

FOREIGN FUNDED DEVELOPMENT PROJECTS APPROVAL PROCESS IN PUNJAB

GUIDELINES FOR THE GOVERNMENT DEPARTMENTS

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Introduction

Foreign aid is an essential component of financing development projects/programmes in developing countries. During the past few decades, the world has seen the most significant development successes due to foreign assistance. In many countries, foreign aid has worked as an engine for economic growth and triggered the most rapid improvement in people's living standards. Effective disease control, increased food production, family planning, the spread of literacy services, universal primary enrollments, improved infrastructure, and other core development goals have been achieved with foreign aid support.

The Green Revolution in Pakistan during the 1960s was spurred by foreign assistance. In the health sector, sustainable development objectives around the world have been achieved because of foreign aid. The mass scale-up of new vaccines, immunizations against childhood killers (Smallpox, Polio, Measles), treatment for three pandemic diseases: AIDS, TB, and Malaria; all become possible due to foreign aid.

Foreign aid is also a significant source of sustainable socio-economic development in Pakistan, particularly Punjab. The foreign-funded development projects in Punjab are undertaken through the Annual Development Program (ADP), focusing on health, education, skill development, water and sanitation, agriculture, livestock, irrigation, energy, physical infrastructure, urban development, and governance.

Foreign Aid Categories

Apart from structural adjustment lending, primarily secured from the International Monetary Fund (IMF) to redress the balance of payment deficits, foreign assistance is also sought for development projects in the shape of loans, grants, and technical support to supplement country's domestic resources for achieving accelerated growth in priority development areas.

Loans – Loans are obtained for development projects as well as programmes. Major multilateral donors extending loans include the World Bank Group (comprising the International Development Association (IDA), International Bank for Reconstruction and

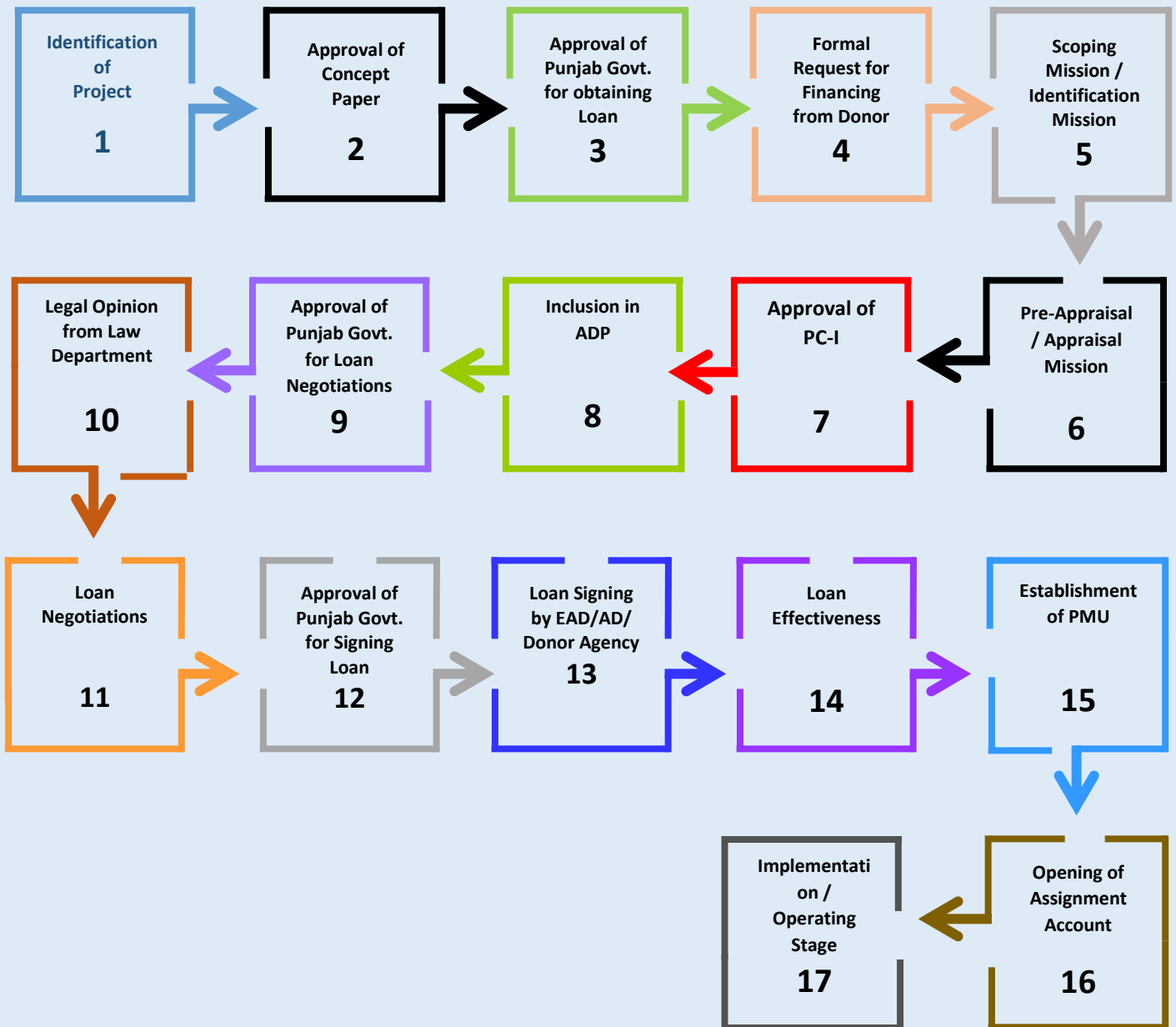
Development (IBRD), and International Finance Corporation (IFC)), and the Asian Development Bank (ADB). Apart from these international agencies, bilateral donors such as the UK's Department for International Development (DFID) and Canadian International Development Agency (CIDA) provide grant assistance, whereas France, Germany, Italy, and Japan provide loans as well as grants/technical support. Loans are generally offered on a nominal interest rate of approximately 1–2 % and a repayment period averaging 25 years. The International Fund for Agricultural Development (IFAD) provides interest-free loans in the agriculture and livestock sector with a more extended repayment period.

Credit – International Development Association (IDA) used to provide interest-free credit to Pakistan. However, IDA is now giving credit on blended terms @ 1.25 % with service charges of 0.75 % and commitment charges that could be up to 0.5 %. The repayment period has been reduced to 20 years, with a five-year grace period.

Grants – The third category of foreign assistance consists of grants in aid, which is not paid back. Major agencies that provide grants include the United Nations agencies such as the United Nations Children's Fund (UNICEF), World Food Programme (WFP), United Nations Development Programme (UNDP), United Nations Educational, Scientific and Cultural Organization (UNESCO) and Food and Agriculture Organization (FAO), along with agencies of the USA, Japan, Canada, Germany, etc. providing official development assistance (ODA).

Technical Assistance – Foreign funded projects usually contain a component of technical assistance in the form of consultants, training, and project preparation. The technical support is generally provided by the USAID, UNDP, DFID, the Asian Development Bank (ADB), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)-Germany, Japan International Cooperation Agency (JICA), French AFD, and agencies of several other countries. Under technical assistance, training facilities and advisory services are provided to improve the recipient country's technological base. Technical assistance for project preparation is also provided by donors. Technical Assistance (TA) grants must be availed because they are a great source of knowledge transfer and technological development in the recipient countries.

Foreign Aided Development Projects Approval Process Flow Chart



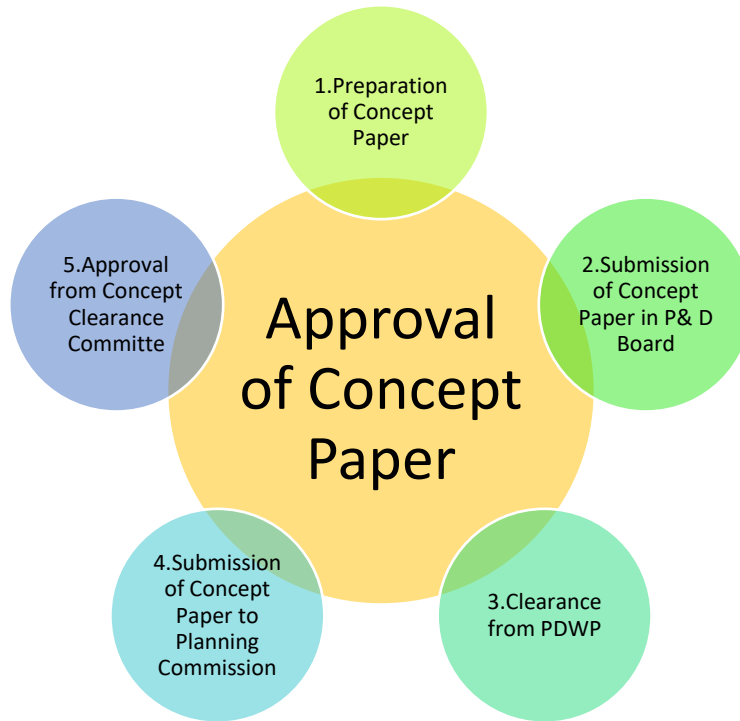
Steps Involved in the Process of Obtaining Foreign Aid

1. Identification of Project

Project identification is the first phase of the project cycle, which the Administrative Department or Executing Agency follows, keeping in view the government's development priorities. Project identification should begin with a precise diagnosis of the problems addressed by the project. The diagnosis should be consistent with the province's development objectives, the government's strategy for achieving those objectives, and the donor's country assistance strategy. The donors prepare medium to long-term strategic plans for specific countries in consultation with all stakeholders in the public and private sectors. Accordingly, the Punjab government departments contact and coordinate with the donors for approval of their projects.

2. Approval of Concept Paper

Concept papers generally provide an in-depth discussion on a development problem with the intent of obtaining funding for that project from donors. It includes discussion on the project goals, objectives, anticipated social or economic benefits, time-line, monitoring and evaluation, the population served, and the implementation methodology upon which the project is based. Further, there are budget estimates developed for the project, including all billable costs associated with planning and executing the project.



Followings are the major steps involved in the approval of concept paper:

- The concept paper is prepared by the Administrative Department or Executing Agency. The Executing Agency should make it clear in the beginning that the proposed project fits well in the social and economic development priorities of the government.
- Administrative Department submits the concept paper in the Planning and Development Board, Government of the Punjab, where it is cleared by the Provincial Development Working Party (PDWP).
- After clearance from PDWP, concept paper is submitted to Planning Commission, Islamabad, for getting approval from Concept Clearance Committee. Deputy Chairman, Planning Commission of Pakistan chairs the Concept Clearance Committee, and the provincial Governments have representation in this Committee.
- After the Concept Clearance Committee's approval, the Economic Affairs Division (EAD) starts negotiations with the donors. The relevant sponsoring and executing agency also participates in negotiations.

3. Approval of Government of Punjab for Obtaining Loan

This step is performed parallel with the approval of concept paper from the federal government. The approval of the Government of Punjab for obtaining loan from an international donor is obtained on a Summary to the Chief Minister. The Summary for the Chief Minister is initiated by the Administrative Department / Executing Agency and is routed through the Planning and Development Board and Finance Department, who offer their comments in the light of development and financial needs of the province and enable the Chief Minister to make a cogent decision.

4. Formal Request for Financing from Donor through EAD

Economic Affairs Division (EAD), Islamabad coordinates all the foreign assistance. EAD demands projects that are conceptually cleared by the CDWP / Concept Clearance Committee as a precondition for sending formal requests for initiating the negotiation process by the donors. Sponsoring or executing agency will not directly negotiate foreign assistance with donors without getting concept clearance from the CDWP.

5. Scoping Mission / Identification Mission

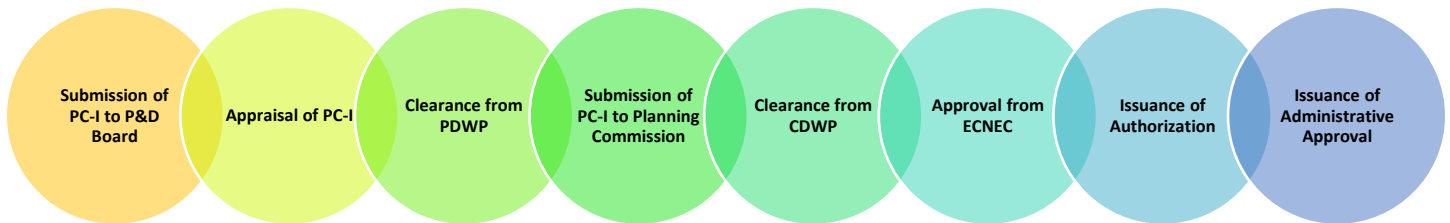
On receiving a formal request from EAD, the donor sends a project scoping / identification mission to meet the concerned representatives of the provincial government, which is followed by a (pre) appraisal mission.

6. Pre-Appraisal / Appraisal Mission

After concept clearance has been accorded, the donor agency generally arranges pre-appraisal / appraisal missions to discuss the project with the agencies concerned. After appraisal of the project, sufficient data is available with the executing / sponsoring agency to prepare the PC-I.

7. Approval of Project (PC-I)

Based on recommendations of the appraisal mission, the PC-I is prepared by the Administrative Department / Executing Agency, and is submitted to the Planning and Development Board, Government of the Punjab. PC-I is the basic form on which all projects/schemes are required to be drawn up. P&D Board does an appraisal of the project before clearance from PDWP. This appraisal involves a careful checking of the primary data, cost, scope, schedule, implementation plan (methodology) of the project, and a detailed assessment of social and economic benefits gained from the project. Based on such an appraisal, a judgment is reached as to whether the project is technically sound, financially justified, and viable for the economy.



Then P&D Board submits the PC-I to the Planning Commission of Pakistan. The decision of the CDWP must be available before formal loan negotiations are held with the donor agency. Likewise, the loan documents should not be signed before the approval of the project by the competent forum.

The provincial government must prepare the PC-I before entering into formal negotiations. However, if sufficient data are not available, then it should get the concept paper cleared from the PDWP/CDWP. However, no loan document can be signed without the approval of the PC-I by ECNEC.

8. Inclusion in the Annual Development Programme (ADP)

All projects approved by their respective competent forums are included in the Annual Development Plan (ADP), subject to the availability of funds. In foreign-assisted projects, the allocation of funds by the Punjab government and the donor share must be ensured in the ADP.

9. Approval of the Government of Punjab for Loan Negotiation

After clearance of concept paper by the competent forum, and the CM's approval for obtaining a loan, the Summary is moved again to the CM to accord permission for negotiation with the foreign donor. In the Summary, a designated team of officers, who will participate in the negotiations with the donor, is proposed by the executing department's Secretary. Draft project appraisal and Loan negotiation Documents, received from the donor, are attached to the Summary.

10. Legal Opinion from the Law Department

One of the donor's conditions may be furnishing the legal opinion from the Law department of the provincial government. The law department's advice may be sought separately by sending them the loan agreement or loan negotiations documents, which have been prepared by the donor. Keeping in view the time constraints in this whole process, it would be appropriate if the Summary initiated to the CM for approval of the loan negotiations team is routed through the Law Department for comments and vetting of the loan documents.

11. Loan Negotiations

The CM approved team does loan negotiations with donor along with the representatives of the Federal Government (EAD).

12. Approval of Punjab Government for Loan/Project Agreements Signing

After the completion of the technical discussions and loan negotiations between the donor and government teams, a summary for the chief minister is moved again to seek his final approval to sign the loan agreement. The chief minister may authorize the secretary of the administrative department for signing the project or loan agreement with the donor on behalf of government of the Punjab.

13. Loan / Project Agreement Signing

The loan/project agreement is signed between the donor and the executing provincial government department after the formal approval of the Chief Minister.

14. Loan Effectiveness

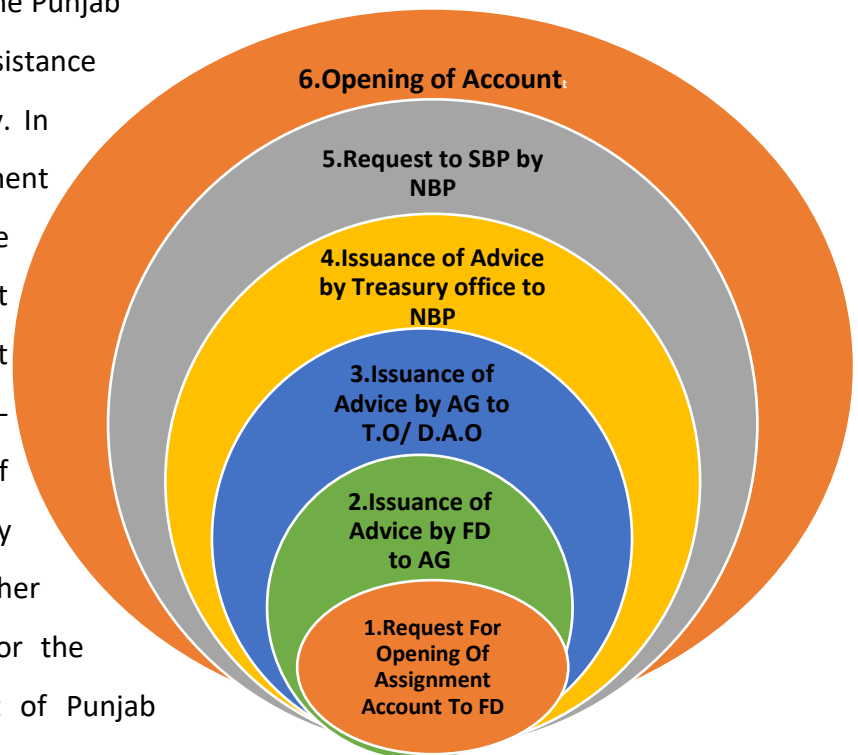
In the loan agreements, there are sometimes conditions for loan effectiveness, which must be fulfilled to declare the loan effective.

15. Establishment of Project Management Unit (PMU)

Some of the conditions of the donor could be establishing a Project Implementation Unit headed by a project director and supporting/primary essential staff.

16. Opening of Assignment Accounts

Some big foreign aid programmes/projects generally have two streams of funds coming in, including ADP allocation from the Punjab Government and foreign assistance allocation from the donor agency. In such cases, two separate assignment accounts should be opened in the name of the Project Management Unit, including one assignment account (Revolving Fund Account - RFA) in foreign currency (if required) for funding provided by the donor agency and the other assignment account in rupees for the contribution of the Government of Punjab (counterpart funding).



The project director should be authorized to operate both accounts and act as the principal signatory for both accounts. The Finance Department should authorize any other project staff member or any other suitable official to act as a co-signatory of such statements. However, all requests/withdrawal applications for the replenishing of accounts/transfer of funds should be routed through the Project Management Unit.

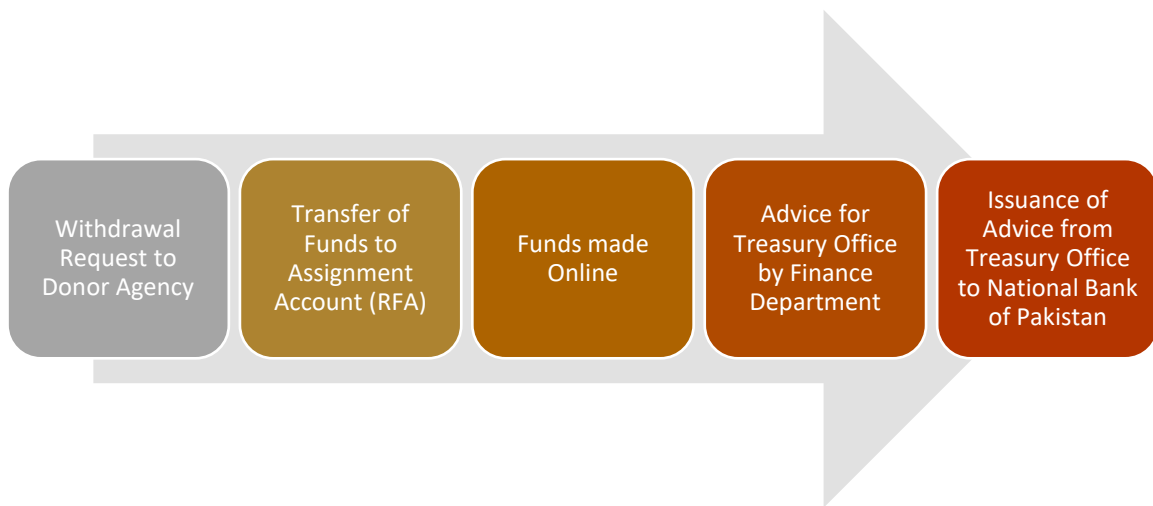
Foreign agencies will transfer their funds through the State Bank of Pakistan (SBP) to the assignment accounts (RFA) opened in the name of the particular programme/project. Disbursements are translated/converted into Pakistani rupees by the SBP at the prevailing rate of exchange; the local currency should form the transaction basis for operation accounting and reporting. Foreign Aid Assignment Account (Revolving Fund Account) shall be lapsable at the end of each financial year. However, the lapsed balance in one financial year will be protected through budgetary allocation in the next financial year.

17. Implementation/Operating Stage

As already mentioned, separate Revolving Fund Accounts (RFA) shall be opened by the PMU at the NBP for the Loans/Grants, and that RFA will be assigned a special Identification Number upon the establishment of the account. Withdrawal applications will be prepared and submitted to the donor by the project management, requesting the amount of initial deposits/subsequent funding to the Revolving Fund Account through the foreign currency account of SBP for further simultaneous credit to the RFA at the concerned branch of the NBP. The assigned identification number of the RFA will be indicated on the Withdrawal Applications.

The person authorized to sign the Withdrawal Applications or operate RFA shall furnish copies of the Withdrawal Applications, simultaneously, to their respective Administrative Department, NBP Head Office, relevant branch of NBP, Finance Department, and the Accountant General, Punjab.

The SBP will transfer the funds for credit to the concerned Punjab Government Account. The Finance Department shall ensure that the budget allocations are available in the Provincial Schedule of Authorized Expenditures.



The Finance Manager of the project or any other person(s) authorized by the government shall act as DAO to the extent of authorization for payment within the available budgetary limits. She/he will also perform functions of reconciliation of accounts with the NBP, reporting of authorized “direct payments” to the contractor/suppliers through the donors, and financial reporting. She/he will prepare annual financial statements comprising expenditure from the donor RFA, Punjab Government Assignment Account, and submit the same to the donor/lender.