to investigate the nature of ADB's arrangements for PIUs and investigate how much they cost, how they function in the various agencies and projects that ADB deals with, and how they are distributed across sectors and countries. The study hoped also to assess impact on project implementation capacity development.¹ Since information on ADB's use of PIUs 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. Files were studied, ADB databases were analyzed, and a questionnaire was sent to all investment projects ongoing for a year or longer. Two hundred and six project managers in 152 projects replied, or 58% of the 263 projects contacted. Missions visited Bangladesh, Kyrgyz Republic, Malaysia, Papua New Guinea, Philippines, and Viet Nam to gather additional information from stakeholders.

Summary of Findings

Around 90% of the projects examined were managed by some form of PIU. Almost one sixth of the projects used PIUs staffed by the executing/parent agencies themselves, and a third used only externally recruited staff. The remaining half of the projects were managed by PIUs consisting of a mix of internally deputed and externally hired staff. Forty-four percent of PIUs viewed themselves as temporary and were 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 expected to manage new projects upon completion of the present project(s). Eighteen percent were to merge, i.e., the PIU's staff would be (re-) absorbed as permanent staff of the parent agency.

PIUs were found to be primarily used as a mechanism to implement projects and to create capital assets, rather than as a tool to build human or institutional capacity. The effects of PIUs on capacity development in the parent agencies were variable. A risk of separate, externally staffed PIUs undermining the agency's project management capacity was confirmed. Also confirmed was a burden felt by

governments connected with the many separate requirements of external funding agencies, as conveyed through PIUs.

The study concluded that PIUs are a generally legitimate and justifiable implementation arrangement for capital investment projects such as those financed by ADB, but made a number of recommendations to improve their effectiveness.

Recommendations

- 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.
- The project implementation arrangements should be chosen depending on careful analysis of project, agency, and country contexts.
- If the financing modality and government preferences require the establishment of a PIU, ADB should encourage the use of PIUs that are staffed internally.
- In cases where externally staffed PIUs are more efficient, the risk that they might undermine the parent agency's project management capacity needs to be assessed as a standard practice and mitigated.
- In cases where externally staffed PIUs are planned, ADB and parent agencies should agree in advance on their exit strategy and/or transformation for the project's operation and maintenance phases.
- 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.
- The focus at the stage of Board consideration 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.
- Country portfolio reviews should monitor the effects of PIUs on capacity development.

The study identified good practices for project implementation arrangements and drew a checklist for institutional analysis to determine the need for, and nature of, a PIU. The study also proposed follow-up actions focusing on integration of the good practices and checklist in staff guidelines, and, in the interim period, on their distribution to staff of ADB and integration in training programs that ADB runs for staff of parent agencies.

Feedback

ADB Management's Response recognized the challenge of analyzing the role and impact of PIUs given the wide variation in country and parent agency capacities, but supported the study's recommendations and noted also that the study offered useful project management tools. Management recognized that PIUs have made a mixed contribution to capacity development in parent agencies, where capacity includes not just the ability to meet procedural requirements, but also pertains to good governance, accountability, project management skills, and technical expertise in a particular field. Evidence suggests that there is some trade-off between higher efficiency in project implementation as a result of having dedicated PIUs, and building in-house capacity. It is important to use counterpart staff as much as possible and to integrate PIUs into the parent agency's operations. ADB committed in the **Paris Declaration on Aid Effectiveness** of March 2005 to harmonize project implementation arrangements, minimize the use of parallel structures for project implementation, and use joint PIUs with other donor agencies where possible. The **Chair's Summary of the Development Effectiveness Committee Discussions** recalled also that ADB had in 2005 committed to "avoid, to the maximum extent possible, creating dedicated structures for day-to-day management and implementation of aid-financed projects and programmes" to support the strengthening of partner country systems. While acknowledging that commitment, the Committee agreed with the study's main conclusion that, in the foreseeable future, PIUs shall continue to be a generally legitimate and justifiable implementation mechanism for capital investment projects.

¹ 2005. ADB. *Special Evaluation Study on the Role of Project Implementation Units*. Manila. Available: <http://www.adb.org/Documents/Reports/Evaluation/sst-reg-2005-02/ses-pius.pdf>