Planning Commission

Manual for Development Projects

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Chapter-1: PLANNING MACHINERY IN PAKISTAN

Planning concept

1.1 The major tasks confronting developing countries include the achievement of economic independence, overcoming backwardness and the implementation of socio-economic transformation. Market mechanism alone cannot accomplish this task. Hence resort is made to the adoption of planning techniques.

1.2 Planning has been defined by various economists in different manners. Generally it is understood to be a dynamic process, a method of analysis and thinking which may or may not involve the preparation of comprehensive legally binding blueprint for socio-economic development. In essence, a plan is a package of economic and social policies expressed with quantified targets and objectives to be achieved during a laid-down period

Development Board

1.3 In-spite of the grave economic and financial problems which beset the Government of Pakistan soon after independence, a Development Board was established early in 1948 in Economic Affairs Division to deal with questions of rapid economic development of the country. In 1950 a Six-Year Development Plan was formulated and embodied in the Colombo Plan for Cooperative Economic Development in South and South East Asia. This was essentially an outline plan and delineated only a broad pattern of development.

Planning Board

1.4 To prepare a more comprehensive national plan of development, the Government of Pakistan decided to set up a Planning Board on 18th July, 1953, with Mr. Zahid Hussain, ex-Governor of State Bank of Pakistan as its first Chairman and two other members. The purpose and terms of reference of the Board were set forth as below:-

(a) Purpose:

The economic and social objectives of Government's Policy are to develop the resource as to promote the welfare of the people, provide adequate living standards, and social s of opportunity to all and aim at the widest and most equitable distribution of national we

c Terms of Reference:

i) To review the development that has taken place since independence.

ii) To assess the resources - material and human, which can be made available for d beginning from April, 1954 (later changed to April, 1955).

iii) To prepare a national plan of development based on the fullest possible utilisatio in a period of 5 years from Ist April, 1955 as a step towards the attainment of the Government's policy.

iv) To make proposals regarding the administrative machinery best calculated to ass plan.

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v) To make any other recommendations which in the opinion of the Board will cont implementation of the plan.

(c) Functions:

i) To prepare future five year plans of economic and social development.

ii) To make additions and alterations in the existing five year plan consistent with tl country.

iii) To tender such technical advice and offer such comments on financial matters be be requested by the Ministries of Government.

iv) To stimulate and, where necessary, to initiate the preparation of schemes require economic and social fields.

v) To examine development schemes, programmes and proposals with a view to the development.

vi) To maintain a continuous and constant review of the progress of development, th experienced.z

vii) To maintain a continuous review of the economic conditions of the country so fa development plans.

viii) To submit such periodic reports as the Government may desire from time to time

ix) To encourage the improvement and expansion of research (in particular economi investigations and evaluation needed to support effective planning and developm

x) Generally to advise the Government on economic policies and problems in vario on the development plans.

1.5 The Board accordingly prepared and submitted a five year plan for the period 1955-196(plan) which was approved in principle by the National Economic Council.

1.6 In order to assist the further economic and social development of the country, and in par objectives stated in Sections 28 and 29 of the Constitution, a permanent Planning Board Economic Affairs Resolution No. 129(3)PP/53 dated 20th April, 1957.

1.7 The Board was to consist of a Chairman and atleast two members one of whom was des Minister agreed to assume the office of the Chairman of the Board.

1.8 Mr. Said Hasan was appointed as the Deputy Chairman of the Planning Board with effe

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1.9 Subsequently, vide the Government of Pakistan Notification No. Cord(I)-8/84/58-I, dated the 22nd October 1958, the President was pleased to redesignate the National Planning Board as the Planning Commission. Cabinet Division's Resolution No. Cord(I)-8/29/59-III dated 3rd June, 1959 defined its objectives in the following terms.

1.10 The economic and social objectives of the Government are to promote the welfare of the people and raise the standard of living of common man by developing to the utmost the resources of the country as rapidly as possible by making provision for the basic necessities of life, educational and health facilities, and work under just and human conditions; by ensuring equitable adjustment of rights relating to the ownership and use of land and between employers and employees; and by preventing the concentration of wealth and means of production and distribution in a few hands to the detriment of the people as a whole; and by securing social justice and equal opportunity to all.

1.11 Consistent with these objectives, the functions of the Planning Commission were to be :

i) In consultation with the Central and Provincial Governments and other appropriate agencies:-

(a) to prepare a national plan at periodic intervals for the economic and social development of the country;

(b) to make assessments from time to time of the human and material resources of the country; and

(c) to prepare the Annual Development Programme (ADP) within the framework of the national plan and on determination of priorities, to propose the allocation of resources.

ii) To stimulate and where necessary initiate the preparation of development programmes and projects; to examine and advise on all such programmes and projects with a view to deciding whether these conform to national objectives and, in general, whether these contemplate the most efficient use of national resources.

iii) To recommend such adjustments in the national plans as may be necessary in view of the changing economic situation.

iv) To co-ordinate the examination of development programmes and projects in consultation with the appropriate authorities and to secure the approval of the Central Government to acceptable programmes and projects.

v) To advise on the nature of the machinery for securing the efficient execution of the national plan.

vi) To watch and evaluate the progress of implementation of the development programme.

vii) To advise on important economic policies and problems of various fields.

viii) To advise the Central and Provincial Governments, whenever so required, on economic policies and problems.

ix) Development of appropriate cost and physical standards for effective technical and economic appraisal of projects.

x) Coordination of all work pertaining to:

(a) Indonesia - Pakistan Economic and Cultural Cooperation (IPECC);

(b) Iran - Pakistan Joint Ministerial Commission;

(c) Turkish - Pakistan Joint Ministerial Commission.

xi) National Logistics Cell

xii) Administrative control of:-

(a) Economists and Planners Group;

(b) Pakistan Institute of Development Economics; and

(c) Overseas Construction Board.

Federal Ministries/Divisions

1.19 The Federal Ministries are responsible for the preparation of programmes and projects in their respective fields of interest including autonomous organizations under their control. The programmes prepared by the Federal Ministries are submitted to Planning Commission which coordinates all development programmes in the country.

Provincial Planning & Development Departments

1.20 The Planning and Development Department is the principal planning organization at the provincial level. It is headed by the Chairman, Planning and Development Board, Punjab and Additional Chief Secretaries (Development) in the rest of the three provinces and Azad Jammu and Kashmir and is assisted by professional staff of economists and specialists in various fields. It coordinates the programmes prepared by the provincial departments concerned with development and prepares the overall provincial Five Year Plan and Annual Plans.

Conceptual Definitions

1.21 Planning is usually classified in terms of time and organisational factor. In accordance with the time factor, plans are divided into three categories - short, medium and long. A short-term plan has a very brief and limited horizon. It is formulated with only one fiscal year in view. It is also called Annual Development Plan or simply Annual Plan. A medium-term plan covers four to seven years period with five years being the most popular choice. A long-term plan, more often called a "Perspective Plan", may have a 15-25 years tenure depending upon the peculiar economic compulsions and needs of a country. The conceputal definitions in respect of different types of plans formulated in the country are indicated below:

Annual Plan

1.22 The principal instrument for adjusting the five year plan to current realities is the annual plan, which has proved a dependable method for translating plan objectives into an operational programme. In other words, it is regarded as the implementation side of the five year plan.

1.23 The annual plan includes an evaluation of past performance, a presentation of the main targets, an assessment of the resource position for the year, an outline of the investment programme in the public and private sectors and a broad outline of the economic policies that may be necessary to achieve the targets.

1.24 In Pakistan, during the period 1972-77, medium-term planning was abandoned in favour of annual budgeting. Medium-term planning was revived again with the Fifth Five Year Plan in 1978, but the practice of annual plans was retained.

Roll-On Plan

1.25 In order to bring flexibility into the Five Year Plan and to relate the sectoral and project-wise allocation with (a) the financial position, and (b) project implementation, a roll-on plan of medium term is designed in which the sectoral and project-wise position is adjusted according to the foregoing year. For the initial three years, a roll-on plan is prepared for 'a', 'b', 'c' years. Next year, the 'a' year is ousted and 'd' year entered, so that the plan still remains for the three years. For the 'b' and 'c' years, adjustments are made according to the implementation of 'a' year. This process continues.

Five Year Plan

1.26 A single year is too short a period to accomplish anything. A five year plan on the contrary has the advantage of reasonable time frame for manoeuvering and achievement of solid results.

1.27 A five year plan is a general statement of objectives and targets relating to the economy as a whole and its various component sectors. It is not an authorising document in the sense that it does not authorise expenditure to the relevant operating agencies. It provides a broad framework for formulation of the plan.

Perspective Plan

1.28 Its main purpose is to provide a long-term (15-25 years) economic and social policy framework so that the objectives to be achieved over a much longer period can be incorporated in a medium-term framework. Pakistan had her first perspective plan in 1965 for the period 1965-85, which became redundant after the separation of its Eastern Wing in 1971 and was abandoned consequently. A fifteen years perspective plan was announced alongwith the launching of the 7th Five Year Plan, which covers the period from 1988 to 2003.

1.29 The third five year plan justified the Perspective Plan in the following words:

"The preparation of the perspective plan reflects in many ways the growing confidence of the country in its future. The plan is more than just a projection into the distant future; it is, in fact, a realistic statement of the goals to be achieved. It gives a sense of direction to the current economic policies. It establishes targets of massive improvement to be brought about in living standards by mobilizing the resources and energies of the nation".

1.30 The period is necessarily arbitrary and there is no profound reason for its determination but it seems to be, on the one hand, long enough to permit a meaningful structural change in the economy and, on the other, not so long as to be without direct interest to the present working generation. More specifically, five year plans are inadequate as a framework for targets and policies for other reasons. Many short term decisions have a bearing on long-term growth. If these decisions are taken without considering their implications for the years beyond the current five year plan, there is a danger of unexpected future imbalances. Economic growth is a continuous process so that planning for it calls for the integration and adjustment of short-term, intermediate and long-term programmes.

1.31 The seventh five year plan puts the perspective plan in the following words:

"Social change is a complex long-term process. It involves changes in values and ideas in social, political and economic spheres and innovations in the utilization of natural resources. It is useful to look from time to time at economic development in its wider context, and to prepare long term plans, more by way of setting distant guideposts than as a real effort to achieve specific targets. Obviously, given the uncertainties attaching to even nearer-term projections, a perspective plan cannot be a specific blueprint for action. The second perspective plan has been developed to visualize the desired profile of Pakistan in the year 2003, and outline a broad approach to key problems which may arise".

Public Sector Development Programme (PSDP)

1.32 The Public Sector Development Programme (PSDP) is an annual document which lists all the public sector projects/ programmes with specific allocations made for each one of them in that particular financial year. It is the operational side of the Five Year and Annual Plans. In other words, it is that part of the country's annual budget which deals with development expenditure, that is, it indicates the total cost of the project, foreign exchange component of the total cost, expenditure incurred upto the end of last financial year, PSDP allocation for the current financial year together with its foreign aid component.

1.33 The PSDP procedure differs from the project approval procedure. Due to the general constraint which exists on government funds, projects are competing for a limited amount of funds available for development. An essential part of the procedure, therefore, is a shift from the examination of a project in isolation to the selection of a limited number of projects out of a much larger portfolio.

1.34 The preparation of the PSDP is co-ordinated by the Programming Section of the Planning and Development Division. The procedure is laid down in detail in a PSDP call letter sent annually to all Government Ministries/Divisions, Provincial Governments and Chiefs/Heads of Technical Sections of the Planning and Development Division. The call letter includes a time-schedule and a standard proforma alongwith guidelines on the preparation of the PSDP and selection of projects. The procedure starts in October/November each year. A copy of the letter and the proformae attached therewith for preparation of the PSDP 1996-97 are placed at Annexure-I.

1.35 While structuring the PSDP, the following strategies are adopted:

(a) Federal Vs Provincial Projects

At present a major share of the total Development Programme is allocated to Federal projects which relate to major infrastructural sectors, like Transport & Communication and Energy, while the remainder is allocated to the Provincial Development Programme. Of the total Provincial Development Programme, 10% is allocated as a special allocation to NWFP and Balochistan while the remaining 90% is allocated among the four provinces on population basis. In addition, the Federal Government allocates funds to the provinces to cover essential provincial projects under the Special Development Programme, which cannot be included in the Provincial ADPs due to the resource constraint.

(b) On-going Vs New Projects

Preference is accorded to on-going projects for their early completion. At present some 80% of the total development expenditure is allocated to on-going projects and the remainder to new projects.

(c) Foreign-Aided Projects

It is to be ensured that aided projects are duly funded in accordance with the agreement signed with the donor agencies.

1.36 The allocation of funds is done in the light of the PSDP call letter issued annually by the Programming Section (Annexure-I). While selecting the projects for allocations, the following order of priority is generally maintained:

(a) On-going projects at a fairly advanced stage of implementation.

(b) Foreign-aided projects with high national priority.

(c) Projects dealing with emergencies, such as flood relief, etc.

(d) Newly approved projects.

1.37 Consideration in making allocations depends on whether the project forms part of the Five-Year or Annual Plan.

1.38 The PSDP formulated by the Planning and Development Division, in consultation with all the Ministries, is considered by the Inter-Ministerial Priorities Committee and the Annual Plan Coordination Committee (APCC). On its clearance by the APCC, the Planning and Development Division prepares a detailed summary for consideration of the National Economic Council (NEC), the highest decision-making body, chaired by the Prime Minister of Pakistan.

Thereafter, the PSDP is integrated with the national budget for consideration by the National Assembly.

1.39 When allocation of development funds in the PSDP comes for consideration before the Priorities Committee meeting, it is decided on the basis of the availability of funds, past performance and the phasing set in the PC-I. The priority in the allocation of funds should be in accordance with the ranking of projects from the point of view of their economics, ie the internal financial rate of return (IFRR) and the internal economic rate of return (IERR) either after allocation had been made for each sector, say, water or even prior to that. However, sometimes the political and social objectives are to be met first through allocation of funds. For example, if primary or secondary or university education is to be promoted, the ranking on the basis of economic rate of return is not necessary. Similarly if regional development is required to be done (as a political objective) or infrastructure is to be laid or potable water and other utilities of essential nature are to be provided for improving the quality of life, then the rate of return would not be taken into account, though provision will be made at the stage of the approval of the project that maximum revenues be obtained after project execution so that at least the O&M cost of the project is recovered. Full discussion of how the appraisal of the project from the point of view of financial and economic analysis is to be done has been made in Chapter 5 of this Manual.

1.40 During the financial year, if any agency requires additional funds for some of its projects for inescapable reasons, the agency approaches the Planning and Development Division (Programming Section) in either of two ways:

(a) If some savings are available within that agency's PSDP allocation, it requests the Planning and Development Division for re-appropriation. After consideration of the case in relation to the implementation of other projects, the Planning Division decides the case.

(b) If saving is not available in the agency's allocation, it requests the Planning and Development Division to allow a supplementary grant. The Planning Division decides each case on its merit and then recommends it to the Finance Division.

Transformation of Plan into Viable Projects/Programmes

1.41 Projects are the cutting edge of development. By this is meant that, without projects, it is unlikely that general development plans which hasten economic growth and further a range of social objectives will be fulfilled. Projects provide an important means by which investment and other development expenditure foreseen in plans is incurred. Sound planning requires good projects, but effective project preparation and analysis must be set in the framework of a broader development plan. Projects are a part of an overall development strategy and a broader planning process, as such they must fit in appropriately. Within the broad strategy, analysis must enable the sponsoring agency to identify potential projects that address the policy of production targets and priorities.

1.42 The general development plans, currently prepared in Pakistan, provide the general framework within which project planning is undertaken. On the one hand, the overall size of the PSDP is constrained by the macro-economic framework of the plan, suitably updated by the current events. On the other, the relationship is explicitly emphasised by the question in the PC-I proforma which asks whether the project in question is in the Plan and, if not, what justification may be given for it.

1.43 Plans frequently form the basis of identifying new projects. Under a systematic planning procedure, planners determine general guidelines for the fulfilment of overall development goals which are further translated into specific sectoral objectives, alongwith overall resource allocation between them. Sectoral planning needs more specific information about the resources and constraints of the sectors concerned. After the collection of this information, disaggregated project programmes are devised which are individually appraised in the light of guidelines and macro-economic parameters provided by the higher-level planners.

1.44 No development plan can be formulated in isolation from the projects nor the projects designed independently of the development plan. In fact the success of the development plan depends on how successfully this plan can be converted into a set of projects which are feasible. The overall development plan can be decomposed into sectoral plans and each sectoral plan can further be decomposed into projects. Keeping in view this relationship between projects and the plan, one can argue that viability of the projects would ensure attainment of the desired objectives of the development plan.

Definition of Project and its Contribution Toward Achievement of Overall Plan Goals/Objectives.

1.45 Projects are defined in different ways. The definition given in the UN Manual on Programming Techniques for Economic Development, produced under United Nations, ECAFE, 1960 defines a development project as follows:-

"the smallest unit of investment activity to be considered in the course of programming. It will, as a rule, be a technically coherent undertaking which has to be carried out by a private or public agency and which can be carried out, technically speaking, independently of other projects. Examples of projects are the building of a factory, the construction of a bridge or a road, the reclamation of a piece of land".

1.46 We can also say that from the stand point of economics, a project is the minimum investment which is economically and technically feasible. A project is, thus, an activity on which we spend money in expectation of returns and which logically seems to lend itself to planning, financing and implementation as a unit. It is a specific activity with a specific starting point and a specific ending point intended to accomplish a specific objective. Normally it will have some geographic location, specific clientele, defined time sequence of investment and operation and a bunch of benefits which can be quantified.

1.47 Projects have also been described as "the cutting edge of development" - they put teeth into development plans. For most development activities, careful project preparation in advance of expenditure is, if not absolutely essential, atleast the best available means to ensure efficient economic use of capital funds and to increase the chances of on-schedule implementation.

Unless projects are carefully prepared in substantial detail, inefficient or even wasteful expenditure of money is almost sure to result, a tragic loss in capital-short nations.

1.48 A development plan is essentially a forward-looking policy framework which envisages a concrete and prioritized but some-what flexible programme of action to be launched in a dynamic situation to attain specified economic and social objectives. A realistic and practical plan visualises a very close corresponding relationship between the plan, its programmes and projects which, in turn, are harmonised and integrated intra-sectorally and inter-sectorally in order to move them in step on the path leading to the achievement of the plan objectives and targets. It must be noted that a plan or a programme/project is ultimately as good as its implementation, since it is the actual achievement of the results in line with the targets, and not merely the targets set or the resources allocated, that determine the degree of success or failure of the plan/programme as well as its impact on the socio-economic life of the people. Thus, it is clear that only the technically, financially and economically sound projects/ programmes, if properly executed in a coordinated manner with the active and popular support of concerned departments, the target groups and the continued political commitment and support at the highest level can provide a strong edifice for the successful implementation of the plan.

PC-I, II, III, IV & V Proformae

1.49 In Pakistan, the present method for planning, processing and reporting on development projects is based on the "Rules of Procedure for Economic Council", Planning Commission and Planning Sub-Commissions, issued by the former Ministry of Economic Affairs, Government of Pakistan in September, 1952. In addition to laying down an effective organization for planning, five (5) proformae (Revised in 1995) were prescribed for preparation and implementation of development schemes (Annexure-II). Two of these deal with submission of project proposals (PC-I and PC-II), one is concerned with the progress of ongoing projects (PC-III) and two, ie PC-IV and PC-V are to be filled in after completion of a project. All of these have been discussed in the ensuing paras.

PC-I Proforma

1.50 PC-I is the basic form on which all projects/schemes are required to be drawn up. It was introduced in its simple form in 1952 and substantially revised in July, 1961. This was a composite form and was used for all sectors. But as the time passed on, bigger and complex projects had to be prepared which required quite detailed information for pre-investment appraisal. PC-I form, therefore, was continuously made more elaborate and 12 separate forms suitable for particular sectors were introduced in July, 1974. In 1995, a Task Force headed by Deputy Chairman, Planning Commission was set-up to review the project planning process from indentification to approval as well as PC-I and II proformae to improve project quality. The Task Force reviewed existing 12 PC-Is and observed that formats of existing PC-Is are though quite comprehensive but still require some improvements. Accordingly, the Task Force agreed that existing PC-Is should continue with some modifications/improvements to cover environmental aspect, social sector benefits, risk analysis and incorporation of detailed financial statements. As many as 14 forms, in all, were designed for various sectors. The guide-lines devised by the Task Force for filling in PC-Is and II proformae are at Annexure-III. These guide-lines should be strictly followed while preparing PC-Is/II projects.

1.51 The PC-I form comprises four parts. Part 'A' is the "Project Digest", containing eight questions which are more or less common to all sectoral PC-Is forms. These require mainly information on: (i) name of project, (ii) authorities responsible for sponsoring and executing of the project, (iii) completion period, (iv) a summary of cost in detail and (v) objectives of the project. Part 'B' entitled "Project Description and Financing", forms the core of the PC-I. The precise nature and form of the questions varies from sector to sector. The principal information asked for includes: (i) location, (ii) market analysis, (iii) general description and justification, (iv) operating or recurrent cost estimates, (v) technical description, (vi) capital cost estimates, (vii) unit costs, sectoral benefits, cash flow, financing arrangements, foreign exchange component, risk analysis, beneficiaries participation etc. Part 'C' deals with "Project Requirements". The information sought in this part includes: (i) manpower requirements during implementation, (ii) physical and other facilities required and (iii) materials, supplies and equipment. Part 'D' deals with enviroumental aspects. It includes information required in respect of (i) impact assessment undertaken separately in case of water, sewerage and solid waste and (ii) recommendations alongwith the measures to be taken to control environmental pollution.

Low Cost PC-I Proforma

1.52 A separate PC-I form for the small development projects costing upto Rs 1.00 million (non-recurring) should be used in respect of all the sectors, instead of comprehensive PC-I form for each sector.

PC-II Proforma

1.53 PC-II is required for conducting surveys and feasibility studies, in respect of larger projects, intended to get full justification for undertaking the project before large resources are tied up with them.

PC-III Proforma

1.54 PC-III form is designed to furnish information on the progress of on-going projects on quarterly basis and is required to be submitted by the executing agencies/departments within 20 days of the closing of each quarter. This form gives financial as well as physical progress of the schemes with information on any bottlenecks experienced during the execution of a project.

PC-IV & V Proformae

1.55 PC-IV form is required to be submitted at the time when the project is adjudged to be complete while the PC-V form is to be furnished on an annual basis for a period of five years by the agencies responsible for operation and maintenance of the projects.

1.56 Sectoral PC-I proformae, Low Cost PC-I form and PC-II, III, IV and V forms, currently in use, are given in Annexure-II.

Umbrella PC-I

1.57 Some times a Federal Ministry is required to prepare a PC-I having provincial components to be financed through a joint loan by a donor agency. Such a PC-I is called an Umbrella PC-I and could fall in any one sector of the economy. Since some inter-provincial coordination is also required, the preparation of the Umbrella PC-I is, sometimes, delayed just because of non-submission of PC-I by a certain province(s). This holds up the entire project. Therefore, proper coordination between the Federal Ministries and the Provincial Governments is required. In such cases, the Federal Ministry can prepare the Umbrella PC-I on the basis of the appraisal report of the project which contains all the necessary information/data in respect of each provincial component. However, if there is delay in submission of PC-I by any province and the Federal Ministry finds it difficult to prepare the Umbrella PC-I, then the matter is to be reported to the CDWP in which the provincial representatives participate and can be advised to expedite. Moreover, efforts should be made to negotiate aid separately for each province particularly in social sectors like primary education, population and rural health projects etc., where project implementation is exclusively the responsibility of the Provincial Governments.

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Chapter 2 : PROJECT IDENTIFICATION

PROJECT IDENTIFICATION

Sources of Project Identification

2.1 Project identification is the first phase of the project cycle. The project is a notion, speculative imagining of a proposal deemed fit for a prospective undertaking. It may be defined as a proposal for investment to achieve certain objectives. J. Price Gittinger, in his book, "Economic Analysis of Agricultural Projects" maintains that "all we can say in general about a project is that it is an activity on which we will spend money in expectation of returns and which logically seems to lend itself to planning, financing and implementation as a unit. It is a specific activity with a specific starting point and a specific ending point intended to accomplish a specific objective. It is something you draw a boundary around and say: 'This is the Project'. It is something which is measurable both in its major costs and returns. Normally it will have some geographical location or at least a rather clearly understood area of geographic concentration. It will have a relatively well-defined time sequence of investment and production activities. It will have a specific group of activities which we can identify and estimate values of. It will be a partially or wholly independent administrative structure and set of accounts".

2.2 Projects in various sectors are proposed and prepared by concerned ministries/departments. In advanced countries, there are special organizations which are employed continuously in the field surveys and necessary investigations required for formulation of feasible projects. These outside agencies, engaged for the purpose, prepare complete project documents including cost estimates and financial and economic analyses of such projects enabling the Government in appropriate evaluation of their potential and fixation of their priorities in a particular sector. In less developed/developing countries, unfortunately, there are no such organizations. In the prevailing procedure and practice, the following sources are used for project identification.

Plan Priorities / Plan Documents

2.3 Identification is done by the project's relevance to the National and Annual Development Plans. It is said that fixation of priorities is the first step to wisdom. The development plans are prepared after thorough scrutiny and judicious selection of the most important and remunerative projects by the Planning Commission/ Planning and Development Division of the Government of Pakistan charged with the responsibility of giving the final shape to these plans. The order of priority assigned to each project depends on the viability and desirability of the project's impact on national economic growth, social development, generation of greater resources/revenues and overall Government policy. All such potentially promising projects are identified and included in the national development plan, subject to expected resource availability. These selected projects as find place in the plan priorities are picked from the whole lot of projects pertaining to various sectors which pour in from different provincial governments as well as the federal government. Such projects have their relevance within the perspective plan's spanning long periods of 20 years, which aim at the steady evolution of the economy towards a state of self-sufficiency free from foreign aid and characteristic of a prosperous progressive nation. On these aspirations of a self-reliant free nation, the projects are identified in plan documents.

2.4 The exercise of "taking and leaving" the project is repeated for formulating the Five Year Plan which contains projects taken out of the long-term perspective plan documents. Final identification is made for the Annual Development Plan which is the operational plan and lists only top priority projects proposed to be implemented in advance of others in a particular year. The plan is constituted out of the on-going projects of various sectors, which are in different stages of completion, and other new priority projects. A project will thus be reckoned as successful if it is well-planned, can be conveniently implemented and is bound to achieve the objectives envisaged. Such projects are prepared for investment, recognition of economic effectiveness and identification in the frame work of five-year and annual development plan document.

Sectoral Analysis and Current Situation

2.5 As discussed above, national development plans are framed and finalised at all stages, after strict scrutiny, deep study and critical evaluation of large number of projects received from the sponsoring agencies. Within the financial limitations, and budget allocations for each sector's development, the best pick of the projects is identified and earmarked for inclusion in the long and short-term plans.

2.6 The plan priorities are generally governed by the guidelines that venture to show the most promising investment and/or most pressing problems of a particular sector in a current situation, like protection against super-floods or restoration of heavy rain/flood damages or security measures against serious law and order situation etc.

2.7 To elaborate the above point, it may be stated that for investment in Water, Power and

Agriculture Sectors, an action programme was prepared by IBRD under Indus Special Study and for salinity and water-logging by RAVELLE GROUP. Again a revised action programme for investment in the water sector was formulated by WAPDA with the assistance of the World Bank, and is currently being updated. Similarly, a ranking study for the power sector was also formulated by WAPDA with the assistance of CIDA, indicating the construction of power stations, both HYDEL and THERMAL, for attaining optimum power generation within the available investment resources.

2.8 Once the priorities are fixed and the selected set of projects is documented, a project in any sector shall be eligible for consideration only if it is identified by its entry in the approved plan. For its entry into the plan, however, the sectoral project has to stand the test of scrutiny under the normal guidelines. For example, the on-going projects will deserve first priority for funds, and the new projects of major sectors of the national economy will rank second. Projects aided by foreign sources are an exception and are generally included.

2.9 In keeping with the Rules of Business, all projects approved for implementation are included in the Annual Development Plan subject to resource availability. The projects prepared in each sector and presented by a provincial government for financing are adjudged individually and collectively. The selection/acceptance depends, among other factors, on the general constraints over the country's capacity and position of her exchequer, which may permit only such projects as give quick returns, alleviate poverty, eradicate social evils, promote export, curtail import and provide a springboard for faster development of science and technology.

2.10 Before reckoning the identity of a project in any sector, the role assigned to the project in the concerned sector and its impact on the overall economy or its interference/ overlapping with contemporary projects must be examined. Along with sectoral analysis, it will be tested for its favourable fitness in the current situation. For instance, a new medical college in the education sector of Balochistan Province may gain priority on socio-political grounds to respond to people's aspirations and meet squarely the call of the current situation. Similarly, the projects of salinity control and reclamation will rank prior to other competing projects in the agricultural sector, and will be justified under the severity of the current situation of sick soils. In the energy sector, again, the erection of transmission lines to energize the long-awaiting villages may compete with the setting up of a new hydel or thermal station to overcome acute energy shortages and ensure adequate power for industries to avoid colossal losses. An expert and expedient compromise has to be made in all such cases of sectoral competition in the Planning Commission and finally in the National Economic Council, (NEC), the highest decision-making body chaired by the Prime Minister. The rationale of sectoral analysis and consideration of the current situation are, therefore, important elements of project identification.

Special Policy Directives

2.11 Projects are also identified as a result of special policy directives of the Government. Projects initiated under such directives should be taken up on priority, even by postponing/ superseding other projects, if availability of funds is the constraint. It is always to be borne in mind that the over-riding limiting factor to the desired level of development in each sector, or to meet the need of the hour under the situation or to follow freely the special government policy, is the resource position.

New Ideas/Areas of Investment

2.12 Planning is a continuous process which generates new ideas for and areas of profitable investment, as a result of the sense of dedication and past experience. It calls for selfless efforts in the national interest on the part of all sponsoring agencies in various sectors to go beyond the routine and explore new avenues of development and consequent growth of economy, to exploit/ augment natural resources so as to eliminate dependence on external aid and usher in an era of self-respect and prosperity for the people.

2.13 More often than not, exploration and research are rewarded with rich returns. A case in point is OIL & GAS DEVELOPMENT, a national asset, harnessed by man's labour and skill for the benefit of the state. Investment in such enterprises of exploiting rare natural resources is immensely justified and the projects aimed at their exploration, extraction, transmission and refinement are readily identified as new areas of development/investment. These projects have self-evident potential and are self-identified. With adequate incentives from the Government, the bulk of the risk capital for oil/gas and hard minerals exploration should come from the private sector.

2.14 In the sphere of new ideas and areas of investment, projects are identified by objectives not pursued properly owing to paucity of funds or lack of clear vision. Recently a campaign at government level has been started for the development of the arid zones of Sindh Province. The desert dwellers of the arid zones of Thar and Kohistan (like 'Thal' of Punjab) are endowed with the most unfriendly climate and totally hostile topography. They face frequent famines and are always hungry or half-fed, leading a life of unending misery. Their main problem is water and without water there is no life. The projects pertaining to this part are identified in their new areas of investment, namely, exploration, treatment, conveyance and distribution of water, particularly for domestic use and livestock, alongside of the provision of basic health services and catering to the need for education, starting with the elementary level. These projects are prepared and executed by Sind Arid Zone Development Authority (SAZDA), a new organization created to work under the chairmanship of the Chief Minister, Sind. These projects and other similar ones aimed at ameliorating the sub-human living conditions of a part of the population are identified as based on new areas of investment.

Potential Projects

2.15 As a matter of fact, all projects that bear the strain of scrutiny by the Planning Commission, and finally succeed to find a place in the approved development plans are beyond doubt potentially promising projects. In a narrower sense, however, projects could be distinguished and identified for their potential of development in a particular sector of national economy. Fundamentally the projects are identified by the purpose they intend to accomplish in terms of time and money. Among other features, the single most attractive aspect of a project is more profitable benefit-cost ratio. However, there are projects which aim at the specific object of harnessing/enhancing the natural resources of the country to increase its capacity for longer-term gains. These are potentially productive projects. They pave the way by their large benefits to undertake ambitious development programmes for attainment of healthier and higher standards of living and for achievement of tangible targets in advancement of modern technologies.

2.16 Projects promising reduction in unemployment, amelioration of educational standards, superior health services, and security of life and property, are identified as potential projects answering the aims of any state administration for the welfare and well-being of her people.

Manual For Development Projects

Chapter 3 : FEASIBILITY STUDY

FEASIBILITY STUDY

Why Feasibility Study Needed

3.1 The selection of a sound project to achieve the given target of economic development in a particular sector is very important for attainment of Plan objectives. Development projects, especially large and complex ones, often meet with difficulties during their execution process. A feasibility study is, therefore, a pre-requisite for preparation of a major development project on sound lines, and is not ruled out even for a minor one. It is basically an in-depth "three-in-one" study consisting of the technical, financial and economic viability of a project. The study arrives at a definite conclusion about the feasibility of a project after considering the various options (Annexure-IV).

Dimension of a Feasibility Study

3.2 The feasibility study should provide basic information related to the main scheme on the basis of various surveys/ researches carried out. It should include technical, financial, economic, managerial, social and regional aspects of the project. A guideline giving the essentials of a feasibility study is given in Annexure-III.

Preparation/Processing of PC-II

3.3 A PC-II is prepared for undertaking a feasibility study in respect of a major project estimated to cost Rs 50 million or more. This is mandatory. A project-oriented TOR should be prepared and professional consultants should be engaged for the feasibility study, if necessary (Annexure-V). The procedure for processing a PC-II is the same as for the PC-I. The consultancy cost should not exceed 10% of the project cost. The relevant scrutinizing body and the sanctioning authority will also remain the same as for the PC-I. In short, all the rules and procedures in respect of the PC-I will apply mutatis mutandis to the PC-II.

Appointment of Consultants

3.4 In the case of large/complicated projects, appointment of local/foreign consultants is desirable. All proposals for consultancy, both local and foreign, for preparation of feasibility studies/ conducting surveys should be drawn up on the PC-II form and got approved from the Competent Authority before undertaking the actual work. The need for utilization and development of local consultancy has been recognized by the Government. Accordingly, ECC in its meeting held on 19-7-1988 decided that 30 per cent of expenditure to be incurred on foreign consultancy should be devoted to the development of local consultancy and that the limit of 30 per cent would be mandatory for foreign consultants, who would be required to engage local consultants (Annexure-VI).

3.5 This decision was, however, modified by the ECC in its meeting held on 10-4-1989 to the effect that aid donors should be assured that the 30 per cent mandatory limit on foreign consultants would not be applied rigidly and that this would be subject to the technical needs and availability of local consultants with the requisite qualifications and experience (Annexure-VII).

3.6 In order to give preference to local consultants, relevant extract of Prime Minister's Order dated 7th November, 1993 is as follow:-

"The Pakistani consultants and engineers be given full opportunity and they should be the first to be hired for projects for consultancies in Pakistan before hiring any foreigners. The decision of the ECC for a minimum of 30% award of consultancy contract to local consultants may be strictly enforced".

3.7 A copy of the "Guidelines for the Appointment of Domestic and Foreign Consultants" is enclosed (Annexure-VIII).

Manual For Development Projects

Chapter-4: PROJECT PREPARATION

- **Inter-Agency Coordination**
- **Preparation of PC-I/Project Document**

General

4.1 Until 1975, only one PC-I form remained in use for the projects of various sectors. Since then, 12 sectoral PC-I forms were in use. In 1995, the number of PC-I forms have been increased to 14. A separate PC-I form for the small schemes, costing upto Rs 1.000 million, also exists. (Annexure-II). The sectoral/sub-sectoral forms have been introduced with a view to have detailed information on each aspect of the project. Inspite of this, project preparation has continued to suffer from the following weaknesses:-

i) Inadequacy of data

ii) Unrealistic cost estimates

iii) Over-estimation of benefits

iv) Lack of coordination with the related agencies

v) Incorrect assumption of availability of inputs

vi) Lack of proper implementation schedule.

With a view to avoiding cost over-runs and repeated revisions of the scheme, it is extremely important that information against the various columns of the PC-I is carefully provided. If a project is prepared with due care and based on surveys, investigations and feasibility studies, the time taken in its examination (and also execution) will be greatly reduced.

Linking Projects to Resources

4.2 While preparing projects, the sponsoring agencies do not keep in view the resource availability in the Plan. At present, a large number of projects are being prepared and approved irrespective of the Plan provisions. Due to this, the available resources are being thinly spread over a larger number of projects, including low priority projects. Because of this, priority projects, in particular aided projects, are not implemented according to the prescribed time schedule. The inadequate provision of rupee funds arises out of the budgetary constraints. The Planning Division conveys tentative sectoral allocations based on resource availability to the Ministries/ Divisions well before the preparation of PSDP. However, the Ministries/Divisions prepare their demands much in excess of the resource availability indicated to them. This results in the distortion of priorities in resource allocation. The Ministries/Divisions etc., should themselves determine their priorities, duly protecting aided projects within the resource availability indicated to them. Moreover, in case a new priority of the Government is received, the agency concerned should re-order the priorities of the existing projects to accommodate the new priority within the available resources. What happens is that both the old and new priorities are sought to be accommodated in the limited available resources.

4.3 At the time of approval of the projects, the availability of the resources in the Plan and PSDP should be looked into very carefully. The sponsoring agencies should structure their priorities according to the available resources and not come up with an over-ambitious programme, which may not be possible to implement.

4.4 The financial schedule must be included in the PC-I and linked with the implementation schedule. The sponsoring agency should satisfy the approving authority as to how the proposed financial requirements of the project will be adjusted in the Plan.

4.5 Some sponsoring agencies suggest that the detailed design and drawings etc., of the project should not be a pre-requisite for the approval of the PC-I. The approval should be given on the basis of the rough cost estimates, which may be adjusted within the permissible limit of a 15% increase. In this connection, the decision of the NEC dated 4-7-1988 is as under:-

"Within six months of project approval, detailed design and costing should be finalized and submitted to the competent authority. Implementation of such project components, which require detailed designing, should be started only when these have been finalized".

The above decision of NEC should be strictly followed by the executing agencies.

4.6 The NEC further decided in the same meeting that all PC-Is costing Rs 50 million and above should be supported by a feasibility study. However, this does not rule out a feasibility study in the case of PC-Is costing less, where it may be needed.

Location, Area and Population Coverage

4.7 It should include the following:

i) Place and administrative district where the project is located.

ii) Map of the project area.

iii) Reasons for selection of location. In this connection it may be noted that many projects have suffered tremendously in the past from cost over-runs and delay in implementation due to hasty selection of site. The project also suffer due to delay in acquisition of land. Therefore the availability of land needs to be assured. In selecting the location, area and population to be served by the project, the income and social characteristics of the population will have to be kept in view. Similarly, the economic characteristics of the area i.e. present facilities and availability of inputs and regional development needs will also have to be taken into consideration.

iv) PC-I form should clearly indicate that the environmental aspects of the project have been duly taken into account.

v) The Sponsoring Agency should ensure protection of key points in the project (Annexure-IX).

Project Description

4.8 The description of the project should provide information pertaining to its physical features and technical aspects. It should also include its justification and rationale, in addition to a brief account of the work done in the past, the feasibility study undertaken and Government instructions and policies on the subject. Project description is indeed a synopsis of the entire project and has to be given in a manner that the appraising and sanctioning authority is enabled to appreciate its broad aspects without having to go into the minute details.

Project Objectives and Targets

4.9 While preparing a project, particular heed has to be paid to the objectives and targets it would achieve in terms of the goals and targets set out in the Five Year Plan. Besides, its relationship with the other projects of the same sector/sub-sector should be shown over and above an indication of its own contribution, in quantifiable terms, to an integrated programme or the five year plan. In this regard, the sponsors have to obtain information from other related agencies by personal contact or correspondence. The desired information can also be obtained by consulting the various published documents like the Five Year Plan, Annual Plan of the Planning Commission, Economic Survey of the Finance Division and statistical data periodically published by the Statistics Division. Under the head 'Objective', it is also to be stated whether the output would be used for import substitution or export promotion or meeting the increased domestic demand or a combination of these. The technology to be adopted and the source of supply of machinery and equipment should also be mentioned.

Project Scope

4.10 While giving the scope of the project, the sponsors should indicate in quantitative terms the proposed facilities which would become available from its implementation. Information is also required to be given in respect of the following:

i) Demand for output, with its basis.

ii) Existing position regarding

(a) capacity

(b) Actual supply of output

iii) The gap that the project is going to fill between the supply and demand.

4.11 All proposals for road making or earth moving machinery by the Government Departments/agencies should be accompanied by an inventory of the existing strength of machinery of all the public sector departments/agencies. Similarly, whenever a provision of new vehicle is made in the development project or in non-development side, the concerned Ministry/Department/Agency should furnish as a supporting document, full inventory of the existing vehicles both on development and recurring side, alongwith their date of purchase, to justify the purchase of new vehicles.

Change in Scope of Projects

4.12 The physical and financial scope of a project, as determined and defined in the project document (PC-I), is appraised and scrutinized by the concerned agencies before submitting it for approval of the CDWP/ECNEC. Once approved by the competent authority the executing agency is supposed to implement the project in accordance with the PC-I provisions. It has no authority to change and modify the main approved parameters of the project on its own, beyond permissible limit of 15%.

4.13 However, if at some stage modifications/changes become imperative then project authorities should revise the project and submit it for the approval of competent authority.

Cost Estimates

4.14 The cost estimates of a project have to be prepared with a lot of care so that these are not revised again and again and implementation is not delayed due to non-availability of provision of funds and revised sanction of the competent authority. Besides, the cost debitable to the development budget has to be distinguished from the cost debitable to the revenue budget. The concept and definition of development expenditure are explained in the Planning Commission's paper F.M. I (Annexure -X). The cost details have to be given according to the requirements of the PC-I of each sector. However, the following guidelines will generally apply to all:

(a) The local and foreign exchange costs have to be shown separately.

(b) The cost of imported items available in the local market should be reflected in the local component and not in the foreign exchange component.

(c) A break-down of the total cost has to be given item-wise, e.g;

i) Land and development

ii) Civil Works

iii) Machinery and Equipment

iv) Supplies

v) Consultancy, if any

vi) Project Staff

vii) Interest during construction, etc.

(d) Unit cost has to be given separately in the appropriate column of the PC-I.

(e) In case of revised cost, the reasons for increase in respect of each item as originally estimated have to be furnished. Similarly increase due to revision in the scope of the project is to be given separately in accordance with the additional sheet annexed with each sectoral PC-I.

(f) In case a project has been revised for the first time either due to increase in the total cost by more than 15% or due to revision in its scope, it would be treated as a new scheme for obtaining sanction of the competent authority. Any further increase thereafter is not allowed and therefore it is essential that the revised cost estimates are prepared with due care (Annexure-XI). A copy of the Planning and Development Division's letter dated 12-12-1989 is also enclosed for guidance (Annexure-XII).

(g) In case the PC-I provides 15% or more escalation in loan agreement of Aided Projects, the provision of 15% escalation over the approved cost of the project as contained in Planning & development Division's letter dated 15-4-1989 (Annexure-XIV) shall not therefore be admissible in such cases.

(h) When the need for revision of cost becomes evident due to higher bids received in response to a tender, the revised scheme based on the accepted tender cost should be submitted to the competent authority for fresh approval. As regards the question as to when a revised scheme, the cost of which has exceeded more than 15% of the originally approved cost, should be prepared and submitted to the competent authority for approval, it is to be noted that no difficulty should be experienced if PC-III (Quarterly Progress Report) is duly prepared. If columns 6 and 7 of the said form indicate that the percentages of financial expenditure have exceeded the percentages of physical work by more than 15% it is enough indication that the cost of the project would go beyond the approved cost. As soon as the indication is visible, the executing agency should start work on revising the scheme and submit for the approval of competent authority (Annexure-XIII) without stopping the actual work. In the exceptional case where the revised PC-I can not be prepared in time, recourse could be had to obtaining the anticipatory approval of the Chairman, ECNEC (Annexure-XV). However, increase in the cost due to delinking of the Pakistani Rupee from the Dollar will not need fresh approval of the CDWP/ECNEC. The sponsoring agency shall however intimate the revised cost due to the depreciation of Pakistani currency to the Cabinet Division, Planning and Development Division and Finance Division (Annexure-XVI).

(i) In the case of non-aided projects where the cost of the project remains within 15% of the original cost/scope, the case for extension of the execution period beyond that shown in the approved PC-I need not be referred for approval to the Planning and Development Division. However, the Planning and Finance Divisions may be informed when such extensions are involved, giving reasons for the delay in the execution of the projects. In case of aided projects, the extension, if necessary be obtained from the Economic Affairs Division and the Planning and Development and Finance Divisions be informed. The Economic Affairs Division, for such extension, would consult the aid-giving agency/agencies and the Planning and Development Division and Finance Division (Annexure-XIV).

(j) While preparing the cost estimates, the formula regarding the provision for future price escalation given by the Planning Commission should be kept in view (Annexure-XVII). This provides for 6.5% increase in the second year, 13% in the third and 20% in the fourth year.

(k) Cost estimates should also be based on present market survey or/and pre-tender quotation. The schedule of rates used in estimating the project cost should be regularly updated by taking into account the market rates, instead of allowing across-the-board premium on the schedule of rates (Annexure-XVIII, para 7).

Revised Cost Estimates

4.15 The ECNEC in its meeting held on 29th November, 1978 (Annexure-XXXI) decided that all the authorities concerned should keep an effective check on the increase in the approved cost. The main effective role in this regard can be that of Audit. The Ministry of Finance should look into this problem more thoroughly and request Audit not to make any payment if the cost of the project is found to be exceeding 15% over the approved cost.

Financial Plan

4.16 The sponsoring agency has to indicate the financial plan of the project in the appropriate column of the PC-I. The position in this regard has to be indicated in specific terms so that there remains no ambiguity or confusion in getting the necessary funds from the sources indicated. In case, a foreign agency is committed to finance the project either partly or fully, the name of the agency with the amount of foreign exchange and local currency committed, is to be mentioned in the PC-I. Similarly, the source and amount of the rupee component, which may be as under, should be indicated.

Source Amount

(a) Government Sources

i) Grant

ii) Loan

iii) Equity

(b) Sponsoring Agency's Own Fund

(c) Private Investment

(d) Local Body Services, if any

(e) Non-Government Borrowing

(f) Other Sources (e.g., Recoveries)

Usually foreign aid negotiations should be undertaken after a project has been approved by the competent authority or at least cleared by the Concept Clearance Committee headed by the Deputy Chairman, Planning Commission.

Financial Phasing

4.17 The financial phasing of a project is to be given for each financial year related to the physical work proposed to be undertaken, keeping in view the implementation of similar projects in the past. It should be as realistic as possible. Funds utilization capacity of executing agency should be kept in view while determining financial phasing of project.

Physical Scheduling of Activities

4.18 The scheduling of activities and availability of physical facilities are interlinked with the completion period. The availability of physical facilities e.g., (i) access road, (ii) power supply, (iii) water, gas, telephone and other utilities, (iv) education facilities, (v) housing etc., have to be ensured. The sponsoring agency has also to indicate separately what facilities would be available from the project itself and to what extent these would be available from the public utilities. The scope of work to be carried out should be gone into very thoroughly to facilitate physical and financial phasing as well as supervision.

Period of Implementation

4.19 Time calculated for the completion of the project should be on a realistic basis. The following factors will have to be taken into consideration to firm up the implementation period:

(a) Total allocation made in the Five Year Plan.

(b) Expected allocations in the PSDP, keeping in view the past experience.

(c) Time to be taken in preparing the detailed design(s), invitation of tenders and award of contract(s).

(d) Availability of land; time taken in its acquisition.

(e) Time to be taken in the land development, keeping in view its topography and construction of access road.

(f) Availability of professional and technical manpower.

(g) Availability of materials, supplies and equipment.

(h) The implementation schedule should be based on Bar Charts/PERT/CPM and should essentially form part of every project document.

(i) Project Evaluation and Review Techniques (PERT), Critical Path Method (CPM) or Bar Charts be prepared to help implementation of the project according to the plan. A model copy of each of these techniques to be adopted by the sponsoring agencies concerned is enclosed (Annexure-XVIII).

Appointment of Consultants for Project Preparation, Detailed Designing and Tender Documents.

4.20 The fundamental policy of the Government in the matter of preparation of a development project is to ensure that it is prepared with the utmost care and skill in accordance with the requisite economic, financial and technical standards, and keeping in view the objectives and targets laid down in the five year plan. In case local expertise is not available, foreign experts/consultants can be employed to prepare projects which are technically and economically viable. Efforts are going on to develop local consultancy but, in case of sophisticated projects involving new technology, foreign consultants have to be appointed. Most of our large projects are foreign-aided and engaging foreign consultants is made part of the aid. However, Government have recently decided that 30 percent of the expenditure to be incurred on foreign consultancy should be diverted to the development of local consultancy. This requirement was first made mandatory but later it was decided that it may not be applied rigidly and would be subject to the technical needs and availability of local consultants with requisite qualifications and experience (Please see Annexure VI & VII). In order to give preference to local consultants, relevant extract of Prime Minister's Order dated 7th November, 1993 is as follows:-

"The Pakistani consultants and engineers be given full opportunity and they should be the first to be hired for projects for consultancies in Pakistan before hiring any foreigners. The decision of the ECC for a minimum of 30% award of consultancy contract to local consultants may be strictly enforced".

4.21 In the TOR of consultants, whether local or foreign, when appointed for the preparation of a project, it is to be made incumbent, that in addition to the scope, technical viability of the project etc., they have also to provide the implementation schedule supported by a Bar Chart, CPM, PERT, etc.

Economic Benefits

4.22 The economic aspects of a proposed project/sector/ programme contribute significantly to the development of the economy through backward/forward linkages. The benefits of the projects could be:

enhanced production, employment, increase in the value of output due to quality improvement or otherwise. The benefits could be affected because of change in the location of project, time of sale or change in the grade. Moreover, the benefits could accrue owing to reduction in cost or gains from a mechanization of the process, from reducing the distribution cost and or by avoiding the losses. In social sector projects, the benefits could accrue by increasing the earning capacity of the institutions, say, by increasing the tuition fee in an educational institution. In certain projects like those of transport, benefits could accrue because of a saving in time, savings in operation cost, accident reduction and on account of new development activity. The projects have also some intangible benefits like better income distribution, national integration, national defence or just a better life for any segment of population like the rural population, especially of the far-flung and backward areas.

Inter-Agency Coordination

4.23 With a view to avoid duplication of efforts and in order to ensure efficient implementation of the proposed project, it is highly desirable that all the relevant data have been obtained and the agencies concerned consulted. For example, in respect of a health scheme, information about public and private sector institutions in the area, their staff and equipment and the number of persons served by them have to be obtained and reflected in the project. With the same end in view, data about the population of the area and the economic characteristics of the persons who are being provided service, as well as data about morbidity and incidence of epidemics during the last five years or so, have to be obtained.

4.24 Inter-agency coordination is also necessary for the availability of utilities, such as water and power supply, education facilities and housing. For example, before an industrial scheme sponsored by the Production Division is embarked upon, it is absolutely necessary that the clearance of the concerned agency is obtained for the availability of water supply and other utilities. As decided by the NEC in its meeting held on 4-7-1988, the Project document should clearly indicate that coordination with the other agencies to facilitate project implementation had been effected (Annexure-XVIII para v).

Preparation of PC-I/Project Document

4.25 At present there are 14 PC-I forms in vogue for various sectors/sub-sectors (Annexure-II). The requirements of all of them are, by and large, identical. It is necessary that information in respect of each of them is provided on the basis of factual data. Minor schemes, irrespective of sector, estimated to cost upto Rs 1.00 million should be prepared on the proforma contained in Annexure-II.

4.26 Preparation of the project on the PC-I proforma is the pivotal phase of the project cycle. The maxim 'well begun is half done' is most appropriate for completing this phase. The Sponsoring Agency should be given or give itself adequate time to prepare a project. The time taken in the examination of a project would be in inverse proportion to the time taken in its preparation. Thanks to the effort, the project would in fact lend itself to smoother and speedier implementation. A hurriedly prepared project, on the contrary, would run a difficult course throughout the project period and be afflicted with time and cost overrun and may ultimately prove to be counter-productive.

4.27 The PC-I should be supported with a feasibility study, survey and investigation and market survey report etc.

4.28 The National Economic Council in its meeting held on July 4, 1988 had decided that the implementation schedule should be based on the Bar Chart/PERT/CPM. This decision of the NEC (Annexure-XVIII) needs to be strictly followed by the sponsoring agencies while preparing the project on the PC-I. This is essential for the proper physical and financial phasing of the project.

Manual For Development Projects

Chapter-5: PROJECT APPRAISAL

Purpose

5.1 The third phase in the project cycle is appraisal. If a project is well formulated and thoroughly appraised, a good follow-through on the subsequent stages of the project cycle will see to its goals being achieved. Appraisal involves a careful checking of the basic data, assumptions and methodology used in project preparation, an in-depth review of the work plan, cost estimates and proposed financing, an assessment of the project's organizational and management aspects, and finally the validity of the financial, economic and social benefits expected from the project. On the basis of such an assessment, a judgement is reached as to whether the project is technically sound, financially justified and viable from the point of view of the economy as a whole.

5.2 The Planning and Development Division, as per the Rules of Business, 1973 (up-dated upto February, 1985) is responsible for the development of appropriate cost and physical standards for the effective technical and economic appraisal of projects. In the Planning and Development Division, there is a division of labour in the appraisal of projects. The technical appraisal is undertaken by the concerned technical section in consultation with other technical sections, wherever necessary. This covers engineering, commercial, organisational and managerial aspects, while the pre-sanction appraisal of the development projects from the financial, economic and social points of view is carried out by the Project Appraisal Section. The rationale behind the project appraisal is to provide to the decision-makers financial and economic yardsticks for the selection/rejection of projects from among competing alternative proposals for investment.

Various Aspects of Appraisal

5.3 Appraisal can be referred to as ex-ante, on-going and ex-post. In the Planning and Development Division, projects are examined from the technical, institutional/organizational/ managerial, social, commercial, financial and economic points of view. These aspects are briefly discussed in the following paragraphs:

Technical Analysis

The analysis for determining the technical viability of the development project is based on the technical data and information given in the PC-I form as well as the earlier experience of carrying out similar projects. The technical tests and yard-sticks to be used to determine the technical viability differ from project to project and from sector to sector. In cases where high level technology is involved and the country has little or no experience, foreign consultants are also employed to prepare the feasibility studies. The technical analysis concerns the project's input (supplies) and output (production) of real goods and services. For example, in an agricultural project, technical analysis will determine the potential yields in the project area, the co-efficients of production, potential cropping patterns, and the possibilities for multiple cropping. The technical analysis will also examine the marketing and storage facilities required for the successful operation of the project. The aspects like soil/ground water or collection of hydrological data may also be examined. Knowledge about farmers in the project area, their current farming practices, and their social values to ensure realistic choices about technology is also examined.

Institutional/Organizational/Managerial Analysis

A whole range of issues in project preparation revolves around the overlapping institutional, organizational and managerial aspects of the project, which clearly have an important effect on project implementation. The proposal should be examined to see that the project is manageable and a relationship has been developed amongst the project, region and the country. The proposal may contain the replies of the probable questions: (a) are the authority and responsibility properly linked? (b) does the organizational set-up encourage delegation of authority? (c) does the proposed organization take proper account of the customs and organizational procedures common in the country or, alternatively, does it introduce enough change in organizational structure to break the traditional organization forms? (d) What about training arrangements? etc.

Social Analysis

Social analysis is undertaken to examine the aspects like employment opportunities and income distribution. The project analyst would also examine the effects of a project on particular groups/regions.

Commercial Analysis

The commercial aspects of a project include the arrangements for marketing the output produced by the project and the arrangement for the supply of inputs needed to build and operate the project. On the output side, careful analysis of the proposed market for the project's production is essential to ensure that there will be an effective demand at a remunerative price. It needs to be ensured that adequate input supplies are available for the efficient operation of the project.

Financial Analysis

Financial analysis involves assessment of financial impact, judgement of efficient resource use, assessment of incentives, provision of a sound financing plan, coordination of financial contribution and assessment of financial management competence. The main objective of financial analysis is to determine the requirements of funds/timing and the expected returns on investment from the points of view of the various parties involved in the financing of the project. Under this analysis, judgement is framed about the project's financial efficiency, incentives, credit-worthiness and liquidity. In financial analysis, cost and benefits are calculated using current market prices. Interest payments on borrowed capital and repayment of loans are not included. Taxes in the form of excise duties, customs duties, sales taxes are considered cost, while subsidies and loan receipts are considered benefits and are fully accounted for in the analysis.

Economic Analysis

Analysis from the economic aspect assesses the desirability of an investment proposal in terms of its effect on the economy. The question to be addressed here is whether the investment proposal contributes to the developmental objective of the country and whether this contribution is likely to be large enough to justify the use of scarce resources such as capital, skilled labour, managerial talents etc., that would be needed to implement and operate the project. In economic analysis, input and output prices are adjusted to reflect true social or economic values. These adjusted prices are often termed as shadow or accounting prices. The taxes and duties are treated as transfer payments and are excluded from the capital and operating cost. The two main steps in economic analysis are: (a) the "pricing of project inputs and outputs" and (b) the "identification of project costs and benefits". These steps are discussed below:

(a) Pricing of Project Inputs and Outputs

In economic analysis, the valuation of inputs and outputs can be made keeping in view the following three rules:

i) Most of the inputs in economic analysis are valued at opportunity cost or on the principle of willingness to pay. Actually it is assumed that all inputs to the project are diverted away from alternative uses. Each input has generally value in alternative use. But this use may be sacrificed so that the input can be used by the project. This sacrifice is a cost to the nation; it is an opportunity foregone because of the project. Every input to the project is valued at this opportunity cost-the value of the input in its best alternative use;

ii) For some final goods and services, usually non-traded ones, the concept of opportunity cost is not applicable because it is consumption value that sets the economic value. This criterion is called "willingness to pay" or "value in use".

iii) The third rule of pricing inputs and outputs is that the analysis is done at present, i.e. constant prices. This is because current price analysis entails the prediction of inflation rate which is difficult and unreliable.

(b) Identifying Project Costs and Benefits

Proper identification of project costs and benefits is an important step. An improper identification of costs and benefits would lead to under - estimation of costs or over-estimation of benefits or vice versa. The identification of secondary costs and benefits is a difficult task. For example, most of the benefits from an expanded irrigation project may be offset by a fall in fish production and reduce income for thousands of fishermen. Increased benefits due to the construction of a new highway may be equally matched by a reduction in the income of the railways due to decrease in passengers/goods. An important technique which is followed for correct quantification of costs and benefits is "with and without project" comparison of costs and benefits. Project analysis tries to identify and value costs and benefits that arise with the proposed project and to compare them with the situation as it would be without the project. The difference is the incremental net benefits arising from the project investment. This approach is not the same as comparing the situation "before" and "after" the project. The "before" and "after" comparison fails to account for changes in production over the life of the project that would occur without the project and thus leads to an erroneous statement of benefits attributable to the project investment. A change in output can also occur without the project if production would actually fall in the absence of new investment. In some cases, an investment to avoid a loss might also lead to an increase in production so that the total benefits would arise partly from the loss avoided and partly from increased production. Here are some special items which must carefully be handled while identifying and quantifying costs and benefits for financial and economic analyses:

i) Direct Transfer Payments

Some entries in financial accounts really represent shifts in claims of goods and services from one entity in the society to another and do not reflect changes in the national income. The following four kinds of transfer payments are important which are not included in economic analysis:

(a) Taxes (Direct and Indirect)

When a farmer pays a tax, his net benefit is reduced but it does not reduce national income. It is a cost to the farmer and is not a cost from the stand-point of society as a whole. Thus, unlike financial analysis, in economic analysis, we would not treat the payment of taxes as a cost in project accounts. However, some taxes called user taxes are exempted from this rule. Governments often include payments for road improvements, water or power supply charges in property taxes and this element of property tax does represent a real cost to society. Highway and bridges tolls, if accurately set, also may be users taxes and represent real cost. But taxes on gasoline and petrol do not represent users taxes.

(b) Subsidies

Subsidies are simply direct transfer payments, that flow in the opposite direction from taxes. If a farmer is able to purchase fertilizer at a subsidized price, that will reduce his costs and thereby increase his net benefit. But fertilizer used by the farmer is cost to the economy and in economic analysis must enter the full cost of fertilizer. Another form of subsidy is that which lowers the selling price of inputs below what otherwise would be their market price. Market price may be maintained at a level higher than it otherwise would be by, say, levying an import duty on competing imports or forbidding competing imports altogether. The difference between the higher controlled price, set by such measures, and lower price for competing imports, that would prevail without such measures, does represent such indirect subsidy.

(c) Credit Transactions

Credit transactions are the other major form of direct transfer payment. Loan to a farmer, for example, does not reduce the national income. It merely transfers the control over resources from the lender to borrower. Same is the case when the farmer repays the loan (interest + principal).

(d) Interest

In determining the gross cost-stream for calculating discounted measures of project worth, we do not include interest as a cost both in economic and financial analysis. Expressing it in another way, we do not deduct interest from the benefit-stream on the capital supplied by the entity for which we are doing the analysis, because in effect the result of a discounted flow analysis is the allowance for the return to the entity capital (interest). If we compute net present worth, we are determining what would be left over after allowing for some specific rate of return to the entity's own capital, the interest. When we compute "IRR", this is return to the entity's own capital and, in a sense, is the interest which that capital earns. Thus, interest is not cost in deriving the cash flow for financial/economic analysis.

Project appraisal attempts to measure the profitability of all resources devoted to the project; it is not concerned with the way in which these resources are financed. Interest is the cost of time (waiting) and discount rate is also supposed to be a measure of the cost of waiting for future benefits. So interest is automatically allowed for in the discounting procedure. Since the principal of a loan is used to purchase building and equipment whose costs are already part of the cash flow, repayment of that principal would add a cost that had already been charged to the project. It may however be noted that interest on capital is to be shown in the overall cost of a project.

ii) Depreciation

Depreciation is an accounting concept necessary when accounts are to be prepared for one year at a time (not prepared as a projection over the life of the project) and must include an allowance for the capital use during each year. Actually a part of the project's revenue is set aside in an account labelled "depreciation" to ensure that some revenues are retained to replace capital when it wears out. Thus, it is neither a cost nor a cash outflow. In fact, to include it as a cost would be double-counting. So in determining the gross cost-stream for calculating out discounted measures of project worth we do not include depreciation as a cost or, expressing it in an other way, in computing the incremental net benefits, we do not deduct from the gross benefits any allowance for depreciation because the incremental net benefit-stream already allows for the return of capital (depreciation) over the life of the project. When we discuss cash flow, it is an undifferentiated combination of:

(a) depreciation or amortization - return of capital

(b) returns paid for the use of capital, such as, dividends, profits, and the like-returns of capital.

We do not subtract depreciation as a cost. Yet the internal rate of

return is a measure of the earning capacity of a project - that is, the return to capital - while net present worth determines whether a project can earn more than some stated amount of return to capital. The easiest way to go about illustrating what happens to depreciation is to compute the benefit-cost ratio, the net present worth, and the internal rate of return of a hypothetical example in which we analyse a project which does not exactly lose money, but, on the other hand, does not make money either. In other words, its internal rate of return is zero, its net present worth at zero discount rate is zero, and its benefit-cost ratio at zero rate of interest is just exactly one. Can we get our money back? Yes, we can. We spent say Rs 1,200,000 over the five years of the project and by the end of the fifth year suppose we have received just exactly Rs 1,200,000 back. So we do not lose any of our capital and we recovered all of our other costs. Did we earn anything on this project? No both the internal rate of return and the net present worth of this project were simply zero, and the benefit-cost ratio had to be computed at zero rate of interest to have them come out to 1. Therefore, return of capital is realized (that is, depreciation is covered and fully accounted for) when the net present worth of the project at a zero discount rate is zero or greater, when the project earns an internal rate of return of zero or greater, and when the benefit-cost ratio or net benefit-investment ratio is 1 at a zero or greater rate of interest. We do not need to include depreciation separately as a "cost" in analyzing our project. It is automatically taken care of in the computational process. (There is another convenience -- we do not need to make any decision about what depreciation schedule to use, a notoriously difficult and arbitrary choice that is essentially an accounting, not an economic, problem.)

Of course, if the net present worth at zero discount rate is less than zero, if the internal rate of return is less than zero, or if the benefit-cost ratio or the net benefit-investment ratio at zero rate of interest is less than 1, then we not only would have earned nothing, but actually would not even have recovered all our costs.

iii) Sunk Cost

It is a cost incurred in the past that cannot be retrieved as a residual value from an earlier investment. A sunk cost is not an opportunity cost and thus is not included in the costs in the project analysis. The purpose of economic and financial analysis is to help determine which among the alternatives open to us provides the best use of resources. Our decision starts from today; what is past is past and cannot be changed. The argument that much has already been spent on a project and, therefore, the project must be continued is not a valid decision criterion. In a case where a project is midway toward completion and a decision regarding the fate of the project has to be taken, we have two options, ie (i) simply stop the project and (ii) draw it to an early conclusion and then to use the available future resource expenditures freed from the project for higher-yielding alternatives.

For evaluating past investment decisions, it is often desirable to do an economic and financial analysis of a completed project. Here, of course, the analyst would compare the expenditures with all returns over the past life of the project. But this kind of analysis is useful only for determining the yield of past projects in the hope that judgement about future projects may be better informed.

iv) Contingency Allowance

While preparing projects, it is assumed that there will be no exceptional conditions, say, in agriculture, a land-slide, floods and bad weather. It is also assumed that there will be no relative changes in domestic or international prices and no inflation during the investment period. It would clearly be unrealistic to base project cost estimates only on these assumptions of perfect knowledge and complete price stability. Sound project planning requires that provisions be made in advance for possible adverse changes in physical conditions or prices that would add to the baseline costs. Contingency allowance may be divided into physical and price contingency. Price contingency comprises two categories, that for relative changes in price and that for general inflation. The increase in the use of real goods and services represented by the physical contingency allowance is a real cost and will reduce the final goods & services available for other purposes, ie it will reduce the national income and hence is a cost to the society. Similarly, a rise in the relative cost of an item implies that its productivity elsewhere in the society has increased, ie its potential contribution to the national income has increased. In project analysis, the most common means of dealing with inflation is to work in constant prices on the assumption that all prices of inputs and outputs will be affected equally by any rise in the general price level. Hence, contingency allowance for physical and relative price changes is included in the financial and economic analysis but contingency allowance for inflation is not included in economic analysis.

v) Inflation

Project analysis is undertaken in constant prices. It is assumed that the current price level will continue to apply and that inflation will affect most prices to the same extent so that prices retain their same general relations. By comparing the current estimates of costs and benefits with the constant prices, we can judge the effects of inflation on the project. It is quite possible to undertake project analysis in current prices. The problem in this approach is that it involves predicting inflation rates, and predicting inflation rates is one of the most difficult jobs because its accuracy may be seriously questioned. Furthermore, governments due to political reasons understate high inflation rates which may lead to the under-estimation of project costs.

vi) Changes in Relative Prices

A change in a relative price means a change in the market price structure that the producer pays either for inputs or for outputs. A change in relative price, then, is reflected directly in the project's financial accounts. A rise in the relative price of fertilizer reduces the incremental net benefits to the farmer. It is, thus, a cost in the farm account. A change in the relative price of an item implies a change in its marginal productivity, that is, a change in its marginal product value. In economic analysis, where maximizing national income is the objective a change in the relative price of an input implies a change in the amount that must be forgone by using the item in the project instead of elsewhere in the economy. Thus, changes in relative prices have a real effect on the project objective and must be reflected in the project accounts in the years when they accrue.

vii) Working Capital

Confusion sometimes arises about how to treat capital used for short-term purposes and revolving within a single year. This might be the case, for example, for production credit lent to farmers but recovered at the end of the growing season. Such capital is sometimes overlooked because it may not show up as a net expenditure in a year-by-year build-up of project costs and benefits. It is not, however, available for other purposes in the society and is properly considered a project cost. It should be entered as a cost in the cash flow build-up under the first year. It then becomes a part of salvage value at the end of the project.

viii) Replacement Costs

Many projects require investments which have different economic lives. A good example is found in the case of a sugarcane processing factory where the buildings and machinery may be expected to last twenty years but where boilers may have a life of only five years. In preparing the analysis, allowance must be made for the replacement costs of the boilers during the life of the project. It can be shown in the year of occurrence, ie when the boilers will be replaced.

ix) Residual/Salvage Value

Often at the end of a project, some residual (or salvage/terminal) value may reasonably be expected. It should not be confused with scrap value. It is the value of that part of a capital asset that has not been used up in the course of the project period. We would treat this value as a project benefit during the last year of the project life. This value is entered as a negative cost in the cost-stream against the year it will accrue. This value will not change the results significantly, unless the period of the analysis is short, or the value of the capital items is quite large in relation to the value of the benefit-stream.

Appraisal Methods/Techniques

5.4 When costs and benefits have been identified, priced, and valued, the analyst is ready to determine which among various projects one is to accept and which to reject. There is no one best technique for estimating project worth (although some are better than others, and some are especially deficient). The techniques of project appraisal can be discussed under two heads viz (i) Undiscounted and (ii) Discounted. Undiscounted techniques include (a) Pay back period, (b) Value-added, (c) Capital-Output Ratio, (d) Proceeds per unit of outlay, and (e) Average annual proceeds per unit of outlay. These techniques are discussed in the following paragraphs.

Discounting Techniques

5.5 Discounting techniques take into account the time-value of money. Discounting is essentially a technique by which one can "reduce" the future benefit and cost streams to their present worth. The technique of discounting permits us to determine whether to accept or reject the projects for implementation that have obviously shaped time-stream that is, patterns of when costs and benefits fall during the life of the project, when they differ from one another and are of different durations. The most common means of doing this is to subtract year by year the costs from the benefits to arrive at the incremental net benefit-stream, the so-called cash flow and then to discount that. Then we may consider the differences between these present worth and determine what discount rate would be necessary to make the net present worth equal to zero (IRR), derive a ratio of present worth of benefit and cost streams (BCR) and internal rate of return. The calculation of different measures required for the financial and economic appraisal of an industrial project are given at the end of this chapter (statements 1 to 13). This process of finding the present worth of a future value is called discounting.

5.6 For financial analysis, the discount or cut-off rate is usually the marginal cost of money to the farm or firm for which the analysis is being done. This often will be the rate at which the enterprise is able to borrow money. This is the rate that will result in utilization of all capital in the economy if all possible investments are undertaken that yield that much or more return. It would be the return on the last or marginal investment made that uses up the last of the available capital. If set perfectly, the rate would reflect the choice made by the society as a whole between present and future returns, and, hence the amount of total income the society is willing to save. But no one knows what the exact opportunity cost of capital really is. In most developing countries, it is assumed to be somewhere between 8 and 15 percent in real terms. For industry we take it as 20% and for other sectors as 12% in Pakistan. A second discount rate that might be chosen for economic analysis is the borrowing rate the nation must pay to finance the project. But, in this way, selection of projects will be influenced by the financial terms available and will not be based solely on the relative contribution of projects to national income. It is best to break the link between choosing projects and financing them.

Net Present Worth (NPW)

5.7 It is simply the present worth of the incremental net benefit or incremental cash flow. It is the difference between discounted benefits and discounted costs of a project. NPW criterion suggests to us to accept all independent projects with a zero or greater net present worth when discounted at opportunity cost. No ranking of acceptable, alternative independent project is possible with the present worth criterion because it is an absolute and not relative measure. A small, highly attractive project may have a smaller net present worth than a larger marginally acceptable project. If both have positive NPW then both projects should be undertaken. It is because of lack of funds we cannot undertake both; the complication is that the opportunity cost of capital has been estimated to be too low. Then the correct response is to raise the estimate of opportunity cost until we have only the selection of projects with NPW that are zero or positive and for which, in fact, there will be just sufficient investment funds.

Benefit-Cost Ratio (BCR)

5.8 This ratio is obtained when the present worth of the benefit-stream is divided by the present worth of the cost-stream. Note that the absolute value of BCR will vary depending on the interest rate chosen. The higher the interest rate, the smaller the resultant benefit-cost ratio and, if a higher enough rate is chosen, the benefit-cost ratio will be driven down to less than 1. The BCR criterion suggests to us to accept all independent projects with a benefit-cost ratio of 1 or greater, when the cost and benefit streams are discounted at the opportunity cost of capital. The benefit-cost ratio discriminates against projects with relatively high gross returns and operating costs, even though these may be shown to have a greater wealth-generating capacity than that of alternatives with a higher benefit-cost ratio.

Internal Rate of Return (IRR)

5.9 It is the discount rate that makes the NPW of the incremental net benefit-stream or incremental cash flow equal to zero. It is the maximum interest that a project could pay for the resources used if the project is to recover its investment and operating costs and still break even. It is the rate of return on capital outstanding per period while it is invested in the project. IRR criterion suggests to us to accept all independent projects having an internal rate of return equal to or greater than the opportunity cost of capital. In case of mutually exclusive projects, IRR can lead to an erroneous investment choice. This danger can be avoided either by using NPW criterion or by discounting the differences in the cash flow of alternative projects. Note that an internal rate of return of a series of values such as cash flow can exist only when at least one value is negative. Although IRR of different projects will vary, a project cannot with confidence be ranked on the basis of IRR. Only in a very general way will the IRR tell us that one project is better than another, in the sense that it contributes more to national income relative to resources used. If the discount rate remains 12%, we cannot know with certainty that the project with 25% return contributes relatively more to national income than the one with 15% return, and we cannot say with confidence that we should implement the project with 25% rate of return first. If we raise the opportunity cost (cut-off rate) to 18%, then the project with 15% economic rate of return drops out of the investment net and judgement in favour of a 25% IRR project will be easy.

5.10 One cannot simply choose that discount rate which will make the incremental net benefit-stream equal to zero. There is no formula for finding the internal rate of return straightaway. We are forced to resort to a systematic procedure of trial and error to find that discount rate which will make the net present worth of incremental net benefit-stream equal to zero. The most difficult aspect of the trial and error procedure is making the initial estimates. If the estimate is too far from the final result, then several trials will have to be made to find two rates close enough together to permit accurate interpolation (interpolation is the process of finding a desired value between two other values). In practice, it is better not to interpolate between intervals greater than about five percent because the wider intervals can easily introduce an interpolation error. The formula of interpolation is given below:

		Lower		the difference	{Present worth of incre- }
IRR	=	discount	+	Between two	{mental net* benefits- }
		rates		Discount rates	{stream (cash flow) at }
					{the lower discount rate }
					{Sum of the present worth}
					{of incremental net bene-}
					{fit-streams (cash flows)}
					{at the two discount }
					{rates (signs ignored) }

*Note that IRR can be calculated form any point in time; all points will give the same returns.

5.11 It may be noted that interpolation between discount rates that bracket the true internal rate of return always somewhat overstates the true return. This is because the technique assumes, as we move from one discount rate to another, that IRR will change following a straight line but the true value of IRR follows a concave curvilinear function.

Net Benefit-Investment Ratio (NBIR) = (N/K Ratio)

5.12 NBIR is simply the present worth of net benefits divided by the present worth of investment. To calculate this measure, simply divide the sum of the present worth after the incremental net benefits-stream has turned positive by the sum of the present worth of the negative incremental net benefits in the early years of the project. The reason for calculating the net benefit-investment ratio in this manner is that we are interested in an investment measure that selects projects on the basis of return to investment during the initial phases of a project. If the net benefit - investment ratio is 1 or greater, when we are discounting at the opportunity cost of capital, choose the project beginning with the largest ratio value and proceed until available investment funds are exhausted. It may be used to rank projects in those instances in which, for one reason or another, sufficient funds are not available to implement all the projects. It, thus, satisfies a frequent request of the decision-makers that projects be ranked in the order in which they should be undertaken. It is suitable for use when there is incomplete knowledge of all the projects. At any given discount rate we cannot, with confidence, use the net present worth, or the internal rate of return, or the benefit-cost ratio as ranking measures; our criterion tells us only to accept all projects which need the selection criterion for those three measures. The net benefit-investment ratio is the only measure of the ones we have discussed that can be used with confidence to rank directly.

Sensitivity Analysis (Treatment of Uncertainty)

5.13 Several times when the project is under execution, certain things go wrong with the project with the result that the desired benefits cannot be achieved within the stipulated time frame. For example, the actual execution of the project is delayed or the cost exceeds the original estimated cost (cost over-run). In such cases, the results get fairly changed. Many times, the IRR and NPW thus get reduced or the BCR becomes negative from positive. In order to take care of this problem, while the projects are under preparation or under examination, certain assumptions are applied for testing the viability of the project. For example, it is at times assumed that there will be a cost over-run by, say, 25% or a reduction in revenues, say, by 10% or a delay in getting the benefits, say, by three years and so on. Keeping one or two or all such assumptions in view, the streams of costs and benefits are re-drawn and the figures of costs and benefits are discounted and the NPW, BCR and IRR are re-worked out. This gives a fairly good picture as to what will be the fate of the projects if such mishaps occur. For the sensitivity analysis, it is very essential to carry out such an exercise in projects where high financial stakes are involved.

Choosing Between Mutually Exclusive Alternative Projects

5.14 The preferred discount measure of project worth for choosing between mutually exclusive projects is the net present worth. Direct comparison of IRR, BCR, NBIR can lead to an incorrect investment decision. This is so because undertaking a small, high - paying project may preclude generating more wealth through a moderately remunerative but larger alternative. Sometimes what may at first be posed as a pair of mutually exclusive projects can, instead, be seen as successive phases of development. Although NPW is the preferred criterion for choosing between mutually exclusive alternatives, it is possible to manipulate the IRR to use it to choose between the mutually exclusive alternatives. The net benefit-investment ratio can be used to rank mutually exclusive projects only when the ratios of all the projects in the investment programme are known. Therefore it is not a practical measure to use for this purpose. To use IRR for mutually exclusive project selection, the cash flow of the smaller alternative is subtracted year by year from the cash flow of the larger alternative. This stream of differences is then discounted to determine the internal rate of return of the stream. This is the financial or economic rate of return to the additional resources necessary to implement the larger alternative as opposed to the smaller one. This method is only applicable for a single pair of mutually exclusive projects.

Domestic Resource Cost (Modified Bruno Ratio)

5.15 In countries where there are balance of payments problems and where import substitution or export promotion is an important objective, it is useful to estimate the cost in domestic currency required to earn a unit of foreign exchange through a proposed project. It is not enough just to earn or save foreign exchange; some idea must be formed of the cost of saving foreign exchange and a judgement must be made about whether that cost is too high. By expressing the cost of earning or saving a unit of foreign exchange as domestic resource cost, a direct comparison may be made with the official exchange rate and various shadow prices for foreign exchange. To calculate the domestic resource cost by this method, it is necessary to know four items: (i) the foreign exchange value of the product to be produced, (ii) the foreign exchange cost incurred to produce the product (that is, the foreign exchange cost of such things as imported fuels, imported raw materials, and the like), (iii) the domestic currency cost of producing the output, and (iv) the opportunity cost of capital. The present worth of the net foreign exchange saving (discounted at the opportunity cost of capital) is compared with the present worth of the domestic cost of realizing these savings. The ratio between the two present worth is the domestic resource cost, and it may be directly compared with the official exchange rate or with shadow exchange rates. The Modified Bruno Ratio formula is given below:

Domestic		PW of domestic currency		cost of Official
Resource	=	realizing foreign exchange saving	x	Echange
Exchange		PW of net foreign exchange saving		Rate
Cost		expressed in local currency		

5.16 Now the domestic resource cost calculated through the above formula is say Rs 23.65 and the official exchange rates Rs 22 per US \$. It shows that domestic resource cost is higher than the prevailing official exchange rate and we are spending more than a dollar to produce a dollar worth of item at home than to import it. In case the domestic resource cost is less than the official exchange rate, it implies that the project is using less domestic resources to save or earn a unit of foreign exchange and thus the project is economically justified.

5.17 In the social sectors, we perform unit cost analysis. The only method used to any extent to deal with intangible benefits is to determine, on a present worth basis, the least expensive alternative combination of tangible costs that will realize essentially the same intangible benefits. This is often referred to as "least-cost combination" or cost effectiveness. Economists have tried to quantify the intangible benefits. The benefits of education have been valued by comparing the earnings of an educated man with those of one who is un-educated. Health and sanitation benefits have been valued in the number of hours of lost work avoided by decreasing the incidence of disease. Nutrition benefits have been valued in terms of increased productivity. Population projects have been valued by attaching a value to the births. But these valuations are highly questionable. In cost analysis, we only take the cost side - that is, the cost-stream on training, capital cost, O&M cost, replacement cost and salvage value (negative cost) is discounted at the opportunity cost to find the annual financial cost/subsidy and unit cost. In case of a health project, the unit cost will be cost per bed; in case of an education project, it will be cost per student; and in case of a housing project, it will be cost per square foot. In housing projects, the calculation of the standard rent of residential quarters is also an important job. In unit cost analysis, those projects which have a relatively lower unit cost than that of other projects of the same kind are favoured.

5.18 Various concepts used in project appraisal have been discussed earlier in this chapter. A set of practical discounted measures of project worth are as follows:-

	Financial Analysis		**Economic Analysis**
(a)	**Discounted measures**	**(a)**	**Adjustment in prices**
i)	Present Worth of Cost (PWC), Present Worth of Benefit cial Capital Cost into (PWB), Net Present Value Economic Cost. (NPV), Benefit-Cost Ratio (BCR) at given discount rate.	i)	Transformation of Finan-
ii)	Internal Financial Rate ofReturn (IFRR)	ii)	Transformation of Financial and Operation & Maintenance (O&M) costs into Economic Cost.
iii)	Return on Equity after taxes.	iii)	Benefits Valued at Border prices.
iv)	Return on Equity before taxes.		
(b)	**Sensitivity Analysis**	**(b)**	**Discounted Measures**
i)	PWC, NPV, BCR & IFRR with cost over-run, reduction in benefits and delay in realization of benefits.	i)	PWC, PWB, NPV & BCR at given discount rate.

		ii)	Internal Economic Rate of Return (IERR)
		iii)	Domestic resource cost to earn one unit of foreign exchange.
(c)	**Undiscounted Measures**	**(c)**	**Undiscounted Measures**
i)	Break-even analysis	i)	Nominal and Effective rate of protection
ii)	Pay back period		

*Sensitivity analysis is undertaken under both financial and economic analysis.

Statement-1

FINANCIAL ANALYSIS OF AN INDUSTRIAL PROJECT

Year	Capital Cost	O&M Cost	Total Cost	Benefits	Net Benefits	NPW at 20%	NPW at 25%
1990	85.50		85.50		-85.50	-71.25	-68.40
1991	188.10		188.10		-188.10	-130.62	120.38
1992	296.40		296.41		-296.41	-171.53	-151.76
1993		61.55	61.55	172.62	111.07	53.56	45.49
1994		83.42	83.42	230.84	147.42	59.24	48.31
1995		104.44	104.44	286.31	188.87	60.91	47.68
1996		106.61	106.61	293.60	186.99	52.18	39.21
1997		106.61	106.61	293.60	186.99	43.49	31.37
1998		106.61	106.61	293.60	186.99	36.24	25.10
1999		106.61	106.61	293.60	186.99	30.20	20.10
2000		106.61	106.61	293.60	186.99	25.17	1606
2001		106.61	106.61	293.60	186.99	20.97	12.85
2002		106.61	106.61	293.60	186.99	17.48	10.28
2003	-68.9		-68.9		68.9	5.37	3.03
	501.10	**995.68**	**1496.79**	**2744.97**	**1248.18**	**31.40**	**-41.08**

PWC AT 20% DISCOUNT RATE	=	594.92
PWB AT 20% DISCOUNT RATE	=	626.32
NPV AT 20% DISCOUNT RATE	=	31.40
BCR AT 20% DISCOUNT RATE	=	1.05
* IFRR	=	21.87

* IFRR	=	Lower Disc Rate	+	Difference of Two Disc Rate	{NPW at Lower} {Disc Rate} {Sum of NPW at } {Two Disc Rate} {(Ignoring Signs)}

= 20 +5(31.4 / (31.4 + 41.08)) = 21.87 %

Statement-2

FINANCIAL ANALYSIS OF AN INDUSTRIAL PROJECT

(SENSITIVITY ANALYSIS)

ASSUMPTION: COST OVER-RUN BY 10%

Year	Capital Cost	O&M Cost	Total Cost	Benefits	Net Benefits	NPW at 20%	NPW at 15%
1990	94.05		94.05		-94.05	-78.38	-81.78
1991	206.91		206.91		-206.91	-143.69	-156.45
1992	326.05		326.05		-326.05	-188.69	-246.54
1993		61.55	61.55	172.62	111.07	53.56	83.98
1994		83.42	83.42	230.84	147.42	59.24	111.47
1995		104.44	104.44	286.31	181.87	60.91	137.52
1996		106.61	106.61	293.60	186.99	52.18	141.39
1997		106.61	106.61	293.60	186.99	43.49	141.39
1998		106.61	106.61	293.60	186.99	36.24	141.39
1999		106.61	106.61	293.60	186.99	30.20	141.39
2000		106.61	106.61	293.60	186.99	25.17	141.39
2001		106.61	106.61	293.60	186.99	20.97	141.39
2002		106.61	106.61	293.60	186.99	17.48	141.39
2003	-68.90		-68.90		68.90	5.37	52.10
	558.11	**995.68**	**1553.79**	**2744.97**	**1191.18**	**-5.94**	**890.04**

PWC AT 20% DISCOUNT RATE	=	632.26
PWB AT 20% DISCOUNT RATE	=	626.33
NPV AT 20% DISCOUNT RATE	=	-5.94
BCR AT 20% DISCOUNT RATE	=	.99:1
* IFRR	=	19.96%

* IFRR = Lower Disc Rate + Difference of {NPW at Lower}

Two Disc Rate {Disc Rate}
{Sum of NPW at }
{Two Disc Rate}
{(Ignoring Signs)}

= 15 +5 (890 / (890 + 5.937)) = 19.96 %

Statement-2

FINANCIAL ANALYSIS OF AN INDUSTRIAL PROJECT

(SENSITIVITY ANALYSIS)

ASSUMPTION: COST OVER-RUN BY 10%

Year	Capital Cost	O&M Cost	Total Cost	Benefits	Net Benefits	NPW at 20%	NPW at 15%
1990	94.05		94.05		-94.05	-78.38	-81.78
1991	206.91		206.91		-206.91	-143.69	-156.45
1992	326.05		326.05		-326.05	-188.69	-246.54
1993		61.55	61.55	172.62	111.07	53.56	83.98
1994		83.42	83.42	230.84	147.42	59.24	111.47
1995		104.44	104.44	286.31	181.87	60.91	137.52
1996		106.61	106.61	293.60	186.99	52.18	141.39
1997		106.61	106.61	293.60	186.99	43.49	141.39
1998		106.61	106.61	293.60	186.99	36.24	141.39
1999		106.61	106.61	293.60	186.99	30.20	141.39
2000		106.61	106.61	293.60	186.99	25.17	141.39
2001		106.61	106.61	293.60	186.99	20.97	141.39
2002		106.61	106.61	293.60	186.99	17.48	141.39
2003	-68.90		-68.90		68.90	5.37	52.10
	558.11	**995.68**	**1553.79**	**2744.97**	**1191.18**	**-5.94**	**890.04**

PWC AT 20% DISCOUNT RATE	=	632.26
PWB AT 20% DISCOUNT RATE	=	626.33
NPV AT 20% DISCOUNT RATE	=	-5.94
BCR AT 20% DISCOUNT RATE	=	.99:1
* IFRR	=	19.96%

* IFRR = Lower Disc Rate + Difference of {NPW at Lower}

Two Disc Rate	{Disc Rate}
	{Sum of NPW at }
	{Two Disc Rate}
	{(Ignoring Signs)}

= 15 +5 (890 / (890 + 5.937)) = 19.96 %

Statement-3

FINANCIAL ANALYSIS OF AN INDUSTRIAL PROJECT

RETURN ON EQUITY

(PROFIT AFTER TAXES)

(Million Rupees)

Year	Equity	Profits after Taxes	Net Flow
1990	45.00		-45.00
1991	98.10		-98.10
1992	56.90		-56.90
1993	13.30		-13.30
1994		19.79	19.79
1995		45.30	45.30
1996		54.10	54.10
1997		59.96	59.96
1998		65.61	65.61
1999		70.82	70.82
2000		76.01	76.01
2001		81.06	81.06
2002		85.91	85.91

PWC AT 20 % DISCOUNT RATE	=	138.55
PWB AT 20 % DISCOUNT RATE	=	97.26
NPV AT 20 % DISCOUNT RATE	=	-41.30
BCR AT 20 % DISCOUNT RATE	=	.70:1
RETURNONEQUITY	=	14.21%

Statement-4

FINANCIAL ANALYSIS OF AN INDUSTRIAL PROJECT

RETURN ON EQUITY

(PROFIT AFTER TAXES)

(Million Rupees)

Year	Equity	Profits after Taxes	Net Flow
1990	45.00		-45.00
1991	98.10		-98.10
1992	56.90		-56.90
1993		13.30	-13.30
1994		35.33	35.33
1995		80.89	80.89
1996		96.61	96.61
1997		107.10	107.10
1998		117.20	117.20
1999		126.50	126.50
2000		135.70	135.70
2001		144.70	144.70
2002		153.40	153.40

PWC AT 20 % DISCOUNT RATE	=	138.55
PWB AT 20 % DISCOUNT RATE	=	178.72
NPV AT 20 % DISCOUNT RATE	=	40.16
BCR AT 20 % DISCOUNT RATE	=	1.29:1
RETURNONEQUITY	=	24.56 %

Statment-5

Trasformation of Financial Cost into Economic Cost

Item	Fin.* cost	Traded cost		Taxes %	Tr.cost W.out Taxes	Non Tr. Cost	+ SCF	Eco cost	Total Eco. Cost
		%	Actual						
1. Civil Works	43.60	70	30.52	25	24.42	13.08	.909	11.89	36.31
2. Machinery (L)	198.90	100	198.90	30	153.00	0	.909	0	153.00
3. Machinery (F)	163.10	100	163.10	0	163.00	0	.909	0	163.30
4. Transport	9.00	100	9.00	23	7.32	0	.909	0	7.32

5. Duty & Taxes	52.20	00	0.00	0		52.20	.909	0	0
6. Inssurence & FR	12.80	00	0.00	0		12.80	.909	11.64	11.64
7. Procurement	13.80	100	13.80	22	11.31	0	.909	0	11.31
8. No How	38.60	100	38.60	00	38.60	0	.909	0	38.60
9. Erection Exp	25.50	100	25.50	15	22.17	0	.909	0	22.17
10. Training	2.00	100	2.00	00	2.00	0	.909	0	2.00
11. Contingencies	10.47	00	0	0	0	10.47	.909	9.51	9.52
Total	570.00		481.50		421.90	88.55		33.04	455.00

* Financial Capital Cost excludes

Interest during construction

+ Standard Conversion Factor

Statment-6

TRANSFORMATION OF FINANCIAL O&M COST INTO ECONOMIC COST

(Rs. Million)

Item	O&M cost (year 2)	Traded cost		Taxes %	Tr.cost W.out Taxes	Non Tr. Cost	+ SCF	Eco cost	Total Eco. Cost
		%	Actual						
1. Sea Salt	7.93	00	0	0	00	7.93	.909	7.21	2.21
2. Lime Stone	2025	00	0	00	0	2.25	.909	2.04	2.04
3. Ammonia	-.90	100	-.90	30	-.69	0	.909	0	-.69
4. Caustic	2.24	100	2.24	25	1.79	0	.909	0	1.69
5. Hydrochloric Acid	0.31	100	0.30	20	0.26	0	.909	0	0.26
6. Gas	-.79	0	0	0	0	-.79	1.818	-1.44	-1.44
7. Coke	26.50	100	26.50	32.5	20.00	0	.909	0	20.00
8. Electricity	0.50	0	0	0	0	0.50	1.818	0.91	0.91
9. Water	2.80	0	0	0	0	2.80	1.818	5.09	5.09
10. Sales Tax	2.50	0	0	0	0	2.50	0	0	0
11. Pack mater	4.95	50	2.46	40	1.79	2.46	.909	2.24	3.99
12. Freight	3.75	0	0	0	0	3.75	.909	3.41	3.41
FIXED COST									
1. Wages	7.50	20	1.50	0	1.50	6.00	.909	5.45	6.95
2. Insurance	2.30	0	0	0	0	2.30	.909	2.09	2.09
Total	61.80		32.11		24.62	29.70		27.01	51.62

+ Standard Conversion Factor

Statment-7

TRANSFORMATION OF FINANCIAL O&M COST INTO ECONOMIC COST

(Rs. Million)

Item	O&M cost (year 2)	Traded cost %	Traded cost Actual	Taxes %	Tr.cost W.out Taxes	Non Tr. Cost	+ SCF	Eco cost	Total Eco. Cost
1. Sea Salt	11.60	0	0	0	0	11.62	.909	10.56	10.56
2. Lime Stone	3.48	0	0	0	0	3.43	.909	3.16	3.16
3. Ammonia	-.30	100	-.30	12.50	-.27	0	.909	0	0.27
4. Caustic	3.00	100	3.00	12.50	2.67	0	.909	0	2.67
5. Hydrochloric Acid	0.41	100	0.41	0	0.41	0	.909	0	0.41
6. Gas	7.54	0	0	0	0	7.54	1.818	13.71	13.71
7. Coke	29.70	100	29.70	32.50	22.42	0	.909	0	22.42
8. Electricity	0.50	0	0	0	0	0.50	1.818	0.91	0.91
9. Water	2.80	0	0	0	0	2.80	1.818	5.09	5.09
10. Sales Tax	3.43	0	0	0	0	3.43	0	0	0
11. Pack mater	6.50	50	3.25	40	2.32	3.25	.909	2.95	5.28
12. Freight	4.97	0	0	0	0	4.97	.909	4.52	4.52
FIXED COST									
1. Wages	7.50	20	1.50	0	1.50	6.00	.909	5.45	6.95
2. Insurance	2.30	0	0	0	0	2.30	.909	2.09	2.09
Total	83.50		37.60		29.05	45.89		48.45	77.50

+ Standard Conversion Factor

Statment-8

TRANSFORMATION OF FINANCIAL O&M COST INTO ECONOMIC COST

(Rs. Million)

Item	O&M cost (year 2)	Traded cost %	Traded cost Actual	Taxes %	Tr.cost W.out Taxes	Non Tr. Cost	+ SCF	Eco cost	Total Eco. Cost
1. Sea Salt	15.40	0	0	0	0	15.40	.909	14.00	14.02
2. Lime Stone	4.66	00	0	00	0	4.66	.909	4.24	4.24
3. Ammonia	0.17	100	0.17	12.50	.15	0	.909	0	.15
4. Caustic	3.77	100	3.77	12.50	3.35	0	.909	0	3.35
5. Hydrochloric Acid	0.52	100	0.52	0	0.52	0	.909	0	0.52

6. Gas	15.50	0	0	0	0	15.46	1.820	28.10	28.11
7. Coke	33.00	100	33.00	32.50	24.90	0	.909	0	24.91
8. Electricity	0.50	0	0	0	0	0.50	1.820	0.91	0.09
9. Water	2.80	0	0	0	0	2.80	1.820	5.09	5.09
10. Sales Tax	3.96	0	0	0	0	3.96	0	0	0
11. Pack mater	8.05	50	4.03	40	2.88	4.02	.909	3.66	6.53
12. Freight	6.33	0	0	0	0	6.33	.909	5.75	5.75
FIXED COST									
1. Wages	7.50	20	1.50	0	1.50	6.00	.909	5.45	6.95
2. Insurance	2.30	0	0	0	0	2.30	.909	2.09	2.09
Total	104.00		43.00		33.30	61.46		69.30	102.60

+ Standard Conversion Factor

Statment-9

TRANSFORMATION OF FINANCIAL O&M COST INTO ECONOMIC COST

(Rs. Million)

Item	O&M cost (year 4)	Traded cost		Taxes %	Tr.cost W.out Taxes	Non Tr. Cost	+ SCF	Eco cost	Total Eco. Cost
		%	Actual						
1. Sea Salt	15.420	0	0	0	0	15.42	.909	14.02	14.02
2. Lime Stone	4.79	00	0	00	0	4.79	.909	4.35	4.35
3. Ammonia	0.17	100	0.17	12.50	.15	0	.909	0	.15
4. Caustic	3.77	100	3.77	12.50	3.35	0	.909	0	3.35
5. Hydrochloric Acid	0.52	100	0.52	0	0.52	0	.909	0	0.52
6. Gas	16.52	0	0	0	0	16.52	1.818	30.03	30.03
7. Coke	33.00	100	33.00	12.50	29.33	0	.909	0	29.33
8. Electricity	0.50	0	0	0	0	0.50	1.808	0.91	0.91
9. Water	2.80	0	0	0	0	2.80	1.818	5.09	5.09
10. Sales Tax	4.65	0	0	0	0	4.65	0	0	0
11. Pack mater	8.17	50	4.08	30	3.14	4.08	.909	3.71	6.86
12. Freight	6.15	0	0	0	0	6.15	.909	5.59	5.59
FIXED COST									
1. Wages	7.50	20	1.50	0	1.50	6.00	.909	5.45	6.95
2. Insurance	2.30	0	0	0	0	2.30	.909	2.09	2.09
Total	106.30		43.05		38.00	63.22		71.25	109.20

+ Standard Conversion Factor

Statement-10

FINANCIAL ANALYSIS OF AN INDUSTRIAL PROJECT

(SENSITIVITY ANALYSIS)

ASSUMPTION: COST OVER-RUN BY 10%

Year	Capital Cost	O&M Cost	Total Cost	Benefits	Net Benefits	NPW at 20%	NPW at 15%
1990	68.20		68.20		-68.20	-56.83	-59.30
1991	150.00		150.00		-150.00	-104.17	-113.42
1992	236.40		236.40		-236.40	-136.81	-178.75
1993		51.48	51.48	137.80	86.32	41.63	65.27
1994		77.31	77.31	183.30	105.99	42.59	80.14
1995		102.40	102.40	229.60	127.20	42.60	96.18
1996		104.40	104.40	232.10	127.70	35.64	96.56
1997		104.40	104.40	232.10	127.70	29.70	96.56
1998		104.40	104.40	232.10	127.70	24.75	96.56
1999		104.40	104.40	232.10	127.70	20.62	96.56
2000		104.40	104.40	232.10	127.70	17.19	96.56
2001		104.40	104.40	232.10	127.70	14.32	96.56
2002		104.40	104.40	232.10	127.70	11.93	96.56
2003	-55.12		-55.12	232.10	55.12	4.29	41.68
	399.48	961.99	1361.47	2175.40	813.93	-12.53	607.71

PWC AT 20% DISCOUNT RATE	=	509.73
PWB AT 20% DISCOUNT RATE	=	497.20
NPV AT 20% DISCOUNT RATE	=	-12.53
BCR AT 20% DISCOUNT RATE	=	.98:1
* IFRR	=	19.01 %

* IFRR = Lower Disc Rate + Difference of Two Disc Rate x {NPW at Lower} {Disc Rate} / {Sum of NPW at } {Two Disc Rate} {(Ignoring Signs)}

IERR = 15+5 (607.71 / (607.7 + 12.5)) = 19.00 %

Statement-11

ECONOMIC ANALYSIS OF AN INDUSTRIAL PROJECT

(INTERNAL FOREIGN EXCHANGE RATE) (MODIFIED BRUNO RATIO)

Year	Traded Cost			Traded Benefits	Net Benefits	Non-Traded Cost		
	Capital Cost	O&M Cost	Total Cost			Capital Cost	O&M Cost	Total Cost
1990	63.11	-	63.11	-	63.10	5.09	-	5.09
1991	138.80	-	138.80	-	-139.00	11.20	-	11.20
1992	218.0	-	218.0	-	219.0	17.65	-	17.65
1993		24.47	24.47	137.80	113.30		27.01	27.01
1994		28.86	28.86	183.30	154.40		48.45	48.45
1995		33.07	33.07	229.60	196.50		69.32	69.32
1996		33.11	33.11	232.10	199.00		71.25	71.25
1997		33.11	33.11	232.10	199.00		71.25	71.25
1998		33.11	33.11	232.10	199.00		71.25	71.25
1999		33.11	33.11	232.10	199.00		71.25	71.25
2000		33.11	33.11	232.10	199.00		71.25	71.25
2001		33.11	33.11	232.10	199.00		71.25	71.25
2002		33.11	33.11	232.10	199.00		71.25	71.25
2003	-68.90		-68.90		68.90			

PRESENT WORTH OF NET TRADED BENEFITS			
AT 20% DISCOUNT RATE (Million Rs)	=	152.50	
PRESENT WORTH OF NON-TRADED COST			
AT 20% DISCOUNT RATE (Million Rs)	=	164.00	
OFFICIAL EXCHANGE RATE (RUPEES)	=	22.00	
DOMESTIC RESOURCE COST TO SAVE			
1 $ AT 20% DISCOUNT RATE	=	(164/152.50) *22	= RS 23.66
	-----------	* 22	= Rs 23.66
	=		

Statement-12

NOMINAL & EFFECTIVE RATE OF PROTECTION

(Million Rupees)

Item	**Domestic Price**	**Border Price**
TOTAL SALES	293.6	232.10
Soda Ash	205.00	180.40
Soda Bicarb	88.60	51.70
COSTS		
Sea Salt	15.42	14.02
Lime Stone	4.79	4.35
Ammonia	3.77	0.15
Caustic	3.77	3.35
Hydrochloric Acid	0.52	0.52
Gas	16.52	30.03
Coke	33.00	29.33
Electricity	2.80	0.91
Water	0.50	5.09
Packing Material	8.17	6.86
Freight	61.5	5.59
Insurance	2.30	2.09
Depreciation	47.35	43.04
Total cost	**74.69**	**82.66**
value Added	218.91	149.44

* Normal rate of Protection

Soda Ash =	(205-180.4)/180.4	* 100	= 13.6 %
Soda bicarb=	(88.6-51.7)/51.7	*100	= 71.3%
Total Project=	(293.6-232.1)/232.1	*100	= 26.5%
**Effective rate of protection	(218.91 - 149.43)/149.43	*100	= 46.5%
* Nominal rate of protection	(SALES (D.PRICES)- SALES (B.PRICES)/SALES(B.PRICES)	*100	
Effective nominal rate of protection	(VALUE ADD(D.PRICES)-VALUE ADD (B.PRICES))/VALUE ADD (B.PRICES)	*100	

Statement-13

BREAK EVEN ANALYSIS

(100% CAPACITY UTILIZATION)

(Million Rs)

A)	Sales	293.6			
			D)	FIXED COST	
B)	VARIABLE COST	15.42			
1	Sea Salt	4.79	1	Wages	7.50
2	Lime Salt	0.17	2	Insurance	2.65
3	Ammonia	3.77	3	Depreciation	47.35
4	Caustic	0.52	4	Financial charges	44.10
5	Hydrochloric acid	16.52			
6	Gas	33.00			
7	Coke	0.50			
8	Electricity	0.50			
9	Water	2.80			
10	Sales Tax	4.65			
11	Packing Material	8.17			
12	Freight	6.15			
		96.48			

C) MARGINAL INCOME = SALES - VARIABLE COST

= 293.6 - 96.46 = 197.14

BREAK EVEN POINT = $\frac{\text{FIXED COST}}{\text{MARGINAL INCOME}} * 100$

$\frac{101.6}{197.14} * 100 = 51.5\%$

Manual For Development Projects

Chapter 6: PROJECT APPROVAL

PROJECT APPROVAL

Approval stage

6.1 According to the project cycle, approval comes after appraisal. This is logical as approval is normally based on the results of appraisal. There are various approving bodies, the details of which follow in the succeeding paragraphs. Simply, "approval in principle" does not entitle the sponsoring agency to execute a project. In fact "approval in principle" needs to be qualified by mentioning clearly to what extent and for what purpose the approval in principle is required.

6.2 Where approval has been given to a project with certain conditions, it has to be ensured by the executing agency that those conditions are duly fulfilled, especially those which have to be fulfilled prior to the execution.

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Project Approving Bodies

6.3 The project approving bodies working at various levels are the following:

i) National Economic Council (NEC)

ii) Executive Committee of National Economic Council (ECNEC)

iii) Economic Coordination Committee of the Cabinet (ECC)

iv) Central Development Working Party (CDWP)

v) Departmental Development Working Party (DDWP)

vi) Provincial Development Working Party (PDWP)

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National Economic Council (NEC)

6.4 The National Economic Council (NEC) is the supreme policy-making body in the economic field. It is headed by the Chief Executive of the country, President/Prime Minister. Its members include Federal Ministers incharge of economic ministries, the Deputy Chairman of the Planning Commission and the Governors/Chief Ministers of the provinces. The NEC is in overall control of planning machinery and approves all plans and policies relating to development.

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Executive Committee of National Economic Council (ECNEC)

6.5 The Executive Committee of the National Economic Council (ECNEC) is headed by the Federal Minister of Finance. However, vide ECC decision taken in its meeting held on 28-1-1997, the Adviser to the Prime Minister for Finance and Economic and Planning was designated as its Chairman. (Annexure-XX-AI). Its members include Federal Ministers of economic ministries, Provincial Governors/Chief Ministers or their nominees and the Provincial Ministers concerned. The functions of the ECNEC are:

(a) To sanction development schemes in the public and private sectors.

(b) To allow moderate changes in the plan and in the plan allocations.

(c) To supervise the implementation of economic policies laid down by the NEC or the Government.

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Economic Coordination Committee (ECC) of the Cabinet

6.6 The Economic Coordination Committee of the Cabinet is headed by the Federal Minister for Finance and Federal Ministers of economic ministries as its members. It attends to all urgent day-to-day economic matters and coordinates the economic policies initiated by the various Divisions of the Government. It keeps vigilance on the monetary and credit situation and makes proposals for the regulation of credit in order to maximise production and exports and to prevent inflation. It gives approval to the projects in private sector and public sector energy projects.

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Central Development Working Party (CDWP)

6.7 The development projects exceeding a certain financial limit prepared by the Central Ministries, Provincial Governments, Autonomous Organizations, etc., are scrutinised for the purpose of approval by the Central Development Working party (CDWP) which is headed by the Deputy Chairman, Planning Commission and which includes as its members the Secretaries of the Federal Ministries concerned with the development and the heads of the Planning Departments of the Provincial Governments. Federal Ministries which are permanent members of the CDWP should not be represented below the rank of Additional Secretary. Similarly the concerned Federal sponsoring/executing agencies should be represented at the level of Head of the Department or Additional Secretary. The schemes approved by the Central Development Working Party costing Rs. 100 million and above are submitted to the Executive Committee of the National Economic Council for final approval.

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Departmental Development Working Party (DDWP)

6.8 It is a body for approving development projects/ programmes for Federal Ministries/Divisions/ Departments according to their approved financial limits. It is headed by the respective Secretary/ Head of Department and includes representatives of Finance Division and concerned Technical Section in the Planning and Development Division.

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Provincial Development Working Party (PDWP)

6.9 Each Province has a Provincial Development Working Party which is headed by the Chairman, Development Board/ Additional Chief Secretary (Development) and includes Secretaries of the Provincial Departments concerned with development, as its members. The Provincial Development Working Party scrutinise various projects for inclusion in the Annual and Five Year Plans. It is competent to approve projects upto a certain financial limit. Projects exceeding this limit are submitted to the Central Development Working Party for approval.

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Sanctioning Powers of Approving Authorities

6.10 Initially in 1959, all the schemes of the Provincial Governments and Federal Ministries costing Rs 2.5 million non-recurring and/or Rs 0.5 million recurring were required to be submitted to ECNEC for approval through the Development Working Party. The schemes costing less than the said amounts used to be sanctioned by the Provincial Governments themselves. Federally sponsored schemes within the above-mentioned limits used to be sanctioned by the Federal Ministry itself in consultation with the Ministry of Finance. The CDWP had no sanctioning power. Subsequently with more and more experience and expansion in the development programmes, these limits were enhanced and sanctioning powers were gradually decentralized and delegated to various authorities. In accordance with the decisions of the NEC, dated 21-5-1987, the ECNEC, dated 9-7-1987 and the NEC, dated 20-5-1991, the sanctioning powers of various authorities were enhanced. A Task Force headed by Deputy Chairman, Planning Commission (January, 1995) reviewed the financial powers of various authorities/Fora (CDWP/ECNEC etc) and decided that existing powers are adequate and should continue. The existing powers in force (details at Annexure-XX) are briefly as follows:

AUTHORITY	**SANCTIONING POWER**
(I) ECNEC	All schemes costing Rs 100.0 million & above (Annexure-XX-A and XX-AI)
	(a) Energy Related Projects
(ii) Cabinet Committee on Energy Replaced with Economic Coordination Committee (ECC)	A Cabinet Committee on Energy with the Prime Minister as its Chairman, Finance Minister as Vice Chairman, and Minister for Planning and Development, Minister for Petroleum and Natural Resources and Minister for Water and Power as its members was responsible inter- alia to approve operational plans, policies and development schemes costing more than the powers of approval enjoyed by the Ministry or the concerned agencies. Cabinet Committee on Energy was abolished vide ECC decision in Case No.ECC-55/3/96, dated 03.03.1996. All cases within the purview of the CCE was to be submitted to the ECC through the Technical Committee on Energy and the Planning Commission. However, vide ECC decision dated 28-1-1997 all projects related to Energy or to

the Public Sector Corporations be reverted back to the formal fora of Planning Commission i.e. CDWP/ ECNEC (Annexure-XXAI).

b) National Highway Projects

(iii) National Highway Authority (a) National Highway Council	A National Highway Authority has been established vide National Highway Authority Act, 1991, under which a National Highway Council has been constituted with the Prime Minister as its President, the Minister for Communications as Vice President, and the Minister for Finance and Minister for Planning & Development as its members. One member National Assembly and one member from Senate to be elected by the respective House also as member of NHC. The Chairman National Highway Authority will be its member/ Secretary. The Authority will inter alia consider and app-rove the proposals, schemes and projects costing sixty million rupees or more.
(b) National Highway Authority Executive Board	To consider and approve proposals, schemes, and projects costing less than sixty million rupees and to consider and recommend to the Council proposals, schemes and projects costing sixty million rupees or more.
(iv). Corporations Investment Programme Committee (CIPC)	The Economic Coordination Committee of the Cabinet in its meeting held on 26-8-1996 decided to constitute Corporations Investment Programme Committee (CIPC). The Committee is chaired by the Adviser to the Prime Minister for Finance & Economic Affairs. Minister for Investment and the Deputy Chairman, Planning Commission are members of the Committee. Secretarial assistance is provided by the Planning & Development Division. Secretary of the Ministry/Division concerned is called when a project of a Corporation controlled by that Ministry or Division comes up for consideration by the CIPC (Annexure-XXAI and XXAII). The ECC in its meeting held on 28-1-97 decided as follows:-

"The Adviser to the Prime Minister for Finance and Economic and Planning has been designated as Chairman of both the Committee i.e. ECNEC and CIPC. Since the basic functions of CIPC and Cabinet Committee on Energy/TCE are approval of the public sector/public sector financed projects, it is proposed that all such projects related to Energy

	or to the Public Sector Corporations be reverted back to the formal fora of Planning Commission i.e. CDWP/ECNEC". In view of the ECC decision cited above, all the new projects of Corporations/Autonomous Bodies including Energy Sector will now be prepared on PC-Is and submitted to Planning and Development Division for processing through CDWP/ECNEC".
2. CDWP	Federal schemes (Non-recurring) costing between Rs 20 million and Rs 100 million (Annexure-XX), subject to the condition that Ministry of Finance does not disagree.
3. Provincial Governments (PDWP)	All provincial schemes (Non-recurring) costing upto and including Rs.100 million subject to the conditions given in Annexure-XX.
4. Azad Govt. of the State of Jammu & Kashmir	All schemes costing upto and including Rs 100 million (Non-recurring) subject to certain conditions.
5. Northern Area Council	All schemes costing upto and including Rs 100 million (Non-recurring) subject to certain conditions.
6. Federal Ministries (DDWP)	All schemes costing below Rs 20.00 million (Non-recurring) subject to certain conditions.
7. Commercial Organizations having Finance Member/ Director appointed in consultation with the Finance Division	All schemes costing below Rs 20.00 million (Non-recurring) and or Rs 4.00 million (Recurring) with the concurrence of the Ministry of Finance. The power is subject to certain conditions.
8. Corporations/ Non	

Commercial Organizations having a Director/ Member Finance approved by Finance Division	All schemes costing below Rs 8.00 million (Non-Recurring) and or Rs 2.00 million (Recurring) subject to certain conditions.
9. Northern Areas Development Working Party	All schemes costing below Rs 20.00 million (Non-recurring) and or Rs 4.00 million (Recurring) subject to certain conditions.
10. Islamabad Development Working Party	All schemes costing below Rs 20.00 million (Non-recurring) and or Rs 4.00 million (Recurring) subject to certain conditions.
11. FATA DC	All schemes costing below Rs 20.00 million (Non-recurring) and or Rs 4.00 million (Recurring) subject to certain conditions.
12. FATA	Governor NWFP is empowered to sanction FATA schemes to the extent permissible in respect of Provincial schemes i.e. all FATA schemes costing upto and including Rs 60.00 million (Non-recurring) after they have been processed by the PDWP.

6.11 The above said powers are in respect of Public Sector projects. However, if a project has been rejected by the Prime Minister, processing it through DDWP/CDWP/ECNEC becomes redundant (Annexure-XX/B). The Cabinet in its meeting held on 11-12-1995 reviewed its earlier decision regarding construction of administrative buildings in Islamabad taken in its meeting held on 3rd July, 1995 (Case No.244/14/95) and decided that no administrative/office buildings should be constructed by any Federal Government department or corporation throughout Pakistan without prior approval of the Cabinet. Summaries in this regard should reflect the views of the Planning and Development Division (Annexure-XXC). The cases relating to the private sector are generally referred to the Economic Coordination Committee of the Cabinet, whose Charter is at Annexure-XXI.

6.12 The Provincial Government's projects are presently considered in the meetings of the Provincial Development Working Party (PDWP) chaired by the Additional Chief Secretary (Dev) in the provinces of Balochistan, Sindh and NWFP. The PDWP in the Punjab province is headed by the Chairman, Planning & Development Board. Corresponding to these bodies, there exists in the Federal Government, Departmental Development Working Parties (DDWP) in the Ministries/Divisions headed by their Secretaries with the Financial Advisors and others concerned as members. The schemes initiated by the Provincial/Federal Corporations are also processed through these bodies.

6.13 The projects meant for approval of CDWP/ECNEC are processed through the above bodies and passed on to the Planning and Development Division where these are examined by the various Technical Sections concerned and a Working Paper is prepared and placed before the Central Development Working Party (CDWP). The financial powers of the various bodies, viz., PDWP, DDWP and the CDWP are given at Annexure-XX. The schemes above Rs 100 million are considered by the ECNEC, which is headed by the Adviser to the Prime Minister for Finance and Economic Affairs. The ECNEC comprises the representatives of the Provincial Governments and the Federal Ministries/Divisions. The composition and charter of the ECNEC is given in Annexure-XXII. The Cabinet Division is the Secretariat of the ECNEC.

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Submission of Schemes to the Competent Authority

6.14 The basic principle of review of projects, both at the Federal as well as Provincial levels, should be that projects are examined jointly and simultaneously rather than in succession. A copy of "Procedure for Preparation and Approval of Development Schemes" approved by the National Economic Council in July, 1959 is at Annexure-XXIII for guidance.

6.15 In accordance with para 8 of the above procedure, copies of PC-I/PC-II have to be sent by the sponsoring Provincial Governments and the Federal Ministries to the Planning and Development Division and other members of the Central Development Working Party for simultaneous examination. The composition and Charter of the CDWP is given in Annexure-XXIV.

6.16 The number of copies required by the Planning and Development Division which acts as the Secretariat of the CDWP, has been specified from time to time according to the requirements of the Cabinet Division, who act as the Secretariat of the ECNEC, depending on the increase or decrease in the membership of ECNEC. The position as of January 1989 viz-a-viz the number of copies required by the Planning Commission is as follows:-

i) Provincial & Federal Schemes requiring approval of ECNEC = 100 copies.

ii) Federal Schemes requiring approval of CDWP only = 45 copies.

6.17 In order to doubly ensure that a copy of PC-I/PC-II has reached all the members of CDWP before it is considered in the CDWP meeting, the Planning and Development Division arranges to send an additional copy of PC-I/PC-II out of the 100, and 35 copies mentioned above to all the members of CDWP.

6.18 A copy of PC-I/PC-II of a federally sponsored scheme should be sent to their respective Financial Advisor of Finance Division for their comments before submitting the same to the members of the CDWP/DDWP (Annexure-XXV).

6.19 A scheme sponsored by the Federal Ministry/ Corporation should be supported with a statement that the scheme has been seen and approved by the Secretary of the Ministry concerned. Similarly, a scheme sent by the Provincial Government should carry a certificate that it has been seen and approved by the respective Chairman/ ACS (Dev) / Development Commissioner of the Provincial Government (Annexure-XXVI).

6.20 PC-I form of the project should invariably be signed with date by the officers as specified at the end of part "A" (Project Digest) of the proforma.

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Processing of Schemes

6.21 As soon as a copy of PC-I/PC-II is received by a member of the CDWP/PDWP/DDWP, its examination should be conducted expeditiously so that the same is approved/rejected in accordance with the time schedule. So far as the Planning and Development Division is concerned, the schedule followed is as under:

i) Registration and circulation of schemes to all the Sections of the Planning Commission and other Members of CDWP. = 1 day

ii) Finalization of comments for consideration by CDWP. = 4-6 weeks

Note: The above period is the maximum and efforts are made to complete the above stages earlier.

6.22 The Planning and Development Division has to ensure that the PC-I has been prepared correctly and according to the prescribed procedure. In case, the PC-I is found sketchy and deficient it is returned to the sponsors with the approval of Secretary (Planning)/Deputy Chairman

(Planning Commission) under intimation to all the members of the CDWP.

6.23 The Planning and Development Division should, when necessary, make a consolidated enquiry from the sponsors with respect to deficiencies in the proforma and seek clarification/ additional information.

6.24 A Chart showing flow of PC-I/PC-II within the Planning and Development Division and their processing through the CDWP/ECNEC is given in Annexure XXVII.

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Procedure for Meetings of Various Bodies

6.25 Meetings of the ECNEC are presided over by the Minister for Finance and Economic Affairs. The Cabinet Division provide the Secretariat for ECNEC. The latest Charter and composition of ECNEC is given in Annexure-XXII.

6.26 According to the decision taken by the Cabinet at its meeting held on 1-11-1973 and 18-9-1994, the Central Development Working Party and ECNEC should meet regularly every month and after every six weeks, respectively. The procedure for approving schemes should be streamlined so that a project is approved within 2 months, (Case No. 273.26.73, 391/2/94 and 414/21/94 dated 18.9.1994)

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6.27 The meetings of the Central Development Working Party are normally held in every month. The Planning and Development Division provide the Secretariat for the CDWP. The ECNEC, however, generally meet once in 6 weeks.

6.28 The agencies represented on CDWP should circulate their comments to each other well before the CDWP meeting so that the discussions thereat are useful and schemes are cleared speedily.

6.29 The minutes of the CDWP meeting should be recorded by the Planning and Development Division and circulated to those represented at the meeting and other agencies concerned. The agencies represented on the CDWP should, however, be expected to take action required by them without waiting for the minutes. The minutes of CDWP should be treated as confidential. The minutes/record of discussions of ECNEC should be treated as secret. However, decisions of ECNEC in respect of public sector development projects would be unclassified unless specially classified by the Planning and Development Division. Please refer to para VII (3) and (4) of

"Procedure in regard to ECNEC" (Annexure-XXVIII).

6.30 Every effort should be made to clear a scheme at one meeting; where this is not possible, the scheme should be considered at successive meetings of the CDWP until it is disposed of. The basic requirement is that the scheme should not be lost sight of and the progress in its disposal is maintained.

6.31 With a view to avoiding lengthy discussion on detailed comments of the various agencies represented on CDWP, a Pre-CDWP meeting is to be held to resolve the outstanding issues in respect of federal schemes (Annexure-XXIX).

6.32 The meeting of National Highway Council shall be called by the Secretary of the Council, at least once a year, on such date and time as may be specified by the President of the Council.

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Time limit for Approval of Projects

6.33 In accordance with the directive given by the Cabinet at its meeting held on 1-11-1973, a project is required to be approved within two months. However, in accordance with the comprehensive procedure approved by the National Economic Council in July, 1959 (Annexure-XXIII), the time for approval given is in more specific terms, viz: the formal submission of schemes and approval of the Economic Council (now ECNEC) should be completed within 3 months.

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Anticipatory Approval

6.34 In accordance with para II (2) of the "Procedure in regard to ECNEC" (copy enclosed as Annexure-XXVIII), the Chairman, ECNEC, where he is satisfied, has powers to allow the execution of a scheme in anticipation of its formal approval by ECNEC.

6.35 The request for anticipatory approval has to be submitted to the Cabinet Division for on-going and new schemes in the proformae prescribed for each of them (Annexure-XXX). The request for anticipatory approval should be signed by the Secretary of the Division concerned in the case of federal schemes and the ACS (Dev) in the case of provincial schemes.

6.36 The ECNEC at its meeting held on 29-11-1978 further decided that the Chairman, ECNEC may dispose of any case/scheme in his discretion pending the formal submission of the Summary to the Committee, provided that in such cases the particular scheme would be processed through the normal channels and submitted to the Executive Committee of the National Economic Council (ECNEC) after completing all the formalities within six months with further provision that the total period of anticipatory approval should not exceed 12 months in any case. Furthermore, anticipatory approval and sanction for incurring expenditure shall in no case be allowed beyond the end of each financial year, i.e 30th June (Para-3 of Annexure-XXXI). On the expiry of the date for which anticipatory approval has been granted, the case will have to be processed afresh in the same manner as mentioned above, if further extension is required. It may be noted that the grant of anticipatory approval falls in the category of "extraordinary jurisdiction" and this power cannot be re-delegated both for reasons of uniformity of treatment and to maintain financial discipline and control. Therefore, all cases of anticipatory approval, irrespective of the cost involved, have to be submitted only to the Chairman, ECNEC for approval (Annexure-XXXII).

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Anticipatory Approval Of Communication Projects

6.37 Minister for Communications may on the recommendation of the Executive Board of National Highway Authority may accord anticipatory approval which falls within the jurisdiction of the Council.

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Administrative Approval

6.38 Project approval is followed by administrative approval and sanction for incurring expenditure. Administrative approval is issued by the Federal Ministry in respect of federally sponsored projects, while for the Provincial projects the approval is issued by the Provincial Department concerned.

6.39 Administrative approval is a sort of general sanction of the scheme in which total cost foreign exchange component and any other riders imposed by the approving body are incorporated. This sanction is distinct from the sanction for incurring expenditure on the scheme which is to be issued on yearly basis restricted to the budget provision (Annexure-XXXII).

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Issuance of Administrative Approval

6.40 The decisions of the CDWP and ECNEC in respect of approval of projects are circulated by the Planning and Development Division (D.A. Section) through an authorization letter/O.M. The Administrative Ministries concerned with the federal projects and the Provincial Governments concerned with the provincial projects are advised to take urgent steps to issue necessary administrative approval and expenditure sanction in respect of the schemes approved by the said bodies.

6.41 Copies of sanction letters issued by the Federal Ministries and the Provincial Governments should be endorsed to the Planning and Development Division (5,copies), Cabinet Division and Finance Division and Finance Department in the case of provincial projects.

6.42 While issuing administrative approval, the Federal Ministries/Provincial Departments should specifically incorporate the conditions, if any, imposed by the approving body so that the Project Director/Executing Agency should be fully aware of his responsibilities in complying with those conditions before, during and after the implementation of the project.

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Concept Clearance of Projects for Foreign Aid Negotiations

6.43 The foreign aid is an important element of financing our development programme. This assistance is pledged by various donors largely to meet the foreign exchange requirements of the projects undertaken by Government of Pakistan either through Federal PSDP or through provincial ADPs, depending on the agency for the implementation of the project. In view of paucity of domestic resources there should be effective utilization of foreign economic aid. It was decided that at the preliminary stage, where only a broad outline regarding the nature and scope of the project is known, clearance should be obtained from the Planning & Development Division even before the preliminary discussions with the aid giving agencies take place (Annexure-XXXIV). This is necessary to establish at the very outset whether the project fits in the priorities laid down in the Five Year Plan and the overall economic development policies of the government. A committee (a sort of mini CDWP) for concept clearance of foreign aided projects was set up in the Planning & Development Division. The Concept Clearance Committee is chaired by Deputy Chairman, Planning Commission and provincial Governments have also been given representation in this Committee. Its composition is at Annexure-XXXV. A prescribed proforma for concept clearance has been devised (copy enclosed at Annexure-XXXVI). Sponsoring agencies are required to submit 50 copies of the project proposal on this format to the Aid Programming Section of Planning & Development Division. After obtaining the recommendations of the concerned technical section the project proposal is submitted to Concept Clearance Committee for its approval. The approval of the Concept Clearance Committee is communicated to EAD and sponsoring agency for aid negotiations with the donors.

6.44 Concept clearance is required for those projects only which have not been cleared by the CDWP/ECNEC. The project should, however, fit in with the priorities laid down in the Five Year/Perspective Plans and the overall economic development policies/ priorities of the Government. After Concept clearance has been accorded, the donor agency generally arranges pre appraisal/appraisal missions to discuss the project with the EAD/other agencies concerned. After appraisal of the project, sufficient data is available with the sponsoring agency to prepare the PC-I. The sponsoring agency are required to submit the PC-I to Planning & Development Division within a maximum period of one month after appraisal of the project by the donor agency for processing through the relevant approving authority. It is necessary that the decision of the CDWP is available before formal loan negotiation are held with the donor agency, so that loan negotiation conform to the decision of the CDWP. Likewise, the loan agreement, etc. should not be signed before approval of the project by the competent forum or the anticipatory approval of the Chairman, ECNEC.

6.45 Vide Planning & Development Division's circular of January 29, 1994 [1] (Annexure-XXXVII), the Prime Minister has decided to dispense with the requirement of obtaining prior clearance of the Prime Minister before seeking financial assistance for the development projects. It has, however, been desired by the Prime Minister that an MIS on the projects cleared by the Committee be sent for Prime Minister's information which may contain such details as the cost of project, financial plan, sources of financing, location, sector, commencement and completion dates etc. Unless objected to by the Prime Minister the list would be assumed to have been cleared for further processing. Accordingly, the Planning & Development Division submitted the list of projects cleared by the CDWP/CCC for seeking foreign assistance to the Prime Minister's Secretariat for information of the Prime Minister after every meeting of the CDWP/CCC. In case of any objection from the Prime Minister on any development project, the sponsoring agency concerned and the EAD are informed accordingly.

6.46 In September, 1994 it was decided that in future the proposals which constitute a part of the approved PC-I and for which the donors are changed should be considered conceptually cleared and should not be brought afresh for consideration.

6.47 It has been noticed that the proposals for seeking foreign assistance are sent by sponsoring agencies for approval of Concept Clearance Committee without proper examination, and sufficient details of proposals establishing their need are not available. It has accordingly been decided (Annexure-XXXVIII) in the meeting of CDWP/CCC held on 29-3-95 that in future:

(i) All concept clearance proposals costing Rs.10.00 million and above must accompany a feasibility study prepared departmentally.

(ii) No proposal for foreign assistance will be considered for the purchase of vehicles, air conditioners and other consumer durables, produced in the country.

6.48 After careful study of the whole procedure, the following guidelines are framed:

(i) It should be a normal practice to submit projects on PC-I or PC-II for the approval of CDWP. However, only those projects should be sponsored for concept clearance where strong indication is available from multilateral agencies/donors for making available necessary funding and formal request for donor financing can not wait for preparation of PC-I/PC-II.

(ii) The proposals should be accompanied by adequate information regarding basic concept of the project and cost details/breakdown with departmental feasibility if the cost of the project is Rs. 10 million and above.

(iii) Donor assistance should not be sought for the purchase of vehicles, airconditioners and other consumer durable goods produced in the country. Similarly, projects should not be sponsored for outright import of road making or earth moving machinery and drilling rigs etc. by the government departments/agencies without a project design fully justifying the additional acquisition after taking into account inventory of the existing machinery of all public sector departments/agencies. Effort should always be made for pooling available resources rather than resorting to fresh imports under new projects.

(iv) Following the concept clearance of the project, if the project design is altered by donor agencies at any subsequent stage Planning and Development Division should invariably be consulted and clearance obtained by the executing agency before proceeding ahead with negotiation.

(v) It should be ensured that the executing matching local currency funds would be available in PSDP/ADP to absorb the aid being sought.

6.49 Instances have come to the notice that executing agencies negotiate and finalize foreign aid (loans and grants) much beyond the scope and size allowed under concept clearance. It has, therefore, been decided vide Programming Section's O.M. No.7(4)PS/PC/96-FA dated the 9th September, 1996 that in case the loan and/or grants negotiated and/or finalized is over and above the size and scope of concept clearance the proposal be re-submitted for approval of the competent authority. It has further been decided that no aid agreement be finalized and signed till PC-I is approved or at least anticipatory approval of the competent authority is obtained with respect to scope and size of the PC-I and possibility of its budgetary financing is envisaged.

6.50 Vide Planning and Development Division's O.M. No. 7(20)PS/PC/95-Fa dated 4-1-1997, it has been decided that concept clearance of foreign aided projects by the Concept Clearance Committee will be considered as final as was the practice from the year 1983 to 1990 (Annexure-XXXVIII-A).

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Provincial Projects

6.51 Provincial projects involving outlay of Rs 100 million or less, approved by the Provincial Development Working Party which will not be financed entirely from the revenue surplus of the province, should be forwarded to the Planning Commission for seeking approval of the Concept Clearance Committee. Provincial projects of more than Rs 100 million will be considered by the Concept Clearance Committee/ CDWP/ ECNEC as usual.

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Federal Ministries/Attached Departments Projects

6.52 Projects of Federal Ministries and attached departments which are sanctioned by the Departmental Development Working Party may also be forwarded to the Planning Commission for seeking approval of the Concept Clearance Committee. Federal projects costing more than Rs. 20 million will be submitted to the Concept Clearance Committee/CDWP as usual.

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Public/Private Partnership Projects

6.53 The Government have introduced a new concept of public/private partnership in which private/public sectors will work in harmony for national development. Since public/ private partnership was a new concept, the procedure for approval of the project under this programme did not exist. The Ministry of Planning & Development approved the following procedure, proposed by the Ministry of Industries and Production to process/approve the Projects under Private/Public Partnership:

(i) The preparation of PC-I and its processing through ECNEC/CDWP may not be necessary for a project proposed to be implemented under the concept of Public-Private partnership if:

a. The equity participation by the public sector is not more than 30% of the project cost.

b. The management is with the private sector, and

c. No funds are being demanded by the public sector partner out of the Federal Budget.

(ii) The project will be based on feasibility study and public sector corporations, under administrative control of Ministry of Industries and Production, will be responsible for viability of the project.

(iii) The Chairman of the above corporations may approve/sign the MOU with private partner. However, the approval of the project or Joint Venture Agreement with Private (Local/ Foreign) partner will require to be obtained from the Board of Directors of the respective Corporation.

(iv) The MOU/JVA will be in accordance with prevailing government's Industrial/Investment policy.

(v) The project will be implemented through a joint venture public limited company registered under the Companies Ordinance. All decisions with respect to the affairs of the joint venture will have to be taken by the Board of Directors constituted by the Articles/Memorandum of Association under the provisions of the Companies Ordinance.

6.54 It may be noted that for project under private/ public partnership, no funds would be provided through PSDP. Government guarantee, if essential, would be obtained from Ministry of Finance, who will exercise due diligence as guarantor.

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* Superseded vide P&D Division's O.M.No.7(20) PS/PC/95-FA, dated 4-1-1997 (para-6.50).

Manual For Development Projects

Chapter-7: PROJECT IMPLEMENTATION AND MONITORING

Project Management & Supervision

7.1 The objective of any effort in project planning and analysis is to have a project that can be implemented to the benefit and socio-economic uplift of the society. No doubt that in a project cycle, its completion is the most important event, but what must precede this event to actualize it, is the crucial stage of implementation. This consists of a set or series of actions in parallel or sequence - represented by Bar Charts or a Network Diagram - whereby words are transformed into works and the potential of the project becomes a physical fact. The Project Director is appointed, staff of all categories arranged, the detailed designs got prepared, if need be, with the assistance of consultants, contractors pre-qualified and short-listed, tenders floated for civil works, equipment, and their installation, contracts awarded, all in timeliness with the objective of initiating the operations and getting them fully underway for achieving the goals envisaged without any time and cost over-run, in order that the economic benefits accrue according to the promises made in the scheme.

7.2 For achievement of the stipulated targets and tangible returns, however, it is imperative to entrust the management and supervision of the project during the implementation stage to capable and competent hands of required qualifications, experience and calibre.

Appointment of Project Director

	Activity	**Description**	**Immediate Predecessor**
1	Pre-feasibility	A	-
2	Concept clearance (where necessary)	B	A
3	Negotiation for foreign aid/loan (where necessary)	C	B
4	Preparation of PC-II	D	C
5	Feasibility	E	D
6	Project formulation/preparation of PC-I	F	E
7	Processing/Scrutiny of the Project	G	F
8	Approval of the project by competent authority.	H	G
9	Project documents (work plan/ PERT/CPM)	I	H
10	Signing of foreign loan/aid agreement+	J	B
11	Administrative approval	K	H
12	Allocation of funds/ADP (PLA)	L	H
13	Release of funds*	M)	
	- Appoint of Project Director	N)	
	- Land Acquisition	O) Simultaneous	
	- Creation of Posts and appointment of staff	P) activity	
	- Appoint of consultant	Q)	
	- Detailed design preparation	R)	

14	Tendering	S	R
15	Evaluation of Tender	T	S
16	Award of Contract	U	T
17	Construction of Civil Works	V	U
18	Procurement of Machinery / other inputs	W	K / L / V
19	Installation of machinary / equipment	X	W
20	Commissioning / Completion	Y	V / X

Increase in Scope of Work and Delay in Execution of Projects

7.5 The project implementation agencies/departments should seek the approval of the competent authority as soon as they consider change in the scope of work was imminent. The sponsoring agencies should also anticipate the likely delays for taking remedial actions well in time (Annexure-XXXIX). They should also fix responsibility for delays, if any, in terms of ECC's following decision dated December 27, 1988 in case No. CEC-542/37/33:-

"Those responsible for not undertaking forward planning and causing delays in implementation of projects should be taken to task".

Project Execution / Supervision-Development of Management Information System (MIS)

7.6 The Project Director, supported by ancillary staff, will coordinate day-to-day activities and through effective management ensure that the project achieves its development objectives and deals with the problems that arise during implementation. Although the problems of implementation are to be tackled mainly at the level of the Project Director/Executing Agency, the fullest support of the higher levels ie the line departments and ministries is also essential. For the closest rapport among all the layers of responsibility, a Computerized Management Information System (MIS) can prove crucial and must be instituted to coordinate the flow of information amongst the Project Director, Executing Agency, the sponsoring agency and the line department or the ministry concerned. At the heart of the system lies the network diagram, which presupposes the introduction of management techniques such as critical path methods (CPM), project evaluation and review techniques (PERT), etc., which at present are much in use abroad. With their assistance, it will be possible for the Project Director to take up the critical activities for implementation in the right sequence. Besides, significant milestones could be determined and regularly monitored by the project management, the sponsoring agency and line department or ministry to ensure that actions are taken in time, especially for the appointment of consultants, contractors, procurement of inputs, inter-agency coordination and fund releases.

7.7 The Project Director, who is supposed to have studied and grasped the provisions of PC-I and the contract agreements, keeps a vigilant eye on availability of standardized machinery, material and qualified staff as well as progress of work on the part of contractor. He may have to review and revise the CPM when necessary.

7.8 It is vitally important to watch that the progress is not pushed at the cost of the quality and it is equally important that the works are not delayed/suspended or slowed down due to impediments in timely supply of materials, acquisition of site, and/or want of requisite funds at appropriate stages. All these strategic points must be sorted out in advance by the foresight of the Project Director in coordination with the concerned quarters so as to avoid time and cost over-run to the extent possible. Timely signals must go out to concerned quarters if the project is in trouble.

7.9 A system has also to be evolved to ensure that quality material is made available in requisite quantity and utilized well in time on execution of the project. This will also include protection of materials, installation of field laboratories adequately equipped with standardized machinery and qualified staff for day to day testing of materials and samples. In case of major projects, this should also form a part of the duty of the supervisory consultants.

7.10 The project authorities are free to adopt a MIS which may suit their specific requirements. However, the Projects Wing of the Planning and Development Division has drawn a set of two proformae for a computerized management information system for monitoring and evaluation of development projects at the national level. Project Monitoring and Evaluation System proforma-I (PMES-I) would serve as data base whereas the proforma PMES-II is to be used by the Project Director to furnish quarterly progress to the Projects Wing, within 15 days of the closing of each quarter. It is expected that the computerized management information system would enable the Project Management to pass on signals to the Federal Ministries and Provincial Governments for avoiding possible delays and resolving serious problems well in time.

7.11 In appropriate cases, there should preferably be a separate and independent organisation engaged on supervision. In case of major projects, consultants should better be appointed for supervision of works. For foreign-aided projects, the donor agencies generally insist on appointment of consultants in accordance with their own procedures. The Government of Pakistan should endeavour to employ Pakistani consultants, expected to work with greater devotion and responsibility. In case it is not acceptable to a particular donor agency, we should insist that our local engineers or consultants be seconded to work jointly with foreigners at an equal status and salary structure at par with their corresponding counterparts, except for the top positions where the foreign consultants may be continue to stay and operate.

7.12 For dealing with inter-agency coordination and watching implementation, Review Groups on the pattern of "Energy Review Group" in the Planning Commission chaired by the Secretary of the Ministry/Department are highly desirable in each ministry and line department as already set up in the ministries listed at para 7.19. The strength of these Review Groups will be that the number of projects they have to oversee within the sphere of their sectoral responsibility is not so large as may be difficult to steer to the safe haven of completion through timely trouble-shooting.

PERT / CPM Techniques

7.13 In many situations managers assume the responsibility for planning, scheduling and controlling projects that consist of numerous separate jobs or tasks performed by a variety of departments/individuals. Often these projects are so large and/or complex that the manager cannot possibly keep all the information pertaining to the plan, schedule and progress of the project in his head. In these situations, the technique of PERT (Programme Evaluation and Review Technique) and CMP (Critical path Method) have proved to be extremely valuable in assisting managers in carrying out their project management activities.

7.14 The US Navy created PERT to plan and control the activities of hundreds of subcontractors who were building the first US Polarise Missile Submarine. Since many jobs and activities associated with the Polaris Missile project had never been attempted previously, it was difficult to predict the time to complete the various jobs or activities. Consequently PERT was developed with the objective of being able to handle uncertainties in activity completion on time. On the other hand, CPM was developed primarily for scheduling and controlling industrial projects where job or activity times were considered known.

7.15 In todays usage, the distinction between PERT and CPM as two separate techniques has largely disappeared. Modern project planning, scheduling and controlling procedures have essentially combined the features of PERT and CPM so that a distinction between the two techniques is no longer necessary. For a project having 5 activities/components, a simple PERT/CPM diagram may have the following shape:-

Before going into details we should familiarize ourselves with the following terms and symbols:-

i) **Network**

A systematic diagram showing logical sequences and inter-relationships between events and activities:

ii) **Event**

The starting point and the ending point of an activity is called an event. Also referred to an "milestone", it is a statement of accomplished task from there another activity starts. In other words, the starting events of one activity is actually the ending event of another. This point in time is represented by a circle.

iii) **Activity**

Actions taken to accomplish a task are called activities. Unlike events which are merely points in time, activities consume time and other organizational resources. Activities are represented by arrows.

We will read the above network in the following way:-

(a) The five circles represent the five events, namely event Nos. 1,2,3,4 and 5.

(b) The five arrows represent the five activities, namely: activity (1-2); activity (2-4); activity (1-3); activity (3-4) and activity (4-5). Note that each activity is between two events, namely, the starting event and the ending event. In case of activity (1-2), the starting event is event No. 1 and the ending event is event No. 2. In case of activity (2-4), the starting event (which is the ending event of activity 1-2) is event No. 2 and the ending event is event No. 4. Also note that events are represented by single numbers (i.e. event No. 1) while activities are represented by two numbers (i.e. activity No. 1-2).

(c) The numbers beside the arrows represent the duration of activities. It could be in days, weeks, or even months.

(d) The network indicates that before activity (2-4) could start, activity (1-2) should have been completed. In other words, activity (2-4) is "constrained" by activity (1-2). This is also true in case of activity (3-4) and activity (1-3). The network also indicates that activity (4-5) is constrained by the completion of both activity (2-4) and activity (3-4).

(e The network tells us that activities (1-2) and (1-3) can be done simultaneously. In other words, these activities are not "constraints" to one another. This is also true in case of activities (2-4) and (3-4).

(f) By tracing all arrows leading to the terminal event (event No. 5), we discover that there are two "paths". One path is through activities (1-2), (2-4) and (4-5) and the second path through activities (1-3), (3-4) and (4-5). Assuming that the time duration is in days, the first path will take 29 days (10+11+08) and the second one would take about 36 days (12+16+08).

(g) The "critical path" is the path that has the <u>longest total duration.</u> In our network, the critical path is that one that would take about 36 days. Consequently, activities (1-3), (3-4) and (4-5) are "Critical Activities". The critical path total duration corresponds to the completion time of the <u>whole project.</u> In our network, the project is expected to be completed in 36 days. A sample of PERT/CPM Chart is enclosed at <u>Annexure-XIX</u>.

Steps in Project Formulation/Implementation

7.16 Before construction of Bar Chart/CPM or PERT diagram one has to list out activities with their logical sequence for a project. Activities can differ from project to project. However, a possible list of activities can be identified as under:

i) Listing of Activities

This activity can take place earlier or later.

Release is a continuous activity starting after approval of the project and continuing upto its completion.

ii) Acquisition of land

Delay in acquisition of land and selection of proper location of the project are amongst the reasons for slow implementation. Before conceiving a project, the sponsoring authorities should decide about the location of the project keeping in view the availability of land. Such locations should be avoided where problems are likely to occur later on. In case special provisions in the Land Acquisition Act are required to be invoked, the matter may be taken up with the concerned authorities of the Provincial Governments on that basis. Besides, in certain cases, the soil investigation/testing and site development works are also unavoidable.

iii) Tendering of Civil Works and Award of Contracts

(a) Award of contracts for Civil works/supply of machinery and equipment to experienced firms of repute on fair and equitable contractual obligations plays a vital role in the execution of works and implementation of projects for achieving the objectives conceived at the planning stage. As the implementation of the project in physical terms begins with the award of contracts, it should be concluded with maximum expedition.

(b) For major works, the construction firms need to be prequalified/short-listed keeping in view their experience of similar works, financial standing, technical know-how, equipment availability, managerial capability and overall reputation. It is essential that a clear-cut criteria should be determined for pre-qualification to ensure their proper selection.

(c) For execution of the project, depending on the value of the contract (for the whole or the desirable part of the work), there should be standardized tender/contract documents - for smaller amount upto Rs 10 million, medium upto Rs 50 million and large beyond Rs 50 million, which will have to be indicated alongwith the bill of quantities (BOQs), standard specifications and drawings while inviting tenders. The schedule of rates in use needs to be updated continuously keeping in view the prevailing rates for materials and the labour of various categories.

(d) In case of extraordinarily large contracts, the consultants have to prepare contract documents which are generally based on FIDIC (Federation International Des Ungenerous - Conseils) format with special stipulations in accordance with the complexity of the project. The consultants will also have to formulate detailed specifications, which form part of contract documents. The tender documents will also indicate the sources for the supply of main materials for construction. Pre-bid conference between the client/ consultant and the prospective bidders should be encouraged to sort out any deficiencies that the bidders may bring out after study of documents and site inspection. It is also customary to convene pre-bid meetings and record the minutes of all major decisions taken in the meeting.

(e) Sufficient time, depending on the magnitude of the works, should be allowed to the bidders to submit their tenders from the date of issue of the notice inviting tenders.

(f) After receipt/opening of the tenders, proper evaluation at different levels - consultants, project director and the competent authority - has to be ensured before the acceptance of the tenders.

(g) Changes in design and specifications should be avoided after these have been finalized except where such changes are of critical importance.

(h) Under a Prime Minister's directive on award of contracts vide PM's Secretariat U.O. Note No. 4445/AS(ECE)/93 dated 31st October, 1993, it has been decided that in future there should be no deviations from the laid down procedures and no delay in the award of contracts. The entire procedure for award of contracts should be strictly according to the letter and spirit of the terms under which these bids were invited. It must be ensured that the entire process of the award of contracts is finalized within a period of six weeks and no discretion is used.

iv) Procurement of Machinery and Equipment

Lack of synchronization in the procurement of machinery & equipment has caused bottlenecks in the timely execution of the projects. The procurement of machinery and equipment, where needed, should be ensured at the appropriate time in accordance with the execution schedule of the project. Machinery and equipment should be preferred for which repair facilities are available.

v) Local Purchase/Fabrication

In the national interest, measures have to be adopted to encourage the use of materials and engineering goods which are indigenous/locally manufactured/ fabricated (Annexure XL refers). The concerned ministries/ organizations/departments responsible for implementation of projects should, in the initial stage, take a decision about the goods/equipment/machinery which are locally available or can locally be manufactured/fabricated.

vi) Foreign Procurement / Utilization of Foreign Aid

(a) In certain cases, the Loans/Assistance from the Donor Agencies are tied, which means that the machinery/ equipment have to be procured from the firms of the individual country or from the firms of the member countries of the donors club. The selection of appropriate materials/ machinery/equipment and framing of specifications, however, has to be carried out as per requirement of the project.

(b) The foreign assistance is not timely utilized in certain cases due to various reasons and accordingly the development of the country suffers. The following are considered as the main causes of slow utilization of foreign assistance:

i) There is a growing tendency on the part of aid-utilizing agencies and depart-ments to come up with highly inflated figures of project aid requirement especially against fresh aid. The past trend indicates that hardly 3-5 per cent of project aid gets disbursed in the year of commitment as there is always a time-lag between pledges and commitments. Even this magnitude of disbursement takes the form of down-payment, consultancy fees and payments for other services rendered. Generally no imports of equipment and machinery are involved.

ii) Delay by the sponsoring Ministries/ Organizations to obtain approval in respect of the project by the Competent Authority i.e. CDWP/ECNEC etc.

iii) Procedural delays by the aid-utilizing agencies which result in delays in the procurement of materials required for the projects.

iv) Delay sometimes takes place because the conditions for effectiveness of the loan are not fulfilled in time to enable disbursement of the loan.

v) Delays in appointment of the consultants.

vi) Tendency of the executing agencies to go by the terminal dates of opening L/Cs and disbursements resulting in frequent requests for extension of these dates.

vii) Inadequate rupee cover.

viii) Above all, delay in the award of contracts primarily because of the failure to visualise and assign realistic activity time to crucial preparatory activities like preparation of detailed designs and tender documents, pre-qualification of contractors and calling/ evaluation of tenders, and selection of bidders.

vii) Submission of Completion Report

The present method for reporting completion and annual reviews of development projects through PC-IV and PC-V forms (Annexure-II) is based on the "Rules of Procedure", issued by the former Ministry of Economic Affairs in September, 1952. The project/ programme completion report on PC-IV form is to be furnished by every Project Director/Executing Agency only once soon after a project or programme is adjudged to be complete and the filled-in PC-V form is to be furnished on an annual basis for a period of five years. The PC-IV includes the full history of the project emphasizing the risks taken and the mistakes committed alongwith the remedial measures adopted and the experience gained thereby. It serves as a guide to those who are charged with the execution and supervision of similar projects in future. Ideally the completion report should begin before the works are completed, and the events are fresh in mind. As far as possible, the completion report should be ready at the time the project is completed or very soon thereafter. PC-IV is required to be submitted to the Planning and Development Division or Planning and Development Departments depending on whether it is a Federal or Provincial project. The PC-IV and PC-V proformae are also intended to be used for post-completion evaluation purposes.

PROJECT REVIEW AND MONITORING

Progress on PC-III Proforma

7.17 In accordance with the standing instructions of the Government, quarterly progress report on a development project is to be furnished by every Project Director/Executing Agency on a prescribed PC-III proforma (Annexure-II), within three weeks of the closing of the quarter, amongst others to the following:

i) Sponsoring Ministry and Division;

ii) Projects Wing and concerned Technical Section of the Planning and Development Division, Government of Pakistan, Islamabad;

iii) Economic Affairs Division (in the case of foreign-aided projects);

iv) Concerned Financial Advisor of the Administrative Division etc.;

v) Planning and Development Departments/Line Departments (in case of provincial projects).

7.18 This method of progress reporting is based on the "Rules of Procedure for Economic Council, Planning Commission and Planning Sub-Commissions", issued by the former Ministry of Economic Affairs, in September, 1952. The PC-III Proforma has been in use since then with some modifications. The most important thing for progress reporting is that financial and physical progress and bottlenecks should be reported realistically and promptly by a Project Director/Executing Agency.

7.19 The project progress should be monitored on the basis of the project implementation schedule. Progress reports are essential for fact-finding so that specialists can concentrate on problem solving. Project Directors should ensure that proper procedures for reviewing and responding to progress reports are established and followed. Progress reports should summarize all important aspects of the projects. If projects are executed by several agencies, the main executing agency should be designated to collect and integrate the reports prepared by other agencies. Sponsoring agencies should be responsible to computerize all information under Management Information System (MIS) already developed by them. MIS should be set up by each sponsoring agency.

Progress Review by the Ministries/Divisions

7.20 Recognizing the need for monitoring/review of projects at high level, the Cabinet at its meeting held on April 2, 1990 took the following decision:

(a) Monitoring/review procedure at a high level should be introduced for projects in the following sectors:

i) Water

ii) Health

iii) Communications

iv) Railways

v) Manpower Development

vi) Women Development

vii) Population Welfare

viii) Education

ix) Youth Affairs

Reports of the results of the review should be submitted to the Economic Coordination Committee of the Cabinet periodically.

(b) The Federal Ministers should hold meetings with concerned agencies under the control of their Ministries to review implementation of development projects pertaining to their Ministries once every month. A day should be fixed by each Minister on which these review meetings would be held every month and this day should be permanently incorporated in the calendar of engagements of the Minister.

(c) The Deputy Chairman, Planning Commission should review the progress of implementation of develop-ment projects at least once every quarter.

In addition, the Economic Coordination Committee (ECC) of the Cabinet at its meeting held on April 30, 1990 also decided that every Minister/Minister of State would take a meeting on the first Tuesday of every month to review the progress of aid utilization in respect of the projects/schemes being implemented by his/her Ministry/Division. Reports of these meetings would be sent to the Cabinet Division for submitting the main points of the reports to the Prime Minister.

Projects Review Groups

7.21 To develop a synthesis of all progress review activities with the Ministries/Divisions including follow-up action on the review reports prepared/circulated by the Projects Wing of the Planning and Development Division, Projects Review Groups headed by the respective Secretaries have been set up on the initiative of the Projects Wing in the following twelve Federal Ministries/Divisions:-

i) Ministry of Water and Power

ii) Ministry of Petroleum and Natural Resources

iii) Ministry of Education

iv) Ministry of Science and Technology

v) Ministry of Population Welfare

vi) Ministry of Industries and Production

vii) Culture, Sports and Tourism Division

viii) Ministry of Housing and Works

ix) Ministry of Interior

x) Kashmir Affairs and Northern Affairs Division

xi) Ministry of Food, Agriculture and Livestock

xii) Ministry of Communications

xiii) Ministry of Information and Broadcasting

xiv) Aviation Division

xv) Ministry of Special Education and Social Welfare

xvi) Ministry of Health

xvii) Ministry of Local Government and Rural Development

The rest of the Ministries/Divisions may also set up such Review Groups at the earliest. The meetings of the Review Groups should be convened regularly on a quarterly basis. Amongst others, concerned Chief of Technical Section and Director General, Projects Wing, Planning and Development Division should also be invited to participate in these meetings.

REVIEW OF FOREIGN ECONOMIC ASSISTANCE AND PROBLEMATIC FOREIGN AIDED

PROJECTS BY THE COMMITTEE HEADED BY DEPUTY CHAIRMAN, PLANNING COMMISSION.

7.22 The ECNEC in its meeting held on 18-9-1993 decided that foreign aided projects severely affected by impediments be identified by Economic Affairs Division and conveyed to Planning and Development Division for review by a Committee headed by Deputy Chairman, Planning Commission and consisting of Secretaries of Finance, Economic Affairs, Planning & Development, the concerned Ministries/Divisions and Additional Chief Secretaries (Development) of the concerned Provinces to restructure or close the projects. The Projects Wing, Planning and Development Division is secretariat of the Committee.

7.23 The Cabinet in its meeting held on 17th October, 1994 decided that Secretaries/Additional Secretaries Incharge of concerned Ministries/Divisions should personally participate. Participation in this meeting should be given priority over any other meeting/engagement and foreign/local tours. The Economic Coordination Committee of the Cabinet in its meeting held on 4th December, 1995 decided that the Committee should meet once in two months.

PROJECT MONITORING

Role in the Project Cycle

7.24 The first three stages of the project cycle (identification, preparation and appraisal/approval), precede the actual project implementation stage. Once the implementation stage is reached, the "monitoring activity" assumes great importance which is followed by the final stage, i.e. project completion/post-completion evaluation. The importance of "monitoring and evaluation" activities hardly needs any emphasis since both provide timely and useful information not only to the project management/implementation agencies but also a feed-back to the policy makers. The linkage between the stages is also important. Each stage leads to the next and the last phase, in turn, produces new approaches/ideas, improving the planning and implementation process of future projects. This makes the "Project Cycle" self-renewing.

Conceptual Definition

7.25 Conceptually, "monitoring" means to check and assess the implementation status of a project/programme/plan during the implementation on a regular basis. The system of watching/ monitoring the progress of a programme/ project implementation, besides being an important link in the project cycle, helps in the identification/analysis and removal of bottlenecks and expediting action where projects have stalled or fallen behind schedule. Project monitoring is invariably done with the active participation of the project management and is, therefore, quite distinct from inspection which is generally undertaken at a higher level but not very regularly. In fact, project monitoring is a tool to serve the interests of both the project management and the planners, as they share a common concern for the timely completion of projects within the approved cost, scope and time schedule. For an effective monitoring system, the project document must have the following essential data/information:

i) A clear-cut statement of project objectives and benefits;

ii) Detailed project cost estimates-component/activity-wise;

iii) Source of funding;

iv) Annual financial phasing conceived on the basis of implementation plan;

v) Physical scope in quantitative terms with components detail; and

vi) Phasing of the physical scope as per its implementation schedule, duly based on PERT/CPM or Bar Charts.

Kinds of Monitoring-Internal vs. External

7.26 Conceptually, monitoring is distinguishable into two categories viz (i) Internal, and (ii) External. These terms are defined as under:

(i) **Internal Monitoring**

Internal monitoring serves the objectives of internal project management and is always the responsibility of those sponsoring ministries/ divisions, and executing agencies who are directly or indirectly involved in project formulation, appraisal/approval and implementation, i.e. on daily basis at the project level, monthly by the executing agency and quarterly by the sponsoring agency. The internal monitoring unit is to work like an eye of the project management for ensuring the successful and timely completion of the project. A close collaboration and understanding between the project management and the monitoring unit is very important. The essential thing is the quick taking of appropriate decisions on the part of the project management to remove the bottle-necks and solve the problems.

(ii) **External Monitoring**

"External Monitoring" which serves the objectives of higher level authorities outside project management is always undertaken by an outside central agency like the Projects Wing of the Planning and Development Division. This is done to watch the progress of development projects to gain inside knowledge for the benefit of the planning agency from the macro-planning point of view and that of the sponsoring agency for strategic feed-back on the progress of implementation, its impact on problems and removal of bottlenecks. Accordingly, as per the Rules of Business, 1973 issued by the Cabinet Division (updated upto February 1985), progress monitoring of all major development projects/ programmes, identification of bottle-necks and initiation of timely action is included in the charter of duties of the Planning and Development Division (Cabinet Division's d.o. letter No. 52/CF/81 dated February 26, 1981 also refers (Annexure-XLI). The external monitoring unit which works alongwith the internal monitoring system, provides a link between the higher level authorities and the project management. The internal monitoring unit has to feed the external monitoring unit with necessary information. The external monitoring unit makes efforts for the preparation of special review reports and collection of information on the spot, through field visits, to counter-check the validity of information being provided by the field staff.

Monitoring Indicators

7.27 Conceptually, monitoring indicators are specific yardsticks which can measure progress or changes in the results, achievements (output, effect, or impact) of a project/programme or a national plan. The indicators are thus specific measures of the degree to which an activity or a project is producing its outputs and achieving its objectives. The indicators can also be stated as specific targets, to be achieved at specific points in time during the implementation stage of an activity or can be categorized by type, such as, output or impact indicators. The indicators can be direct or indirect (proxy) - where direct measurement is not feasible. The main monitoring indicators can be identified as under:

i) **Primary**

Completion of preliminaries like drawing, designing,tendering etc as per schedule.

Financial utilization viz-a-viz PSDP allocations, fund releases and item-wise cost utilization.

Physical progress, as per approved work scope and time schedule.

Staff and equipment usage rate

Managerial performance (timely decisions, efficiency and controls, inventory level, rate of progress, lack of labour trouble/inter-agencies coordination problems etc).

ii) **Secondary**

Technical/qualitative parameters, quality control standards, input usage rate, credit supply, extension services (transfer of knowledge and technology with adoption rate etc.)

Economic parameters (capacity utilization, crop production, intensity, yield, growth rate, etc.)

Social parameters (income distribution index, availability of basic needs, etc.)

Environmental parameters (pollution, climate consideration, etc.)

Institutional Arrangements:

7.28 There have been several attempts in the past to strengthen the role of the Planning and Development Division and to institutionalize monitoring and evaluation arrangements at various levels. In 1960, a Projects Division was established under a separate Secretary, responsible to Deputy Chairman, Planning Commission, solely for progress monitoring through inspections. This was abolished in 1962. Thereafter, a Projects Wing was created also in the Planning and Development Division in 1966 almost with the same aims and objectives as were laid down for the Projects Division but was replaced by a new organization namely, "National Development Progress Centre (NDPC)" set up on the pattern of the Malaysian Government Display Centre. The methodology of the NDPC was to present the progress of development projects through audio-visual aids. This system was tried upto June, 1978 but nothing tangible was achieved primarily due to the lack of interest at the higher levels.

7.29 In July, 1978, the Implementation and Progress (I&P) Section of the Planning and Development Division was re-activated for progress monitoring and a policy letter was issued by the Secretary, Planning and Development Division in September, 1978 indicating the methodology to be followed for progress monitoring of major development projects. The main features of the approach were that projects costing more than Rs 50 million were to be reviewed through field visits (individually or collectively). The progress monitoring reports prepared by the I&P Section from July, 1978 to June, 1983 proved very useful in highlighting the specific problems at the project management level and seeking remedial measures. The institutional arrangements were, therefore, further strengthened with the creation of a Projects Wing within the Planning and Development Division in November, 1983, specifically to perform the following four main functions:-

i) Project facilitation/training;

ii) Project monitoring;

iii) Project evaluation; and

iv) Project computerisation.

The approach of the Projects Wing is selective. The Projects Wing monitors about 50 Federal & Provincial Projects annually. The objective of the monitoring is to resolve difficulties rather than fault-finding.

7.30 The Projects Wing is responsible for ensuring that major development projects are executed as per approved scope and targets. The Wing despite its best efforts cannot shoulder this responsibility without the help and cooperation of concerned federal ministry/ division and/or Provincial Government. Project Directors should send project implementation status to Projects Wing on specified PMES-I proforma and updated quarterly progress reports on specified PMES-II proforma and indicate problems faced in project implementation, within 15 days of closing of each quarter. The Wing would computerize information received on its Management Information System (MIS). It would prepare status report of the project and make necessary recommendations for resolving problems which are hindering progress. The Projects Wing would request concerned organizations to resolve issues which are unnecessarily disrupting progress. If felt necessary, the Wing may also bring the project on agenda of meeting of the Cabinet Committee on Problematic Projects. This high level meeting is chaired by Deputy Chairman, Planning Commission, and attended by Federal Secretaries and Provincial Additional Chief Secretaries (Development). Meetings are held regularly on bimonthly basis to review problematic projects specially involving foreign aid.

Progress Monitoring Proformae:

7.31 Special Progress Monitoring (PM) proformae (known as PM-I, II and III) remained in use from

1979 till March, 1992. These proformae have been replaced by PMES-I and PMES-II (Annexure-XLII) keeping in view the requirements of ECNEC/CDWP and MIS of the Projects Wing. PMES-I proforma is used for data collection, PMES-II is meant to send progress monitoring data on quarterly basis.

ECNEC Decisions:

7.32 Since 1979 to 1982, a number of summaries on the projects review reports were submitted to the ECNEC on quarterly basis with a view to link the monitoring process with decision-making. The various decisions taken by the ECNEC to institutionalize monitoring procedures are enumerated below for the guidance of all concerned agencies:-

i) **Regular Submission of Quarterly Monitoring Summaries:**

The ECNEC took note of the position explained in the Summary dated 29th December, 1978, submitted by the Planning and Development Division and directed that such quarterly progress reports on the monitoring of development projects should continue to be submitted on a regular basis (ECNEC decision dated the 10th March, 1979).

ii) **Prompt Supply of Monitoring Information by Executing Agencies:**

The ECNEC at its meeting held on February 10, 1981 directed the Federal Ministries and the provincial Governments to impress upon the heads of all the departments/agencies under their control to accord the highest priority to the monitoring work of the Planning Division, and to furnish all required information to the monitoring teams in a prompt and responsible manner (ECNEC decision dated the 10th February, 1981).

iii) **Appreciation of the Monitoring Work and Strengthening of Facilities:**

Monitoring work being done by the Planning and Development Division was appreciated and it was directed that the organizational and other facilities for this purpose should be strengthened (ECNEC decision dated the 19th May, 1981).

iv) **Monitoring of Projects by the Concerned Ministries:**

The Committee directed that the concerned Ministries should keep a vigilant eye on their projects and take corrective measures during execution (ECNEC decision dated the 4th August, 1982).

National Economic Council's Decisions:

7.33 On the basis of experience and insights gained through monitoring by the Projects Wing, a summary was submitted to the NEC at its meeting held on July 4, 1988 on "Improving the Efficiency of Development Expenditure Through Institution of Appropriate Monitoring and Evaluation Procedures".

The summary focused on the factors responsible for delays in the implementation and consequent inefficient use of development funds. The NEC took decisions covering all stages of the Project cycle (identification, preparation, appraisal, implementation, monitoring and evaluation), with a view to improving on current implementation performance (Annexure XVIII). The NEC's decisions concerning specifically project monitoring/evaluation are reproduced below:-

i) **Training in Project Monitoring and Evaluation:**

Training in project preparation, appraisal, management, monitoring and evaluation should be instituted at all levels.

ii) **Strengthening of PME Cells/setting-up of a Computerized MIS:**

Project monitoring and evaluation Cells (PME Cells) should be strengthened/created and Computerized Management Information System installed.

iii) **Larger M & E Coverage:**

Selected federal/provincial projects costing Rs 100 million and above should be monitored by the Projects Wing. With the existing facilities, the Projects wing has been monitoring about 50 projects and can produce evaluation reports of 10 completed projects annually. A much larger coverage of at least 300 projects for monitoring is desirable alongwith evaluation of 50 completed projects every year for which additional resources should be provided.

The Advisor to the Prime Minister on Finance and Economic Affairs approved the following recommendation of the Federal Task Force on Delegation of Powers to Project Authorities/ Implementing Agencies (Annexure-XLIII):

"In accordance with NEC decision dated 4-7-1988, the Planning & Development Division should monitor at least 300 projects and evaluate 50 completed projects every year for which additional resources should be provided by the Ministry of Finance. The monitoring/evaluation reports should regularly be submitted to the ECNEC".

iv) **Quarterly Summaries to ECNEC:**

Projects Wing should regularly send monitoring reports to the sponsoring/executing agencies for taking remedial measures. A quarterly report should be submitted to the ECNEC on the monitoring/ evaluation of projects.

v) **Item-wise Cost Monitoring:**

The monitoring cells should undertake itemized cost monitoring in relation to the market price independently of the costs given in the PC-I or tenders. Monitoring of costs for procurement of machinery/equipment, building construction and other miscellaneous items should be carried out through well-reputed consultants.

vi) **Establishment of Projects Division & Training Institute:**

Projects Division and an Institute of Project Preparation and Management should be set up at the Federal level. Provinces should establish Project Cells and make full use of the proposed Institute.

vii) **Computerization of Monitoring and Evaluation:**

Computerization should be used for monitoring and evaluation of projects.

viii) **Mid-year review by Finance and Planning Divisions:**

In order to relate release of funds to actual utilization, a mid-year review during November-December should be held. At this review, to be jointly conducted by the Planning and the Finance Divisions, the funds utilization capability of the executing agency as well as progress on projects should be appraised and release of funds adjusted accordingly.

ix) **High-level Federal Projects Review Board:**

A high-level Federal Projects Review Board should be set up under the President/Prime Minister which should meet about twice a year to review major projects on which serious implementation problems have arisen.

Monitoring Methodology - Methods and Techniques:

7.34 The methods or techniques adopted for project monitoring should effectively measure the progress of a project, in comparison to its approved cost, scope, time schedule and objectives and be capable of producing the information, according to the requirements of all concerned. The implementation schedule of the smaller projects may be prepared in the form of Bar Charts. However, for the major projects, the project management must use modern network methods (CPM/PERT) to plan in advance, time and resources required for completion of individual activities. All these techniques can be applied effectively for progress monitoring of capital expenditure strictly in accordance with the physical scheduling. The NEC at its meeting held on July 4, 1988 also directed that the implementation schedule be based on Bar Charts/PERT/CPM, which should essentially form part of every project document. It further directed that the schedule rates used in estimating project cost should regularly be updated by taking into account the market rates, instead of allowing across-the-board premium on the schedule of rates.

7.35 The monitoring methodology being followed by the Projects Wing since its creation in 1983 is briefly described below:

(a)Project selection criteria:

The Projects for monitoring/evaluation are selected on the basis of the following criteria:-

i) The size of projects in financial terms, i.e. projects costing Rs 50 million and above;

ii) Slow-moving foreign-aided projects;

iii) On-going major projects where some progress has already been made, particularly those facing inter-agency coordination/ implementation problems;

iv) Projects not monitored for the last one year or more; and

v) Special M&E assignments by the CDWP, ECNEC and Prime Minister's Secretariat.

In addition, where the importance of the development impact justifies it, projects can be selected for review irrespective of the volume of investment.

(b) **Collection of Monitoring Data:**

As referred to earlier, a specially designed proforma for progress monitoring (PMES-I) is directly addressed to the Project Directors under intimation to all concerned for reporting implementation status particularly on the following:-

i) Project's approved PC-I cost, time schedule and objectives;

ii) Item-wise physical and financial progress;

iii) Any changes in the plan of work or envisaged activities, alongwith the cost estimates and likely period of completion of the project;

iv) Expected cost and time over-runs; and

v) Problems being encountered in the implementation of the projects with proposals for remedial measures.

Quarterly progress is obtained on PMES-II proforma from executing agency.

(c) **Monitoring Teams:**

Multi-disciplinary monitoring teams, comprising the representatives of the Planning and Development Division (Projects Wing and concerned Technical Sections), Sponsoring/executing agency and Provincial Government (for provincial projects only) are deputed for undertaking site visits and also to focus specifically on the following:-

i) Divergence between the PC-I workplan and the actual physical implementation;

ii) Whether the physical output is commensurate with the financial outlay of the projects?

iii) Status of foreign-aid utilization;

iv) Availability of inputs other than finance;

v) Unit rate analysis and assessment of project effects viz-a-viz output, employment, environ-mental etc; and

vi) Source of the recurring cost and maintenance liability on completion of project.

A check list for the guidance of the progress monitoring teams prepared by the Projects Wing of the Planning and Development Division is placed at Annexure XLIV.

(d) **Progress Monitoring Reports:**

The review reports generally consist of four parts. The first part gives the background of the project, its approval, financial allocation, utilization/ expenditure by main items, and the likely cost after completion of the project, physical progress and the bottle-necks, if any. The second part deals with operational results covering economic, financial analysis etc; the third part embodies findings and recommendations and the fourth part relates to statistical appendices. After its approval, the same is circulated to the concerned sponsoring ministry/ division/executing agency, Project Director, concerned economic/technical sections of the Planning and Development Division, Finance Division (Development Wing) and Auditor General of Pakistan for favour of comments and initiating actions on the remedial measures/ recommendations made in the report. The progress monitoring reports are in the nature of a review of progress as related to project implementation status/workplan particularly with reference to time and cost over-runs and removal of bottle-necks. A report format prepared by the Projects Wing of the Planning and Development Division is placed at Annexure-XLV.

(e) **Inter-agency Meetings:**

Inter-agency meetings are also organized by the Projects Wing in case of a situation which requires coordinated effort on the part of more than one organization/agency and to discuss draft review reports of the monitoring teams.

Performance Auditing

7.36 Performance audit of the projects particularly foreign aided projects should be undertaken by the Office of the Auditor General of Pakistan. Project authorities should appoint auditors who understand special audit requirements related to the foreign donor's disbursements. Audit reports are of crucial importance to supervision as they help indicate whether the donor's statutory requirements on papers accounting for the use of donors funds have been satisfied and whether financial and management controls are adequate.

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Chapter-8: PROJECT EVALUATION

Significance

8.1 Planning and Development Division, which occupies the central position in the planning machinery in Pakistan, also assumes the role of project evaluator. As per the Rules of Business, 1973 (updated upto 1985), the evaluation of on-going and completed projects is one of the basic responsibilities of the Planning and Development Division. The Planning and Develop-ment Division (Projects Wing) while submitting a summary to the NEC on "Improving the Efficiency of Development Expenditure through Institution of Appropriate Monitoring and Evaluation Procedures" on 30th June, 1988, brought out that post-completion evaluation is necessary for improving the effectiveness of development expenditure which had largely been ignored. The NEC while taking note of the summary has not only accorded approval for creating/strengthening the Project Monitoring and Evaluation Cells (PME) in the Federal Ministries/Divisions, introduction of computers for evaluation purposes and enhancement of the status of the Projects Wing to that of a Division but also directed the Projects Wing to enhance project evaluation studies from 10 to 50 studies annually. A proforma designed by the Projects Wing for project evaluation is enclosed at Annexure-XLVI.

Purpose of Evaluation

8.2 The final phase in the project cycle is project evaluation. The analyst looks systematically at the elements of success and failure in the project experience to learn how to plan better for the future. The basic objective of such a study is to ascertain the real worth of a project or programme as far as possible. Broadly speaking, evaluation may be defined as "a process which attempts to determine as systematically and objectively as possible the relevance, effectiveness and impact of activities in the light of the objectives". It is, thus, a critical analysis of the factual achievements/results of a project, programme or policy vis-a-vis the intended objectives, underlying assumptions, strategy and resource commitment. In specific terms, it makes an attempt to assess objectively the following:-

(a) the relevance and validity of the objectives and design of the project/programme in terms of broader issues of development policy, sector/sub-sector priorities and strategies as well as other problems of a wider nature;
(b) the efficiency and adequacy of the pace of progress of the project/programme where the focus is mainly on managerial performance and productivity;
(c) the effectiveness of the project/programme - a major part of an evaluation exercise-in realizing the intended objectives from a variety of angles; and
(d) the identification of reasons for the satisfactory or unsatisfactory accomplishment of the results of the project/programme and to deduce critical issues and lessons which may be of relevance to other on-going and future projects/programmes of a similar nature.

Types of Evaluation

8.3 Evaluation, can be applied for different purposes as well as to a specific activity, project or programme. It is not restricted to the completion stage only but involves periodic investigations at many stages. The different types of project evaluations carried out are: (i) ex-ante evaluation, (ii) on-going evaluation and (iii) terminal evaluation/ex-post evaluation. The ex-ante evaluation/pre-approval appraisal has already been discussed with methods and techniques in Chapter-5. The on-going evaluation is carried out by the organization of its own to re-assess the projected feasibility of the PC-I content because of the time lag, while external evaluation is done by an agency other than the body involved in the implementation of a project. On-going and post-completion evaluation are discussed below:-

(a) On-going/Mid-term Evaluation

The main purpose of an on-going/mid-project evaluation is to assist the project management to make appropriate adjustments in the changed circumstances or to rectify any shortcomings in the original design, so as to improve its efficiency and overall performance.

(b) Post-Completion Evaluation

The purpose of an ex-post or post-hoc evaluation is to discover the actual, as opposed to the projected, results of implementing a project. The aim of evaluation is primarily to compare the actual outcome of the project with the projections made at the appraisal stage. The examination of different aspects of the project can provide important lessons derived from experience for the new projects. The overall impact of the project will result in a number of effects which can be classified as costs and benefits, direct and indirect or tangible and intangible. Ex-post evaluation takes place after the completion of the project and is often more in-depth as it focuses on the analysis of impact. Besides, it is time-consuming, costly and calls for persons with special skills.

Difference Between Monitoring and Evaluation

8.4 Evaluation is a learning management tool but differs materially from monitoring. Project monitoring is undertaken at the implementation stage while evaluation is generally preferred when a project is complete. The monitoring reports provide the data base for the **"evaluation"** but evaluation cannot contribute directly to monitoring. The evaluation studies are more comprehensive in nature, covering all aspects of the projects, whereas monitoring provides information mainly to assess and help maintain or accelerate the progress of implementation. However, key differences between M and E functions are summarized below:

Monitoring (M)	Evaluation(E)
Keeps track of daily activities a continuous function.	Takes long range view through indepth study - a one time function
Accepts objectives, targets and norms stipulated in the project document	Questions Pertinence and validity of project objectives / targets
Checks progress towards output targets	Measures performance in terms of objectives
Stresses conversion of inputs to outputs	Emphasizes achievement of overall objectives
Reports on current progress at short intervals for immediate corrective actions	Provides an indepth assessment of performance for future feedback

Evaluation Indicators

8.5 Evaluation indicators are the yardsticks for the assessment of overall performance of a project/programme with reference to stipulated targets and objectives. The main indicators can be identified as under:-

i) Physical achievements indicators

Overall physical progress

Overall cost utilisation

Timely or untimely completion of a project or a programme (delay in years).

ii) Output or Impact Indicators

Production (whether crops, livestock, forest products, fish, etc.) e.g., percentage of children in a target group receiving supplies feed, number of acres surveyed, loan applications processed/approved, trained manpower, a laboratory set-up etc.

iii) Economic Indicators

Financial and economic benefits (e.g., financial rate of return, internal rate of return, benefit-cost ratio, etc.).

iv) Social Indicators - Quality of Life Indicators

Income distribution with equity, level of food consumption, health and education facilities, shelter, access to essential amenities/basic needs, life expectancy, etc.

Requirements for Undertaking an Evaluation Exercise

8.6 In order to undertake an evaluation of any project/programme, a study of its related documents is a pre-requisite for acquiring sufficient knowledge and information thereof. The documents include:-

(a) The approved PC-I alongwith the related project documents, concept clearance papers loan/grant agreement with foreign agencies etc, and feasibility study, if any;

(b) Pre-approval appraisal notes/CDWP working papers;

(c) Pre-approval technical scrutiny notes;

(d) ECNEC summary and its decisions;

(e) Sources of financial and other inputs;

(f) Annual/quarterly progress reports;

(g) Project review/monitoring/mid-term evaluation reports;

(h) Special reports; and

(i) Project completion report.

The aforementioned documents form the basis of the assessment of different project activities. The site visits to the project will also assist in the assessment of the quantitative aspects of a project and its effect/ impact on the target group/beneficiaries. The following facts should be looked into in any evaluation exercise:

i) Was the project properly conceived? Has it fulfilled its basic objectives? If not, what was wrong with the basic design?

ii) Was the project adequately prepared? Were the forecasts of output or benefits correctly made to a reasonable extent? Was the technical preparation adequate? How good were the original cost estimates? If there were deficiencies in preparation, how those were removed or could be made up?

iii) Was the project implemented as per the plan? If not, was this because of its haphazard preparation or because of delays in (a) the authorisation procedure, (b) obtaining suitable funds, and (c) other reasons? What lessons could be learnt to improve the implementation of other projects?

Feed-back for the Future

8.7 Feed-back is the most important element of a systematic and integrated approach towards project appraisal, monitoring and evaluation. Essentially, it is the evaluation exercise which provides lessons for the feed-back, because the main objective of such studies is to compare the actual outcome of the project with the projections made in its appraisal and then the examination of essential positive and negative effects of the project, providing important lessons for the future. The feed-back from evaluation is a basic requirement of the management. An evaluation without any direction or support from the management can hardly be meaningful. To promote feed-back from evaluation, it is necessary to (a) substantiate proper evaluation findings and pay proper attention to specific issues of substance, (b) establish a feed-back mechanism, preferably to the policy-makers and senior management, and (c) rely upon feed-back through formal and informal arrangements. Feed-back from the evaluation is used for operational (mid-course corrections and follow-up action), analytical (improvement of project design, objectives etc.) and policy purposes (finding out the validity of a given development strategy etc.). To ensure that feed-back is used in systematic manner, there must be an adequate institutional mechanism for channelling the findings and recommendations to the appropriate decision-makers and managers for the necessary follow-up action. The managers and policy-makers should know how to guide and use evaluation for their needs.

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Chapter-9: SOCIAL ACTION PROGRAMME (SAP)

Conceptual Framework

9.1 Social Action Programme (SAP) is a national programme, launched with active participation of the Federal and Provincial Governments, Non-governmental Organizations (NGOs), private sector and communities. It is a response to the realization that the past investments in the social sectors have yielded significantly less than desirable results and that social development did not match the respectable growth of above 6 percent that the country had achieved in the economic field.

9.2 SAP enshrines the concern the Government has for the rural/poor, the disadvantaged and marginalized people of the country. It aims at helping reduce poverty, improve well being of the people and decelerate population growth. It comprises Government effort to strengthen basic social services through primary education, primary health care, family planning, and rural water supply and sanitation. The Government fully realizes that Pakistan's weak social services and higher population growth of about 3% per annum are undermining the country's development efforts and impeding the quality of life. Educational attainments and health indicators, especially for women, fall short of the countries of similar income levels.

9.3 SAP focuses on the most vulnerable or marginalized groups of society, such as, the rural poor and women through emphasis on girls enrolment at the primary level and recruitment of a larger number of women as teachers and learning coordinators. The school enrolment is planned to be increased to bring basic education up to minimum quality standards. It will also strengthen the primary health care system and sharply expand family planning services. Finally, the SAP will increase the area served by rural water supply and sanitation facilities and associate communities in the planning, designing, implementation, monitoring and maintenance of these services.

9.4 The concept is not merely to construct new facilities but also to involve communities and people in the system to ensure sustained and improved service delivery. The SAP strategy to accelerate pace of social development includes:

-- Ensuring adequate financial allocations (development and recurrent) for the above mentioned four SAP sectors.

-- Improving delivery of social services.

-- Strengthening institutional mechanisms.

-- Facilitating NGOs and community participation.

9.5 SAP emphasizes implementation through policy dialogue and close coordination among concerned agencies. Disbursements of funds to executing agencies are made after annual assessments by the donors and government authorities responsible for that year's operational plans. The operational plans include development budgets and current budget as well as implementation plans that specify both prior actions and measurable targets for each sector. Donors reimburse a share of the expenditure for agreed programmes i.e. about 25% by foreign donors and 75% through national resources.

Selection Criteria

9.6 The approved criteria for identification of SAP schemes is as under:

a) Primary Education

Site selection for primary schools should be based on scientific criteria using school mapping and Education Management Information System (EMIS) data. Primary schools will be established in those areas where population of school age (boys or girls) is atleast 80, the total population of catchment area is at least 1000 and that a middle/primary school does not exist within a radius of 1.5 KM of the proposed site of a primary school. Wherever possible, two kanal land is to be made available free of cost. He land should be suitably located and technically acceptable. If free land is not available for school within the acceptable vicinity, the government will acquire it.

b) Primary Health Care

Each Provincial Government has its own criteria for selection of sites for Basic Health Units (BHUs) and Rural Health Centres (RHCs). In general, they follow the following conditions: one BHU serves cluster of villages in a Union Council, and a village is selected for location of BHU if it has: (i) road/train access, (ii) electricity, (iii) post office, (iv) availability of water supply source, (v) population coverage within a radius of 8-10 KM must be atleast 5000-10,000 (the minimum population of village of location should not be less than 1000), (vi) primary education facility for girls, and (vii) accessibility for population cluster, ideally central location to cover the cluster of villages. For Rural Health Center (RHC), telephone connection is also a pre-requisite condition. Initially, land donation from the community was required. This is no more a condition, as often the land was not in the best location. Therefore, purchase of land is allowed, provided other conditions are met.

c) Rural Water Supply & Sanitation (RWSS)

The basic criteria for the selection of a rural water supply and sanitation scheme is that the initial proposal for the construction of the facilities should come from the beneficiaries. After the proposals are received from the community, the line departments will carry out a technical and financial feasibility of the proposal on the basis of present facilities, coverage, availability of source and willingness to bear the O&M cost by the beneficiaries. The community would then be provided with options in terms of quantity of water to be supplied, the daily hours of supply, and the type of service. The community has to decide whether they will choose community taps for the service or would like to have house connections. These options would decide the operational cost of the system. The system finally built would be that which is within the financial capability of the community to operate and maintain with their own resources. Effort will be made to replicate cheaper appropriate technology to reduce cost of maintenance to the community.

Community management and participation to undertake O&M cost of the completed rural water supply scheme is essential. Besides, a unified policy for cost recovery, tariff and O&M costs is to be adopted for rural water supply schemes.

There should be no over-lapping with the schemes under the Peoples Programme and the schemes being implemented under the Annual Development Programme of the Federal/Provincial Governments and Local Bodies. These schemes will be supplementary to Social Action Programme and not a substitution of the Programme.

INSTITUTIONAL ARRANGEMENTS

SAP Operational Secretariat in Ministry of Local Government & Rural Developme.

9.7 SAP operational secretariat has been established in the Ministry of Local Government & Rural Development, Islamabad with approval of Social Sectors Coordination Committee of the Cabinet (SSCC). The Secretariat is responsible to coordinate activities concerning implementation and monitoring of SAP projects through District Social Action Boards (DSABs).

Role of District Social Action Boards (DSABs)

9.8 To make the SAP fully operational at the districts level, the District Social Action Boards (DSABs) have been assigned the following functions:-

i) Identification of schemes under SAP.

ii) Based upon the mapping exercise carried out by various provinces/federal agencies, a list of all eligible sites will be prepared by the provinces/agencies which will be submitted to the District Social Action Boards to facilitate selection of sites according to approved criteria.

iii) The provincial governments and DSABs will each identify and select 40% sites in each District and remaining 20% by the MNAs of eligible sites in accordance with the approved selection criteria.

iv) The DSABs would strictly adhere to agreed site selection criteria and action plan.

v) The DSABs will convey the selected sites to the Deputy Commissioners who will forward the same to the concerned Line Departments for taking necessary action.

vi) A copy of the development schemes identified/ sites selected by the District Social Action Boards will be sent to the concerned Line Departments and the Provincial SAP Coor-dinators.

vii) Carry out review and monitoring of all schemes under Social Action Programme in their respe-ctive districts. The chairman and members of the DSABs and Project Directors shall, from time to time, undertake site visits of SAP Projects to ensure that the work is proceeding as per approved plan and that the funds are being properly utilized.

viii) Provincial governments will issue instructions to the line departments and Deputy Commissioners to ensure full cooperation with DSABs.

ix) Deputy Commissioner will act as an ex-offico member of DSAB. He will attend the meeting of DSAB at least once in a month.

Processing of SAP Schemes

9.9 The Provincial Planning & Development Departments will furnish to the Federal SAP Secretariat, Planning & Development Division, Islamabad a list of SAP schemes of each District, indicating status of scheme, (new or on-going), cost estimates, cost utilization, physical progress and ADP allocation for the year etc. The on-going schemes should indicate:

(a) whether approval has been accorded.

(b) whether contract has been awarded.

(c) Whether construction is in progress.

9.10 Provincial SAP coordinators would submit quarterly progress reports of on-going SAP schemes to the Federal SAP Secret ariat, and Ministry of Local Government and Rural development, Islamabad.

Monitoring and Evaluation System

9.11 SAP requires extensive monitoring and evaluation of the entire process as well as each of its components. A number of new monitoring and evaluation bodies and mechanisms have been set up as under:

i) SAP National Steering Committee (SAPNSC):- The main task of the SAPNSC is to monitor SAP at national level. The Committee holds meetings on quarterly basis and concentrates on financial monitoring and the policy reforms. The SAPNSC is headed by Deputy Chairman, Planning Commission, and represented by concerned federal and provincial Secretaries, including representatives of the donors and MSU of SAP.

ii) Federal SAP Secretariat (FSS):- The Federal SAP Secretariat (FSS) set up in the Planning & Development Division, Islamabad is responsible for coordination of SAP activities at the national level. The Federal SAP Secretariat has provincial level summary information for meaningful analysis of the SAP implementation activities. The process of regular progress reports and operational level information has been established. The FSS also monitors the financial flows and policy reforms, through regular reporting system.

iii) Multi-Donor Support Unit (MSU) For SAP:- MSU has been established and is located in Islamabad to assist the Government of Pakistan in the implementation of SAP. It has been sponsored by several bilateral and international donors for assistance in monitoring and coordination of SAP. MSU has succeeded in establishing a system of receiving detailed reports from the provinces on regular basis. It has also established the capacity to provide financial and technical assistance to the Federal and Provincial Governments for implement-ation of SAP. It generally monitors SAP activities through provincial visits with the donor's missions and also through technical group meetings to discuss issues and formulate policies and procedures. The MSU also concentrates on financial flows and policy reforms.

iv) Provincial SAP Coordination Committee (PSCC):- The PSCC monitors SAP activities and meets every quarter to review the progress. It holds regular meetings to discuss the progress of SAP activities and monitors financial and policy reforms. It also tries to resolve operational issues.

v) Provincial Finance Department:- It is responsible for planning and monitoring of SAP related funds. The main role of the finance department is to ensure that the budgets are within the available resources and the financial guidelines are followed. At the implementation stage, it is their responsibility to ensure that the funds are available to the line departments on time. It is also their function to monitor releases against the annual budget allocations.

vi) Provincial P&D Departments and Provincial SAP Coordinators:- Monitoring of implementation of all policies and programmes, including aggregating information of line departments, is their responsibility. P&D Department is responsible for the development activities and thus monitors the preparation and implementation of the development budget. The schemes are prepared by the line departments and reviewed by Planning and Development Department. The P&D Department monitors the implementation of development programmes on the basis of the monthly progress reports of the Communication and Works (C&W) Department/ concerned executing agencies.

vii) Line Departments (Administrative/ Attached Departments):- Line departments monitor the works of their attached departments. The attached departments are the main implementing bodies and are responsible for ensuring that all the policies and plans are being implemented in an efficient and effective manner. The administrative departments have planning cells which are responsible for preparation and monitoring of attached department activities and provide feed-back to the higher level. They also provide coordination between the attached department, Finance, P&D, C&W, Departments etc. In general, line departments have to collect information from the attached departments on regular basis.

viii) SAP Cells:- SAP Cells have been set-up in the line departments and attached departments in order to monitor SAP activities. Their main role at present is to collect and provide SAP related information to the higher authorities.

ix) Review Meetings:- The main purpose of these review meetings is to assess physical and financial implementation status of SAP schemes. These are extremely useful exercises and provide feedback for corrective measures.

x) SAP Foreign Missions:- The main flow of information is through SAP missions. The missions include at least one member from each SAP donor/ agency. These missions thoroughly monitor the progress of SAP. The mission aide-memoire is circulated to all concerned. The aide-memoire is useful from a monitoring perspective and forms the basis of future action. The SAP mission is a mechanism to regularly look at SAP activities and recommend corrective measures, after field visits.

xi) Ministry of Population Welfare:- The Federal Ministry of Population Welfare has the overall responsibility for implementation of the population programmes nationwide, alongwith responsibility for providing guidance to provincial population welfare departments.

xii) Ministry of Education:- The Federal Ministry of Education is responsible for implementation of the SAP education programmes at national level including sub-programmes such as, Federal Education Management Information System (EMIS), and textbooks development etc.

xiii) Ministry of Health:- The Federal Ministry of Health has responsibility for the implementation of the national SAP health programmes including EPI, Malaria control, National AIDS, ARI, and Prime Minister's Lady Health Workers (LHWs) Programme.

xiv) Ministry of Local Government & Rural Development:- At the federal level, the Rural Water Supply & Sanitation schemes (RWSS) are coordinated by the Federal Ministry of Local Government & Rural Development, Islamabad while at the provincial level, these schemes are implemented by the respective provincial Public Health Engineering Departments (PHEDs).

SAP Disbursement Through Statement of Expenditure(SOEs)

a) Submission of SOEs

9.12 To ensure that Government commitment is translated into increased SAP allocations, timely releases and subsequent utilization of funds in the social sectors, the SAP donors reimburse against actual expenditures. Disbursement procedures have been designed and agreed with Auditor General of Pakistan's Office, Finance Departments and Line Departments which would allow identification and reporting of all SAP expenditures on monthly basis to allow disbursement requests to be submitted promptly through

Federal SAP Secretariat, Islamabad.

9.13 The SAP donors reimburse a portion of development and non-development expenditures incurred in the sectors of primary education, primary health, population welfare, and rural water supply and sanitation, excluding those already funded under ongoing foreign aided projects.

9.14 Expenditures eligible for reimbursement are identified in detail by federal and provincial governments and agreed with the SAP donors. These include all expenses incurred for delivering the basic services, including salaries, operating expenses, supplies of goods, civil works and maintenance expenses etc. Expenditures financed under other donor-aided projects are reported separately and are not eligible for reimbursement under the SAP project.

9.15 Reimbursement can be claimed at intervals, determined by the capacity of the Government to generate the claims. Claims are made separately for each SAP sector, in each province or federal territory, in the form of a Statement of Expenditure (SOE) specifying categories (civil works, goods, operating costs, etc) and total eligible expenditure. Each SOE is to be supported by a financial statement, separating recurrent and development expenditure by function and object, together with the respective civil accounts and summary of ADP-scheme expenditure. The financial statement would specify the categories of expenditures eligible for donor financing, such as, civil works, goods, and operating costs - and would not be applied to ineligible items, such as, land acquisition and taxes. The claims for reimbursement would be submitted to the Federal SAP Secretariat, under the authority of the Additional Chief Secretary, P&D. The Federal SAP Secretariat, would certify that the sector met the eligibility criteria before forwarding the SOE to the SAP donors for reimbursement.

b) Disbursement for Participatory Development Programme (PDP)

9.16 For the Participatory Development Programme (PDP), funds are disbursed through special account, opened by the Federal Government with an anticipated allocation of US $ 500,000. The primary objective of the PDP ;is to encourage community involvement in the institutional options available for promoting SAP related activities. The PDP will assist community organizations, NGOs, private institutions, foundations and government agencies to explore strong linkage with communities in expanding quality and availability of social services.

c) Disbursement of Monitoring and Evaluation Expenditure

9.17 In the case of the monitoring and evaluation SAP compo-nents, 100% disbursements are made against expenditures incurred after July 1, 1993 including expenditure on eligible consulting services and operating costs, forwarded to the Federal SAP Secretariat and approved by IDA/World Bank. The consulting services are to be used for procurement monitoring and other assistance, needed for monitoring and evaluation. Operating costs will include costs, incurred to strengthen the SAP Secretariat and the SAP monitoring cells in the provinces, AJK and the federal areas, auditing and the costs of carrying out the household survey for SAP monitoring. These costs will include equipment and training, needed in strengthening the SAP Secretariat and monitoring cells; and the salaries subsistence, transport and other related costs of incremental staff, needed to carry out the survey; and other additional equipment required for the survey.

SAP Procurement Procedures

a) Procurement Guidelines

9.18 In a programme of this nature, it is extremely difficult to forecast the total amount of procurement at the outset and to categorize it into civil works, goods, and services. Most SAP procurement including all civil works is expected to involve small contracts over widely dispersed geographical areas, suitable only for local competitive bidding and proudest shopping. Some procurement, however, will be suitable for international competitive bidding which will be based on the World Bank's Standard Bidding Documents. This will include vehicle, chemicals, contraceptives, some pharmaceutical products and consulting contracts. The Government agencies can request UNICEF and UNFPA to carry out some of this procurement for it, under arrangements satisfactory to IDA.

9.19 During appraisal, IDA reviewed the Government's local competitive bidding procedures, already in use in ongoing IDA funded projects, and found them to be in compliance with IDA guidelines. There have been some minor shortcomings, identified in their application of the rules/procedures. The SAP Project, therefore, makes special provision for training of staff involved in procurement and monitoring procurement practices.

9.20 However, in order to comply with the requirements of SAP Development Credit Agreement between GOP and IDA dated April 4, 1994, World Bank/IDA Guidelines and the Staff Appraisal Report (SAR) dated, March 8, 1994, all the departments conducting procurement of goods, services, and civil works under Social Action Programme (SAP) should follow the instructions below:-

> i) All procurement exceeding $ 25,000 per contract should be advertised in the National Newspapers. However, this does not exempt the procuring agencies from following the Provincial/Federal Governments rules regarding advertisement/open tender for local procurement, costing Rs 25,000 or more;

ii Bidders must have at least 30 days to obtain bidding documents and submit their bids;

iii Bid evaluation criteria will be set out in the bidding documents;

iv) Specifications should be generalized and non-restrictive;

v) All procurement estimated to cost equivalent of $ 200,000 or more per contract must be sent to the World Bank for prior review to the issuance of tender and award of contract;

vi) National Competitive Bidding (NCB) which was previously called Local Competitive Bidding (LCB), should not exceed the limit of $ 300,000 per contract for goods. However, if it does, the procurement should be conducted under International Competitive Bidding (ICB). Also vehicles, chemicals and some pharmaceutical products and large consulting services contracts should be procured through ICB;

vii) Government-owned enterprises may participate in bidding only if they can establish that they (i) are legally and financially autonomous, and (ii) operate under commercial law;

viii) Award(s) should only be made to the lowest evaluated bidder(s);

ix) No negotiations on competitively bid contract should be held after the bid opening; and

x) Civil works may be procured under contracts awarded on the basis of competitive bidding, advertised locally, except in FANA and FATA where force account procedures may be applied.

b) Engagement of Private Procurement Consultants

9.21 To confirm that procurement is carried out in an efficient and economical manner, the Federal SAP Secretariat, Planning & Development Division, Islamabad has engaged private consultants to oversee and monitor the procurement process. These consultants had been selected in accordance with IDA/World Bank guidelines to include prior IDA review of the selection process of all contracts costing equivalent of $ 100,000 or more.

9.22 To assist implementing agencies in performing their procurement function in accordance with agreed procedures, the consultants carry out a review of the first five contracts prior to award, and the prior review of all contracts above $ 50,000. In addition, the consultants also perform ex-post review of the remaining procurement documents on a sample basis. IDA performs a prior review of all procurement requirements which will be conducted using International Competitive Bidding (ICB) procedures as well as all procurement documents for contracts costing equivalent of $ 200,000 or more.

c) Financial Limits for Procurement

9.23 All civil works and goods, vaccines, pesticides and equipment to be financed out of procedures of the project estimated to cost equivalent of $ 300,000 or less per contract, upto an aggregate amount not to exceed $ 5 million for vaccines, medicines, supplies and pesticides and $ 1 million for equipment, may be procured under contracts awarded on the basis of competitive bidding, advertised locally in accordance with procedures satisfactory to the IDA/World Bank. According to the IDA/World Bank procurement Guidelines, the goods, vaccines, medicines, supplies and equipment to be financed out of proceeds of the project estimated to cost $ 25,000 or less per contract, upto an aggregate amount not to exceed the equivalent of $ 500,000 per agency, may be procured on the basis of prudent shopping i.e. by inviting limited tenders, say three quotations.

Accounts, Audit and Reporting System

a) **Audit Reports**

9.24 Accounts will be maintained by the line departments in accordance with sound and locally recognized accounting principles and practices satisfactory to IDA. The Auditor General will collate the Statement of Expenditures (SOEs) and certify their eligibility for SAP funding. The accounts, SOEs, and documents relating to procurement are subject to audit at the end of each year by independent auditor, acceptable to IDA. The audit reports are to be submitted to IDA/World Bank no later than nine months, following the end of financial year. The reports will include an assessment of the adequacy of the accounting system and internal financial control, the reliability of the SOEs as a basis for credit disbursements, and compliance with agreed financial arrangements.

b) **Quarterly Reports by Federal SAP Secretariat**

9.25 The Federal SAP Secretariat, Planning & Development Division, Islamabad prepares and submits quarterly reports to IDA on progress and implementation of SAP programme. The report includes an assessment of the performance of each sector/province in implementing the agreed programme and the proposed reform agenda for the year. It also assess of the flow and use of SAP funds.

Releases of SAP Tied Funds

9.26 Releases will be regulated by Finance Division to ensure that besides ongoing works on which construction is in progress or for which contracts have been awarded, funds are utilized only on SAP schemes.

9.27 The federal as well as provincial SAP tied budgetary allocations are released on monthly basis in order to ensure smooth flow of funds. Federal SAP Secretariat and Federal Ministry of Finance have mutually agreed to release SAP tied 1/3 of Cash Development Loan (CDL) on automatic basis. The remaining 2/3 of SAP tied grants releases are conditional and are released after obtaining NOC from the Federal SAP Secretariat.

9.28 The Federal Ministry of Finance as well as the Provincial Finance Departments are also to ensure that the funds for the SAP schemes are released timely and are expended/utilized only on approved SAP schemes/programmes.

Staff Appointment for SAP Sectors

9.29 As per arrangements agreed with the SAP donors, the recruitment bans are not applicable to SAP sectors. Moreover, the recruitment procedures and service terms and conditions particularly for the females, have been relaxed by all the concerned authorities. The transfers and postings of the SAP sectors staff are made on the basis of locality. To reduce gender gaps, the female recruitment has been encouraged and the age and qualification barriers have been eliminated. The opportunities of in-service training has been extended in order to make the health and education sectors staff more efficient and productive.

Exemption of SAP from Budget Cuts

9.30 The budgetary allocations made for the SAP sectors are restored as part of the core programmes. These allocations are non-fungible and budgetary cuts are not applicable to allocations, made for SAP projects/schemes.

Manual For Development Projects

Chapter-10: NGO's SUPPORT PROGRAMME

10.1 The financial and technical assistant to NGOs had been a major concern of the Government as they have played a vital role in alleviating human suffering, filling the gaps left over by direct social services (education, health among others), meeting social needs and resolving social problems of the people caused by social economic deprivation, viz ill health, illiteracy, ignorance poverty.

10.2 The increasing interest shown by the International Donor Agencies like CIDA, TVO's and SPO, etc, necessitated streamlining of foreign assistance programme to NGOs in the country. The Government of Pakistan in pursuance of a decision taken on a summary for the ECC decided to establish the Standing Committee on NGOs in the EAD in September, 1987 (Annexure-XLVII) to consider the proposals for financing non governmental organizations (NGOs) from foreign assistance funds. The composition and major functions of the Committee are as under:

COMPOSITION

10.3 The Standing Committee on NGOs consists of the following members:

i. Secretary, EAD Chairman

ii. Secretary, Finance Division Member

iii. Secretary, Planning Division Member

iv. Secretary, Ministry of Education
Member

v. Secretary, Health Division Member

vi. Secretary, Population
Welfare Division Member

vii. Secretary, Special Education and
Social Welfare Division. Member

Secretaries of the Provincial Governments are co-opted as member whenever necessary.

FUNCTIONS

10.4 The major functions of the Standing Committee include:

i) To consider to all proposals on case to case basis for financing of NGOs from foreign aid funds submitted by the Ministries/Division/Provincial Governments concerned.

ii) To give approval to sponsor proposals costing upto Rs 10 million. Approval of the Coordination Commi-ttee of the Cabinet for the project costing more than Rs 10 million was necessary in the beginning which was relaxed by a Government Notification in November, 1990.

iii) To receive provincial proposals through their respective Planning & Development Departments for arranging foreign assistance to NGOs.

The Secretariat of this committee is located in the Economic Affairs Division.

PROCEDURE OF APPLYING FOR FOREIGN ASSISTANCE

10.5 The EAD in consultation with the Planning and Development Division has designed a proforma (Annexure-XLVIII) to receive project proposals from NGOs profile and detail of the project for which the assistance is required. The project proposals are required to be routed through the Provincial Government, Line Department and Provincial Planning and Development Department. The project proposals received from the Ministries/Division/ Provincial Government Departments are scrutinised by the Steering Committee set-up by the Standing Committee to assist it in examining the project proposals. The Steering Committee places all the proposals before the Standing Committee for consideration and approval.

ELIGIBILITY CRITERIA

10.6 The following eligibility criteria for the NGOs to qualify for assistance has been laid down:

i) The applying NGO should be a registered body having at least three years post registration standing.

ii) The NGOs should get its accounts, audited annually by a chartered accountant.

iii) The NGO should have the capacity of raising funds for the particular project or programme for which assistance is required.

iv) The services of the NGO should be open to the public at large irrespective of the caste, creed, race or religion.

v) The NGO should be a non commercial and non profiteering in nature.

vi. The NGO should have the capacity to meet about 50% of the expenses of the project from its own sources subject to relaxation in special cases.

SCRUTINY AND APPROVAL OF PROJECT PROPOSALS

10.7 The Steering Committee on NGOs thoroughly examines the project proposals. The representative/office bearers of the NGOs are also given an opportunity to explain the working of their NGOs and details of the project for which the assistance is required. The proposals which are found to be feasible are recommended by the Steering Committee to the Standing Committee for consideration in its meeting. The project proposals found to be viable are forwarded to donor agencies for the assistance sought for the ECC of the Cabinet is required to be informed about the cases approved by the Standing Committee on NGOs on bi-annual basis. The notifications issued by the Government and the application proforma for assistance approved by the Standing Committee are given at Annexures-XLVII and XLVIII.

LIST OF THE DOCUMENTS TO BE ATTACHED WITH THE APPLICATION FORM

10.8 A check list of the documents to be enclosed with the project proposal has also been prepared for the facility of the NGOs. The documents required to be attached with the application form for assistance include:

i) Certificate of registration of NGO.

ii) Constitution/Memorandum of association/article of association of the NGO.

iii) Annual report pertaining to the activities of the NGO.

iv) Audited income and expenditure statement for the last 3 years.

v) Copy of the sale deed/allotment order to prove that land has been allotted or acquired in the name of the NGO.

vi) Site plan or building plan if the project involves construction.

vii) Statement indicating the details of equipment to be purchased and the rate of each item.

viii) Statement showing the assistance received by the NGO from different sources during the last 3 years.

ix) Detail of the staff appointed by NGO along with their names, qualification, remuneration, date of appoint-ments and salary paid to each individual.

x) Detail of foreign experts engaged by the NGO in its activities and their remuneration.

xi) Detail of the staff and experts to be appointed in the new project.

xii) Forwarding letter of the Line Department/ Ministry or Division concerned.

xiii) Approval letter of the concerned Planning and Development Department.

Annexure-XXI

GOVERNMENT OF PAKISTAN
CABINET SECRETARIAT
CABINET DIVISION

NO.48/Com/88 Islamabad, the 5th March, 1997

MEMORANDUM

Subject:- RE-CONSTITUTION OF THE EXECUTIVE COMMITTEE OF THE NATIONAL ECONOMIC COUNCIL (ECNEC).

In supersession of the Cabinet Division's Memo No.48/Com/ 88,dated the 19th November, 1996, the

Prime Minister has been pleased to reconstitute the Executive Committee of the National Economic Council (ECNEC) as under:-

COMPOSITION

Federation:

1. Minister for Finance,
Economic Affairs & Statistics. Chairman

2. Minister for Commerce Member

3. Minister for Environment,
Local Govt., & Rural Development Member

4. Minister for Food, Agriculture
and Livestock (when appointed) Member

5. Minister for Industries & Investment Member

6. Minister for Petroleum &
Natural Resources Member

7. Minister for Railway Member

8. Minister for Water & Power Member

9. Minister for state for Education Member

10. Minister for Housing & Works Member

11. Deputy Chairman, Planning Commission Member

Provinces:

1. Provincial Finance Minister Member

2. Provincial Planning Minister Member

3. Chief Secretaries of the
Provincial Governments Member

4. Chairman Planning & Development
Board/Additional Chief Secretaries

(Development) of the Provinces Member

Note:

i) The Finance Minister; Planning Minister; Chief Secretary and Additional Chief Secretary (Planning & Development) of the Azad Govt. of the State of Jammu & Kashmir will be specially invited in all the meetings of the Committee.

ii) Deputy Chief Executive and Chief Secretary, Northern Areas will also be specially invited in all meetings of the ECNEC.

2. The Secretariat of the ECNEC is located in the Cabinet Division.

Sd/-
(M. Saleem Siddiqi)
Additional Secretary

All Members

Copy forwarded for information to:-

1. Principal Secretary to the President.
2. Principal Secretary to the Prime Minister.
3. All Secretaries/Additional Secretaries Incharge of Division.

Sd/-
(Zafar Iqbal)
Deputy Secretary
Tele:9203014

Annexure-XXII
GOVERNMENT OF PAKISTAN
CABINET SECRETARIAT
CABINET DIVISION

NO.48/Com/88 Islamabad, the 3rd March, 1997

MEMORANDUM

Subject:- RE-CONSTITUTION OF THE EXECUTIVE COMMITTEE OF THE NATIONAL

ECONOMIC COUNCIL (ECNEC).

In supersession of the Cabinet Division's Memo of even number dated the 19th November, 1996, the Prime Minister has been pleased to reconstitute the Economic Coordination Committee of the (ECC) of the Cabinet as under:-

COMPOSITION

1. Minister for Finance,
Economic Affairs & Statistics. Chairman

2. Minister for Commerce Member

3. Minister for Communications
(when appointed) Member

4. Minister for Food, Agriculture
and Livestock (when appointed) Member

5. Minister for Industries & Investment Member

6. Minister for Petroleum &
Natural Resources Member

7. Minister for Railway Member

8. Minister for Water & Power Member

9. Minister for Housing & Works Member

10. Chairman, Privatization Commission Member

11. Deputy Chairman, Planning Commission Member

12. Governor, State Bank of Pakistan Member

2. In addition, the following would also be invited by Special Invitation for all items of the agenda for the ECC.

i) Secretary, Commerce Division.

ii) Secretary, Communications Division.

iii) Secretary, Economic Affairs Division.

iv) Secretary, Finance Division.

v) Secretary, Food, Agriculture
and Livestock Division.

vi) Secretary, Housing and Works Division.

vii) Secretary, Industries and Investment Division.

viii) Secretary, Information & Media Development Division.

ix) Secretary, Petroleum and
Natural Resources Division.

x) Secretary, Planning & Development Division.

xi) Secretary, Railway Division.

xii) Secretary, Statistics Division.

xiii) Secretary, Water and Power Division.

xiv) Chairman, Central Board of Revenue.

xv) Chief Economists, Planning &
Development Division.

3. The Committee may invite such other officers to its meetings as may be required from time to time.

4. Secretariat assistance for the Committee will be provided by the Cabinet Division.

Sd/-
(M. Saleem Siddiqi)
Additional Secretary
All Members
Copy forwarded for information to:-

1. Principal Secretary to the President.
2. Principal Secretary to the Prime Minister.
3. All Secretaries/Additional Secretaries Incharge of Division.

Sd/-
(Zafar Iqbal)
Deputy Secretary
Tele:9203014

Annexure-XXXVIII-A

GOVERNMENT OF PAKISTAN
PLANNING & DEVELOPMENT DIVISION
(PROGRAMMING SECTION)

NO.7(20)PS/PC/95-FA Islamabad, the 4th January, 1997

OFFICE MEMORANDUM

Subject:- CONCEPT CLEARANCE OF FOREIGN AIDED PROJECTS.

The undersigned is directed to state that on a summary submitted by the P&D Division on the above captioned subject the competent authority has decided that the Concept Clearance Committee headed by Deputy Chairman Planning Commission and represented by the Minister of Finance, EAD and the Provincial Governments be considered the competent forum to accord concept clearance to foreign aided projects. Thus the decision of the committee regarding concept clearance of foreign aided projects will be considered as final as was the practice from the year 1983 to 1990.

Sd/-
Dr. Ghulam Mustafa Awan)
Joint Chief Economist
Tele: 9201984
1. Secretary,
Economic Affairs Division,
Government of Pakistan,
Islamabad.

2. Secretary,
Finance Division,
Government of Pakistan,
Islamabad.

Copy also forwarded to:-

3. All remaining Ministries/Division.
4. All provincial P&D Departments.
5. Deputy Chairman, Secretary, Chief Economist, Member I-II Planning Division.
6. All Technical Chiefs of Planning Division.