Punjab
Planning Manual

Planning & Development Department
GOVERNMENT OF THE PUNJAB
May 2015

The Planning Manual

Government of the Punjab

April 2015

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LIST OF ABBREVIATIONS

ADP	Annual Development Programme
AG	Accountant General
AGPR	Accountant General Pakistan Revenues
BCR	Benefit–Cost Ratio
BOT	Build–Operate–Transfer
CBA	Cost–Benefit Analysis
CDWP	Central Development Working Party
CEA	Cost-Effectiveness Analysis
CM	Chief Minister
DAO	District Accounts Officer
DDC	District Development Committee
DDSC	Departmental Development Sub-Committee
DDWP	Divisional Development Working Party
DEV	Development
DFID	Department for International Development
DP	Development Partner
EAD	Economic Affairs Division
ECA	External Capital Assistance
ECNEC	Executive Committee for National Economic Council
GIS	Geographic Information System
GoPb	Government of the Punjab
IDA	International Development Association
IRR	Internal Rate of Return
M&E	Monitoring and Evaluation
MDGs	Millennium Development Goals
MfDR	Managing for Developing Resources
MTDF	Medium-Term Development Framework
NEC	National Economic Council
NESPAK	National Engineering Services Pakistan
NGO	Non-Governmental Organisation
NPV	Net Present Value
O&M	Operation and Maintenance
P&D	Planning and Development
PDWP	Provincial Development Working Party
PERI	Punjab Economic Research Institute
PKR	Pakistani Rupee
PMIU	Project Management and Implementation Unit
PPP	Public–Private Partnership
PP&H	Physical Planning & Housing
PSDP	Public Sector Development Programme
PV	Present Value
RBM	Results-Based Management
S&GA	Services and General Administration
SBP	State Bank of Pakistan

TEVTA	Technical Educational & Vocational Training Authority
TMA	Town/Tehsil Municipal Administration
TMO	Town/Tehsil Municipal Officer
ToRs	Terms of Reference
TUU	The Urban Unit
UNDP	United Nations Development Programme
VGF	Viability Gap Fund

PREFACE

Over the last few years, provincial planning has undergone a transformation in Punjab with the introduction of a medium-term perspective, increased inflow of resources in the wake of 18th constitutional amendment, and new planning imperatives such as public–private partnerships and results-based management (RBM). The last Planning Manual was issued in 1996; therefore it is clearly outdated and has some critical gaps. These gaps underscore the need to revise the Planning Manual and develop a document that is up-to-date and provides hands-on guidance to provincial departments and officials.

It was against the backdrop of these emerging challenges and cumulative experiences of recent decades that the Planning and Development (P&D) Board took up the ambitious task of revisiting the existing Planning Manual in the province. The overall objective of the assignment was to revisit the existing Planning Manual with a view to restructuring it in line with modern notions of development planning while taking care to remove the redundancies and obsolete notions. A conscious effort has also been made to ensure that the revised manual serves as a user-friendly reference and learning document for the policy-makers as well as the practitioners in the provincial government. Moreover, the document has been structured so that it is aligned with the project management cycle and different users can access the document as per their specific needs. The manual also provides the much-needed guidance to provincial departments on selecting projects for public–private partnerships (PPPs), while formulating their plans. This manual consists of two parts. Volume I provides the main contents of the Planning Manual, while Volume II consists of important appendices and allied documents.

I would like to thank the relentless efforts by the staff of the P&D Board, Punjab as well as the Sub-National Governance Programme, which has made the formulation of this document possible in a relatively short span of time. We are also in the process of creating an online version of this document to benefit users.

IRFAN ELAHI
CHAIRMAN
PLANNING & DEVELOPMENT BOARD

ACKNOWLEDGEMENTS

The P&D Board would like to express its satisfaction and appreciation for the commendable work that has led to the formulation of the revised user-friendly Planning Manual in Punjab. We are especially grateful to Mr. Javed Latif, Senior Chief, Planning & Development Board for driving this effort and to Mr. Hamed Yaqoob Sheikh and Mr. Naveed Saleh Siddique from the Sub-National Governance Programme for providing technical assistance. Without consultations with and valuable feedback from all provincial departments, it would not have been possible to develop the revised Planning Manual. We would also like to thank Mr. Hasaan Khawar, the lead consultant, for undertaking this effort to develop the document.

WASEEM AJMAL CHAUDHARY
SECRETARY
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VOLUME ONE

SECTION 1 – INTRODUCTION

1.1 Development planning – concept and practice

Why is there any need for development planning? This question needs to be answered so as to appreciate the rationale for planning. A close look at developing countries reveals that they have certain common characteristics/features. These common features are: poverty, primitive agriculture, population pressure, scarcity of capital, social exclusion and gender inequality, low rate of savings, inequitable income distribution, low level of literacy and high unemployment, with a consequent low level of economic development.

Accordingly, planning is based on the following grounds:

- It takes care of the collective needs of the people, including women, girls and the most vulnerable.
- It helps in determining the future desirable direction of the economy.
- It facilitates the equitable distribution of economic power.
- It serves as a powerful instrument for reducing uncertainty and provides direction for future development.
- It provides for proper coordination and thereby avoids the waste of scarce resources.
- It helps in coping with major economic changes.
- It facilitates the optimum utilisation of a country's resources.
- It enables the economy to look ahead and, thereby, to lay the foundation for long-term growth.

Development planning primarily aims at the structural or economic transformation of less developed economies in a manner that ensures the achievement of universally acceptable economic and social objectives, e.g. rapid development of resources, optimisation of resource use, provision of a reasonable standard of living, equitable distribution of wealth and promotion of welfare of the society as a whole.

1.2 Plans, programmes and projects

In earlier stages of development, when the priorities in various sectors of the economy are not clearly defined, programmes and projects may be conceived without reference to an overall sector or national plan. However, as the development process gains momentum, the choice of investment opportunities becomes wider and the task of resource allocation against various competing demands becomes very complex and difficult. At this stage, identification of specific plan objectives/targets and setting out of detailed sectoral programmes become imperative. The achievement of physical targets set for various sectors of the economy necessitates the preparation of a

number of programmes and projects. In order to distinguish between the two, it is necessary to explain the difference between a 'programme' and a 'project'. Normally, a programme consists of a number of identical projects. For instance, under a programme for poverty alleviation for Southern Punjab, there could be a number of projects such as establishment of an enterprise fund for providing micro-loans, skill development, etc. Sometimes, the terms 'programme' and 'project' may mean the same thing. A project is a specific investment entity with specific benefits to be attained in a specific time. Nevertheless, projects, even if they are independent entities, are not conceived and implemented in isolation. They are linked to the development programme of the sector or sub-sector in which they fall as well as to overall development plan. Projects, therefore, are also considered "building blocks" of development. Accordingly good plans necessitate consistent linkage of projects, programmes and plan targets. The success of a plan, therefore, hinges upon the formulation of sound projects and their timely implementation.

The main instrument to implement a plan is the Annual Development Programme. This document, commonly known as ADP, includes all those programmes and projects that are duly approved and funded. More recently, the concept of the Medium-Term Development Framework (MTDF) has evolved to develop a longer-term perspective for planning, which consists of plans for the next three years.

Box 1: MTDF and ADP

1.3 Planning processes

1.3.1 Formulation of ADP

The formulation of the ADP/MTDF is an important exercise carried out by the P&D Board, Government of Punjab (GoPb), in collaboration with the Finance Department and other provincial departments and agencies. This exercise is based on the guidelines provided by the federal government in accordance with the national priorities and resource availability. As a result of the ADP formulation exercise, the size and the direction of the public sector programme in the province are determined. Thus, the task of formulation of ADP is of crucial importance as it has a significant impact on the socioeconomic standing of the province. The preparation of the ADP involves a number of stages, which are briefly discussed below:

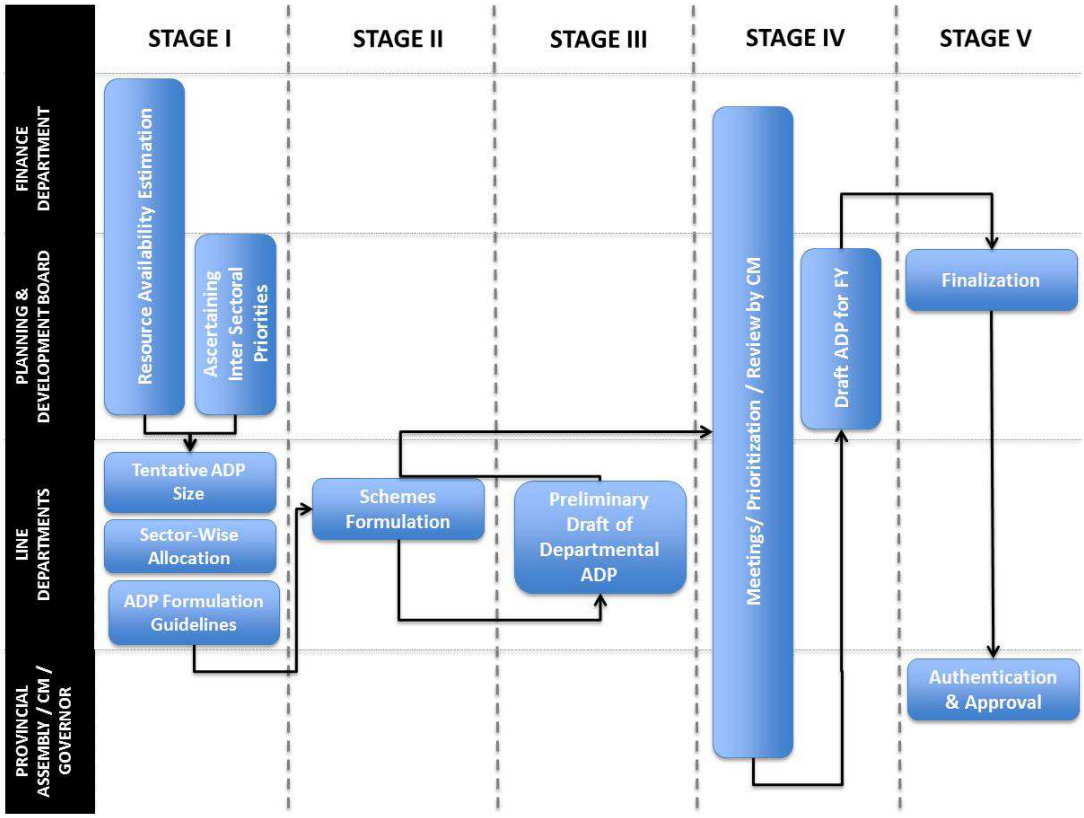

Figure 1: Schematic for ADP Formulation

FIRST STAGE: ESTIMATION OF RESOURCES AND DETERMINATION OF INTER-SECTORAL PRIORITIES

The first six months of a financial year typically represent the first stage of formulation of the ADP. During this period, two main exercises are conducted in the P&D Board in collaboration with the Finance Department. Firstly, an estimate is made in respect of the expected resource availability for the next financial year. The trend of the past few years and outlook of the economy constitute the basis of the estimate. An assessment of the anticipated external capital assistance is also included in this estimate. Secondly, determination of inter-sectoral priorities is carried out on the basis of the latest government policies regarding concerned sectors, ongoing programmes expected to be completed and new programmes likely to be initiated. After conducting these two exercises the tentative size of the ADP, indicating sector-wise allocation for the next financial year, is communicated to all the concerned departments. The departments are required to prepare lists of the ongoing and the new schemes relating to their respective sectors. Every year the P&D Board also issues ADP Formulation Guidelines (as discussed later in this section).

SECOND STAGE: PREPARATION OF PORTFOLIO OF SCHEMES

All departments and concerned agencies prepare a portfolio of schemes for the sector/sub-sector allocated to them. While preparing such portfolio the following guidelines are to be considered[1]:

- Formulation of the ADP should follow the medium-term perspective, with the objectives of ensuring predictability of flow of funds and the ability to plan with a longer-term horizon in view, while realising fiscal discipline and allocative and operational efficiencies.
- In line with the MTDF, the ADP should comprise a portfolio of development schemes for the next year and projections for the two subsequent financial years in the prescribed format.
- Line departments are required to submit a write-up on the department/sector's vision, objectives/policy and strategic interventions to be achieved in the next two–three years. The importance of the sector in the provincial economy and benefits/linkage of proposed interventions in realising targets set out in the provincial growth framework[2] should be highlighted.
- Proposed interventions under the ADP must be arranged by assigning clear and logical prioritisation, as well as facilitating readjustments and course correction during the year, in accordance with the resource situation. *Proposed interventions establishing robust linkages with growth targets and exhibiting a high multiplier effect on economic growth have to be assigned top priority.*
- The foreign aid component for the medium term (three-year period) has to be determined/finalised by respective sectors/departments in consultation with the ECA Section, P&D Department.
- Departmental ADP proposals should be provided on a prescribed proforma (VOLUME TWO – SECTION C).
- Priority for allocation of funds should be as follows:
  - Counterpart funds for foreign-aided projects as per commitment should be given highest priority.
  - The maximum allocation should be provided to ongoing projects that are at a fairly advanced stage of implementation, and have a demonstrated multiplier effect on economic growth.
  - Full funding should be allocated to projects that are due for completion in the next financial year.
  - Projects dealing with emergencies, such as flood relief, rehabilitation, etc. may be prioritised.

[1] Government of Punjab Guidelines for Formulation of Annual Development Program 2015-16
[2] Punjab Economic Growth Strategy

- Departments dealing with social sectors may focus on consolidation and improvement of service delivery activities instead of expansion and coverage of uncovered areas.

- Allocations to the individual projects should be decided on the basis of past performance and the phasing set out in the PC-I/PC-II (project cycle proformas, described in Section 1.3.3).
- Counterpart funding for the foreign-aided projects and projects co-financed with the federal government should be phased as per the PC-I.
- For new projects, the departments are required to prepare a detailed concept paper highlighting different aspects of the project, on a prescribed form (VOLUME TWO – SECTION C).
- Cost estimation of new schemes proposed for inclusion in the ADP have to be based on rational calculation, cost escalation and market analysis. Any scheme whose cost would exceed by 15% the original cost stipulated in the ADP would require fresh approval of the competent authority.
- Project life should be kept at the minimum possible and ideally should not exceed two–three years, unless dictated by the nature of the project/sector. Projections for the two subsequent years (as per the MTDF) have to worked out with due care.
- The allocation among new versus ongoing projects for the ADP should be in accordance with the prescribed distribution formula, which currently stipulates 70% for ongoing projects and 30% for reform initiatives and new programmes.
- Unapproved projects in the current year may be considered for removal if they are no longer priorities of the sector, after giving adequate justification. All projects unapproved by the 30th of June of the current year would automatically become new projects in the next ADP.
- To reinforce the government's priority to effectively mainstream gender and achieve the MDGs, line departments should consider fair and just distribution of opportunities and resources between women and men. Collection and analysis of gender-disaggregated data across all departments should be emphasised to monitor progress for girls and women.
- The time schedule for preparation of the ADP may be seen in VOLUME II – SECTION C.

THIRD STAGE: PREPARATION OF PRELIMINARY DRAFT OF ADP

Preparation of the preliminary draft of the ADP starts from January every year. A series of inter-departmental meetings are held during this period by the chief/senior

chief of sections/members of the P&D Department. The initial draft of the ADP serves as a working paper for the final round of ADP meetings to be held in March. The initial draft of the ADP, in accordance with the guidelines, is based upon the methodology of preparing sector and sub-sector-wise listing of ongoing and new programmes in descending order of priorities. This allows the subsequent changes in accordance with the likely resource availability.

FOURTH STAGE: MEETING WITH DEPARTMENTS AND PREPARATION OF ADP

This stage takes two–three months, i.e. from 15 February to the first week of April. During this period, ADP meetings are held in the P&D Board with the concerned departments, including the Finance Department, headed by the chairman, P&D Board. In these meetings, the lists prepared/finalised in the previous stages are modified, if necessary, and brought in line with the anticipated financial resources. Simultaneously, the draft ADP for the financial year is prepared. It represents an estimate of possible minimum available resources. The departments have to complete the formalities, e.g., preparation of PC-I, as well as scrutiny and approval of projects from the competent authorities, before publication of the ADP.

FIFTH STAGE: FINALISATION OF ADP AND ITS AUTHENTICATION

In the fifth stage, which is spread over the second week of April to the end of June, the final shape is given to the ADP. During this period several meetings are held at the federal level, e.g. of the Priorities Committee, Annual Plan Coordination Committee, Executive Committee of the National Economic Council and National Economic Council, to finalise the federal and provincial ADPs. It is presented to the Cabinet and Provincial Assembly in June. After approval and with the governor's authentication by the end of June, the ADP is ready for implementation with effect from the beginning of the financial year.

1.3.2 ADP and MTDF formulation guidelines

The P&D Department initiates the process of formulation of the ADP in January/ February each year with the issuance of the ADP Formulation Guidelines. The ADP is prepared in accordance with the guidelines within the MTDF. These cover a three-year period, with a scheme-based portfolio, allocation of funds for the next year, and tentative financial projections for the two subsequent years. The guidelines direct the adoption of a consultative process with the administrative departments and the other stakeholders including public representatives and experts; the guidelines also provide relevant proformas to be used for scheme-based sectoral programmes as well as a prescribed time schedule. The guidelines have to be followed by administrative departments, attached departments, autonomous bodies, project directors, project executing agencies, and administrative divisions and districts.

Generally the ADP Formulation Guidelines also lay out the development strategy for the period in question. The guidelines for financial year 2015–16 have been annexed in VOLUME TWO – SECTION C.

1.3.3 Project cycle management

Various proformas are used for different cycles of the project, as prescribed by the Planning Commission, as follows:

PC-I	Detailed project document
PC-II	For preparation of pre-feasibility and feasibility surveys
PC-III	For submission of monthly/annual monitoring/progress report of project
PC-IV	For submission of completion report of project
PC-V	For submission of evaluation/implementation report on annual basis for five years

Table 1: List of PC proformas

Appendices (VOLUME TWO – SECTION B) present these forms and guidance notes from Planning Commission.

PC-I PROFORMA	PC-II PROFORMA	PC-III PROFORMA	PC-IV PROFORMA	PC-V PROFORMA
Project information for pre-investment appraisal A planning process from project identification to its approval A milestone to improve project quality Baseline for monitoring and evaluation (M&E) performance measures	Feasibility study of a large-scale development project Complete survey of project design Experts' opinions and justifications to tie up large resources in a programme	Progress report on use of funds and achievement of project milestones Extent of project performance on a quarterly basis Identification of bottlenecks experienced during ongoing project activities	Project completion report Self-assessment of project financial and physical conduct Internal analysis of project outputs Process of measuring project outcomes and immediate impact	Project impact assessment report Follow-up of the terminal evaluation report Particulars regarding operation and maintenance (O&M) of the project with regard to project evaluation

Table 2: Planning Commission forms and their use[3]

Figure 2 explains the roles of different proformas in the project cycle:

[3] Director general, M&E, P&D, Punjab

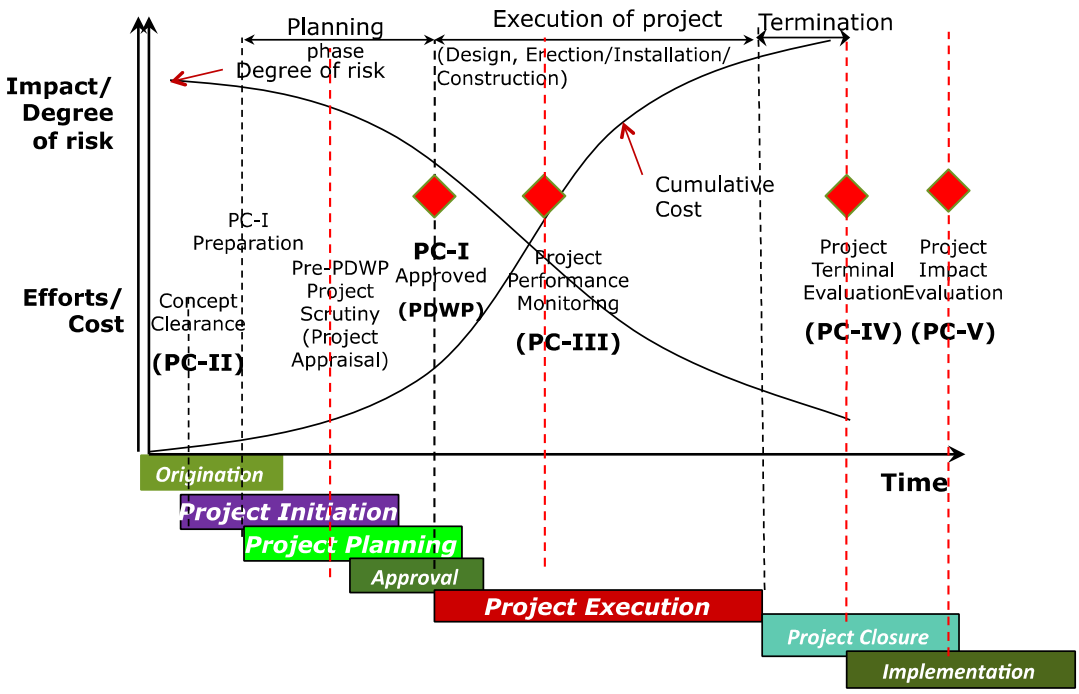

Figure 2: Project cycle and use of project cycle forms[4]

1.4 Planning: institutional regime

The planning process was initially formalised in Pakistan with the creation of the National Planning Board in 1953 along with provincial departments. The Planning Commission at the federal level was set up in 1958 along with the provincial departments. In addition, a number of planning agencies have come into existence at different levels in the country. The present chapter briefly surveys the planning machinery in operation at various levels:

- Planning Commission of Pakistan;
- provincial P&D departments/Board; and
- planning agencies at the divisional/district level.

1.4.1 Planning Commission

The Planning Commission, including the Planning, Development & Reforms Division, occupies the central position in the overall planning machinery. The prime minister is the chairman of the Planning Commission, which, apart from the deputy chairman, comprises various members including the secretary, Planning, Development & Reforms Division/member (Coordination); member (Private Sector Development & Competitiveness); member (Energy); member (Food Security & Climate Change); member (Science & Technology); member (Development Communication); member (Infrastructure & Regional Connectivity); member (Social Sectors & Devolution);

[4] Director general, M&E, P&D, Punjab

member (Governance, Innovation & Reforms); and vice chancellor, Pakistan Institute of Development Economics (PIDE)/member (Research).

Functions of the Planning Commission

The functions of the P&D Division are as follows:

- preparing the national plan and review and evaluating its implementation;
- formulating the annual plan and ADP;
- monitoring and evaluating implementation of major development projects and programmes;
- stimulating preparation of sound projects in regions and sectors lacking adequate portfolio;
- continuously evaluating the economic situation and coordinating economic policies;
- organising research and analytical studies for economic decision-making;
- assisting in defining the national vision, and undertaking strategic planning;
- assessing the material, capital and human resources of the country and formulating proposals for augmenting such resources;
- facilitating capacity building of agencies involved in development; and
- any other functions assigned by the Prime Minister.

Box 2: Functions of Planning Commission

1.4.2 P&D Board

At the provincial level, P&D activities of all nation-building departments and agencies are coordinated by this board. The P&D Board is headed by a chairman. He is assisted by the chief economist, secretary, joint chief economists, members, senior chief and chief of sections.

Distribution of work – The P&D Board is divided into self-contained sections, each of which is headed by a senior chief/chief of section. The main sections are as follows:

- **Economic sections –** There are a number of economic sections established in the P&D Board, Punjab. The matters dealt with by these sections include: coordination with the federal government on economic issues and development plans; macroeconomics and policy analysis; appraisal; and M&E.

- **Technical sections –** The technical sections appraise projects from a technical viewpoint. These include: water and power; roads and bridges; urban development/development authorities/regional planning agriculture; livestock and dairy development; forests and fisheries; and industries and manpower.

- **Social sections –** The social sections mainly consist of health, population welfare and nutrition; education and training; information, culture, tourism and social welfare; housing and physical planning; and urban/rural water supplies/sewerage.

- **Other sections –** Other sections include ECA; environment; and the Project Training Institute.

Functions of the P&D Board – The main functions of the Board as per the Rules of Business include:

- formulation of the provincial government vision, policies and strategies for economic P&D in consultation with all stakeholders in light of the National Economic Council's (NEC's) guidelines

- ADP/MTDF:
  - preparation in coordination with all departments of the government
  - monitoring implementation
  - evaluation of development projects and programmes

- economic issue(s):
  - conducting of research/surveys
  - review/analysis of socioeconomic data

- Public Sector Development Programmes (PSDPs):
  - preparation of short-term and long-term provincial development plans
  - coordination with federal government

- policy for the approval of development schemes as a catalyst for different departments/sectors to improve the pace and quality of economic development

- resource allocation, re-appropriation of development funds, appropriations from block allocations and disbursement of supplementary grants

- secretariat for the Provincial Development Working Party (PDWP) and clearinghouse for development within the competence of the Central Development Working Party (CDWP) and Executive Committee of the National Economic Council (ECNEC)

- foreign assistance:
  - determination of key areas for foreign assistance and preparation of the sector-wise portfolio for foreign assistance
  - loan negotiations and securing of federal financial guarantees, wherever required
  - review of foreign-aided projects

- coordination of nominations for foreign training, seminars, conferences and workshops for all officials serving with the provincial government

- capacity building of government departments, agencies and functionaries for good governance

- focusing on accelerated development of rain-fed (*barani*) and less developed areas

- framing of guidelines for procurement of consultancy service

- policy formulation with respect to private sector development and promotion and public–private partnership (PPP) implementation, development and administration in respect to foreign-assisted/ funded and mega ADP projects

- matters relating to attached departments, autonomous bodies and special institutions of the P&D Department

- information technology:
  - IT policy
  - electronic data management
  - control of and liaison with district IT departments
  - e-governance and e-service delivery
  - web content management
  - pre-qualification of firms to provide IT consultancy, software development and IT products to the government
  - coordination with both public sector departments and private sector agencies in the field of IT
  - service matters of IT cadres at both provincial and district levels

- budget, accounts and audit matters

- purchase of stores and capital goods for the department

- service matters except those entrusted to service and General Administration Department

- administration of the following laws and the rules framed thereunder:
  - the Cholistan Development Authority Act, 1976
  - the Punjab Economic Research Institute Ordinance, 1980
  - the Punjab Public–Private Partnership for Infrastructure Act, 2010

- matters incidental and ancillary to the above subjects

While performing its functions the Board closely coordinates with the Finance Department regarding formulation and determination of the ADP. The Finance Department is also involved with the process of approval of individual development

schemes; this function is associated more directly with the process of ADP implementation.

1.4.3 Planning at divisional level

The divisional functions for planning include:

Finalisation of lists of schemes – Assist the provincial government to finalise lists of schemes for inclusion in the ADP.

Approval of Schemes – Approval of development schemes is accorded in a systematic manner at various levels. At the divisional level a committee for that purpose has been constituted, which is known as the Divisional Development Working Party.

1.4.4 Planning agencies at district/divisional level

All local government tiers prepare and implement development programmes through their own budget. In addition, autonomous bodies like the Lahore Development Authority, Multan Development Authority, Faisalabad Development Authority, Gujranwala Development Authority, Bahawalpur Development Authority, Punjab Small Industries Corporation, Punjab Mineral Development Corporation, Punjab Industrial Development Board and Tourism Development Corporation have emerged over time to cater for the specific development needs of those areas and relevant sectors. These development authorities have streamlined their own procedures for preparation, approval and implementation of their programmes. All these autonomous bodies are carrying out small and big development projects, which are not fully reflected in the ADP.

At all levels, efforts have been accelerated to involve non-governmental organisations (NGOs)/communities in development works. For social sectors NGOs involvement in development work through health and education foundations is being promoted. Lately, the private sector has also come forward in supplementing the PSDP.

1.5 User guidance for Planning Manual

Special care has been taken to make the Planning Manual a user-friendly resource. This manual has been divided into five sections. The first section presents the introduction of the planning regime, etc., while the next four sections address various user-planning needs. A reader does not have to go through the whole manual to get any help and should rather consult the relevant section for quick reference.

There could be a variety of reasons or areas for users to consult this manual, depending upon the exact stage of the project cycle in which they are involved. Based on this approach, Section 2 exclusively deals with project identification and formulation. This section is especially useful for line departments, districts and other agencies at the ADP formulation stage. Section 3 is about appraising and approving a project and is particularly useful for members of different approval fora as well as any official tasked with reviewing or appraising a project proposal. Section 4 provides guidance on M&E of a project. The last section, Section 5, covers some of the questions about more recent subjects faced by officials in the provincial government such as PPPs, private sector support initiatives, direct or contingent liabilities, RBM, etc.

Box 3: Structure of Planning Manual

SECTION 2 – HOW TO IDENTIFY AND FORMULATE A PROJECT

2.1 Project identification

Project identification forms the most critical stage in the project cycle because projects are supposed to deliver public policy objectives to ultimate beneficiaries, within limited resources. It is very important that all projects forming part of ADP/MTDF are closely aligned with national and provincial policy frameworks and work in sync with the overall development portfolio. Even if political leadership or other stakeholders directly identify some of the projects, the line departments or other users must apply some objective criteria to assess if the projects are 'correctly' identified and are aligned with the development portfolio.

For identifying any project, the users must look at the overall national and provincial growth frameworks, which lay down the broader priorities. All projects must also be part of their respective integrated sector framework. Usually each sector has its own strategy or vision document, which lays out the key areas of future interventions. Such documents can give any user a comprehensive understanding of what needs to be achieved in a particular sector. Even if the users feel that there is no formal strategy document or sector framework available, the departmental strategy is usually articulated in the form of a presentation or document, which can provide guidance on broad sectoral priorities.

At present, Vision 2025 presents the national growth framework, whereas the provincial economic growth policy sheds light on provincial growth framework. Recently a number of departments have also developed their sector plans, which should be consulted for project identification.

Box 4: National Vision 2025

Other than these documents, the users should also look at global development imperatives such as the MDGs as well as country assistance and partnership strategies of donors and development partners (DPs) to identify intervention areas[5].

Another lens that can help such identification process is the question of whether the proposed project can be financed through private capital and can therefore be potentially undertaken in PPP mode. If it can be, then ideally it should not form part of the ADP[6], which is meant for only publicly financed projects. It must be noted that

[5] As per the Government of Punjab's ADP Formulation Guidelines 2015-16, some of the articulated priorities are given. As per the guidelines, efforts should be made to focus the new portfolio on the economic growth strategy and sector plans. Education and health departments should make every effort to ensure consolidation and improvement in service delivery projects for enhancing efficiency and effectiveness to achieve the MDGs. Special attention may be given to new initiatives /programmes of the government with an emphasis on inclusive growth, poverty alleviation, MDG attainment, creation of productive assets and gender mainstreaming.

[6] ADP funding may be used for public sector contribution for a PPP project for land acquisition or other uses.

availability of financing is not the only criterion for undertaking a project in PPP mode. This topic has been dealt with in greater detail in Section 5.

The following sections introduce the current national and provincial frameworks; however, it is important that at the time of project identification, the user should consult the most recent policy documents.

2.1.1 Vision 2025

Pakistan Vision 2025 is the national growth plan, recently developed by the Planning Commission of Pakistan. The vision document puts forward the goal of transforming Pakistan into one of the top 10 economies in the world by 2047. By the year 2025, it envisions Pakistan among the top 25 economies of the world and an upper-middle income country. The document also identifies five enablers and seven pillars to offer an integrated approach for development and prosperity. The enablers include a shared vision, political stability and continuity of policies, peace and security, rule of law, and social justice.

PILLARS OF VISION 2025

Pillar I: Putting People First – Developing Human and Social Capital
Pillar II: Achieving Sustained, Indigenous and Inclusive Growth
Pillar III: Democratic Governance, Institutional Reform and Modernisation of the Public Sector
Pillar IV: Water, Energy and Food Security
Pillar V: Private Sector and Entrepreneurship-Led Growth
Pillar VI: Developing a Competitive Knowledge Economy through Value Addition
Pillar VII: Modernising Transportation Infrastructure and Greater Regional Connectivity

Box 5: Pillars of Vision 2025

2.1.2 GoPb's growth strategy

Punjab's growth strategy envisions Punjab as a secure, economically vibrant, industrialised and knowledge-based province, which is prosperous and competitive and where every citizen can expect to lead a fulfilling life. The strategy also highlights key impediments to growth including an underutilised manufacturing capacity and stagnant exports; low productivity of physical and human capital; unemployment, under-employment and skills shortages; slow progress on achieving the MDGs; and a difficult security situation.

Punjab's growth strategy
Key objectives

1. Achieving 8% economic growth (real growth rate in gross domestic product) in Punjab by 2018
2. Increasing annual private sector investment in Punjab to US$ 17.5 billion by 2018
3. Creating 1 million quality jobs every year in Punjab
4. Training 2 million skilled graduates in Punjab by 2018
5. Increasing Punjab's exports by 15% every year until 2018
6. Achieving all MDGs and targeted Sustainable Development Goals in Punjab

7. Narrowing the security gap with regional neighbours such as India and Bangladesh by reducing crime and improving law and order in Punjab

Box 6: Key objectives of Punjab's growth strategy

2.2 Screening projects for PPPs

A number of factors need to be considered while screening a project to assess if it can be undertaken in PPP mode. Some of these criteria are explained briefly below. For more detailed guidance, please consult the GoPb's PPP Project Inception Policy Guidelines.

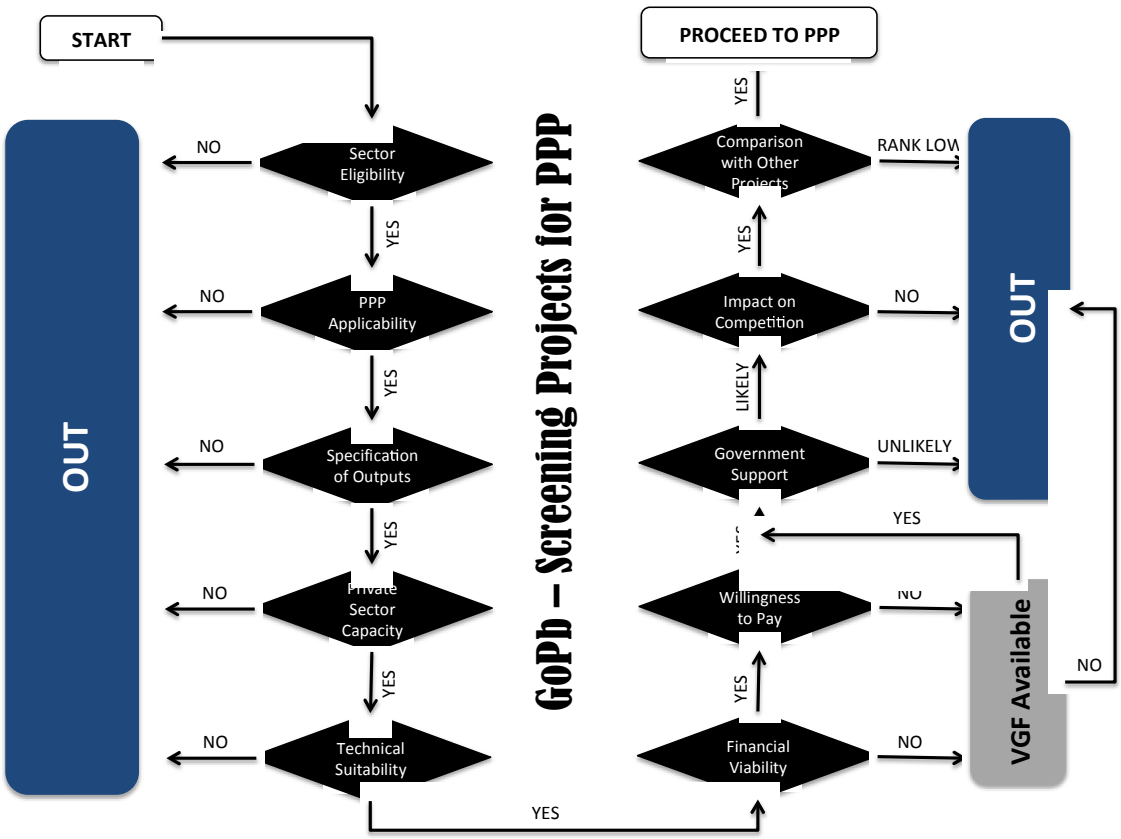

Figure 3: PPP project screening tool

1) Sector eligibility – Schedule I of the Punjab Public–Private Partnership Act 2014 lists the eligible sectors for PPP projects. The proposed project should belong to one of these sectors.

2) PPP applicability – The project should be consistent with the following PPP definition that underlies the government's PPP policy: "PPPs are medium- to long-term contractual arrangements between the public sector and a private party for the provision of an infrastructure facility and/or service with a clear allocation of risks between the two parties." In line with this definition, the project should provide

opportunities for risk transfer to the private sector, which is the primary driver of value for money in PPPs.

Furthermore, the project should adopt one of the PPP modalities listed in Schedule II of the Punjab Public–Private Partnership Act 2014. Some guidance on these models is given in the following matrix:

Modality	Owner-ship	Invest-ment	O&M	Commercial Risk	Duration (years)	Typical Example
Service Contracts	Public	Public	Public/ **Private**	Public	1–3	Meter reading and billing, or road maintenance outsourcing
Management Contracts	Public	Public	**Private**	Public	2–5	Public utility management
Lease Contracts	Public	Public/ **Private**	**Private**	Public/ **Private**	10–15	Leasing of existing tourism facilities
Concessions	Public/ **Private**	**Private**	**Private**	**Private**	25–30	Water supply concession
BOT and Other Similar Contracts ***(Please see Schedule II of Punjab PPP Act 2014)***	**Public/ Private**	**Private**	**Private**	**Private**	**20–30**	**Independent power producer**

Table 3: PPP modalities

BOT = build–operate–transfer; O&M = operation and maintenance.
Source: Public–Private Partnership Handbook, ADB, 2008 (with some variation).

3) Specification of outputs – The focus under PPP projects is on outputs, i.e., services being provided. By contrast, the focus in traditional public procurement has always been on inputs. This change in the procurement paradigm means that the line department should be able to specify in clear and measurable terms the project's outputs in terms of the expected improvements in the quantity and quality of service delivery, based on which a payment mechanism can be devised in the PPP agreement.

4) Private sector capability and appetite – The project should be within the capability of the private sector to finance and implement. At the same time, the project should be able to attract sufficient market interest and have the potential to operate as a commercially viable venture. These criteria highlight the importance of project size. On one hand, the project should have a certain minimum size to generate cash flows that will enable both public and private parties to achieve value for money and thereby attract investors' interest. On the other hand, the project

should not have investment requirements that are so large that they exceed the financial capability of the majority of potential investors.

5) Technical scope of the project – The project should be prima facie technically viable. The PPP approach is particularly suitable if the following are needed:

- advanced design and state-of-the-art technology of equipment and processes, which traditional public procurement is unlikely to provide;
- faster construction of the project than under traditional public procurement;
- improved quality of infrastructure services to customers in accordance with internationally recognised standards; and
- enhanced management of the project O&M compared with the management competence and capacity of the existing public utility. By transferring the management of public infrastructure to the private sector, staff of the public utility can focus on infrastructure planning and performance monitoring, leaving the management of day-to-day delivery of infrastructure services to the private party.

6) Financial viability of the project – To attract private investors and satisfy their lenders, it should be demonstrated that the project most likely can generate revenues over the concession period at levels sufficient to recover and repay the estimated investment cost, cover the estimated O&M expenses, and generate a commercially acceptable rate of return on equity.

7) Ability and willingness of customers to pay – The public demand and willingness to pay for a more expensive project may be a key factor for successful implementation of the project. The line department should therefore make a preliminary assessment of whether the project and the customer charges needed to make it financially viable are publicly acceptable. If not, then it should be determined whether any viability gap funding is available.

8) Need for and availability of government support – There are four main categories of government support for PPP projects including: administrative support such as land acquisition, permits, etc.; asset-based support such as leasing land or infrastructure facilities; direct financial support; and contingent support in the form of government guarantees. It is important to identify any such support required for the project and assess if such support is viable or likely.

9) Impact of the project on competition – A PPP project may create a monopoly or provide extensive exclusivity rights for the private party for a long-term period. This may have a negative impact on tariffs for the services and constrain the government's ability to promote competition and innovations in the service provisions at a later stage.

10) Comparison with other project candidates – After the department has completed the screening of the project and found the outcome positive, it should compare it to other potential projects in the same sector and/or geographical area in order to select the best candidate for the PPP mode.

2.3 Project formulation

All development projects in the ADP/MTDF have to be prepared in the approved format, i.e. the PC-I proforma. The Planning Commission has devised three proformas, one each for the infrastructure sector, production sector and social sector. All the PC proformas, along with detailed instructions for filling them, are placed in VOLUME TWO – SECTION B.

For mega projects, where significant resources for feasibility studies are involved, a separate proposal on the PC-II proforma is to be submitted for approval. These projects require proper feasibility studies to be undertaken before the submission of the PC-I. In more complex projects, technical assistance could be requested from one of the donors. For other low-cost projects, in-house feasibility studies can be carried out. Based on the data and positive findings of the feasibility study, the PC-I is prepared and submitted for approval by the concerned forum.

At the project preparation stage, various indicators such as required inputs, baseline data, and expected outputs and outcomes are determined over the life of project. In addition, the viability of the project in terms of financial and economic indicators is determined, which focuses on financial and economic costs and benefits of the project. Another important aspect, which needs to be considered, is the sustainability aspect after completion: how it would yield the required output/outcome. Therefore, due attention has to be given to the sustainability aspect of the project at the preparation stage.

2.3.1 Sources of data

For accurate estimates, the users need to use credible sources of data only and should clearly mention any source that they use. The users may consult the following sources/documents for data and only if they cannot find the requisite data from these sources should they consult other sources.

- Punjab Development Statistics released every year by the Bureau of Statistics (www.bos.gop.pk);
- Multiple Indicator Cluster Survey (http://www.bos.gop.pk/?q=mics);
- Economic Survey of Pakistan (www.finance.gov.pk/);
- State Bank Data and reports (www.sbp.org.pk/ecodata);
- Pakistan Bureau of Statistics (http://www.pbs.gov.pk/) – various surveys and statistical bulletins including the Pakistan Social and Living Standards Measurement Survey (PSLM);

- management information systems developed by various line departments for their respective sectors; and
- World Bank Open Data and World Development Indicators (accessed at http://data.worldbank.org/).

2.3.2 Stakeholder consultation – needs assessment

Project stakeholders are those who have a 'stake' (investment, involvement, concern, interest) in the success of the project. They are citizens or organisations that have interests that are positively or negatively impacted by the project, or that can positively or negatively impact the project processes, outputs or outcomes.

Project success depends in part on maintaining the commitment and confidence of those providing resources; gaining the agreement of those who will utilise the project outputs; and/or responding appropriately to the people and groups who are impacted by (or who can impact the interests of) the project. The potential stakeholder community surrounding a project can be difficult to identify because they may be large, diffuse and amorphous; and/or the interests of stakeholders are usually varied.

Stakeholder engagement is the process of identifying key stakeholders, analysing their influence on the project, and managing their influence and impact – including winning their support where possible. To keep everyone engaged for the duration of the project, it is important to develop an understanding of the values and issues that stakeholders have and address them.

Stakeholders can be defined as key or non-key for the purpose of planning engagement strategies:

Key stakeholders are those individuals or groups whose interest in the project must be recognised if the project is to be successful – in particular those stakeholders who will be positively or negatively affected during the project or on successful completion of the project.

Non-key stakeholders are those individuals or groups identified as having a stake in the project but who do not necessarily influence its outcome.

Box 7: Key and non-key stakeholders

Classifying stakeholders – Classifying key stakeholders into groups according to their interest in or influence on a project is a useful tool and allows managing them effectively. There are generic stakeholder classes within government projects that are a useful starting point for analysis. This is a useful way to broaden the thinking from the immediately obvious stakeholders and gain a wider picture of the project's impact.

The table below provides a list of classifications that may be adopted by a project to categorise groups of project stakeholders. In this classification method the holders of specific roles within the project governance structure are not included as stakeholders because they have been deliberately engaged to fulfil a requirement (e.g. project manager, project team, consultants, contractors) and would likely have no particular interest in the project if not appointed to that role.

The classification list is not definitive, nor will every project utilise every classification. It may be necessary to break some groups down into sub-categories, for example breaking the outcome-impacted group into beneficiaries (those stakeholders who receive a benefit) and affected people (those stakeholders who may experience some form of penalty, be harmed by the project or bear a cost). It may also be useful to further break the groups down by gender to understand different outcomes of a project for men and women separately.

Group Classification	Group Description	Stakeholder Examples
Review/ Decision-making	Which groups/individuals/decision-makers/organisations will review project outputs or outcomes?	Political decision-makers (e.g. CM Punjab for a micro hydel project)
Allied/Peripheral Effects	What projects and change activities will impact the project and in what way? What projects and change activities will the project impact and how?	Allied stakeholders (National Electric Power Regulatory Authority)
Outcome Impact	Which individuals/groups/organisations will be impacted positively or negatively by project outcomes?	Beneficiaries (positive – users of electricity) Affected people (negative – communities that have to be displaced)
Output Delivery	Which groups/organisations will be required to deliver project outputs?	Project Delivery Unit (Punjab Power Development Board/ Project Management and Implementation Unit (PMIU))
Output Accountability	Who is responsible for project success?	Project Developer/Financer (Secretary Energy)

Table 4: Stakeholders group classification matrix

The roles of all stakeholders should be fully understood and their concerns should be highlighted. Any good project proposal would pre-emptively address concerns of all stakeholder groups and would have mitigitating stratgies integrated into the proposal to manage any risks. Such an approach would avoide later delay issues or objections during the appraisal and approval process.

2.3.3 Pre-feasibility and feasibility studies

A pre-feasibility or feasibility study is the starting point in project formulation, if either of the following two situations exists:

- no data/information to examine the viability of a project; and
- inadequacy of available data/information for ascertaining the feasibility of a project.

The aforementioned studies are required to find out whether the project would be technically feasible, administratively manageable, economically and financially viable. These are normally required for big projects (at present costing more than PKR 300 million). In the case of medium and small projects, preliminary investigations are comparatively simple. Hence, formally outsourced pre-feasibility and feasibility studies are not needed for such projects.

Pre-feasibility study – A pre-feasibility study may be required primarily to:

- curtail the range of feasible alternative solutions; and
- ascertain whether or not a more detailed feasibility study is needed.

Sometimes a pre-feasibility study is undertaken as a component of project identification. Such a study helps in weeding out non-feasible solutions. Feasibility and pre-feasibility studies differ mainly in respect of details and accuracy. The results of a pre-feasibility study may lead to any of the following decisions:

- The proposed project may be rejected because it is not found to be a viable proposition.
- Detailed planning of the project may be initiated on the basis of the pre-feasibility results (preparation of PC-I).
- A detailed feasibility study may be initiated (preparation of PC-II).

Feasibility study – If the decision is to undertake a detailed feasibility study, it will entail a further probe into a number of areas or aspects pertaining to an investment proposal. These areas/aspects have been briefly discussed below:

1) Market aspect – The study of the market is of basic importance. It is on the basis of such a study that the demand for the product/services to be produced is estimated. Similarly, levels and trends of supply are examined. The comparison of the project demand with the supply gives the 'net demand'. The factors that determine the extent of marketability of a product/service are the following:

- gap between the projected demand and forecasted supply;
- competitiveness of the proposed product services with similar available products/services; and

- effectiveness of the marketing plan and organisation.

2) Technical aspects – At the feasibility stage, technical aspects of the proposed project are also examined critically. There may be a number of alternatives to implement and operate a project. The choices regarding size, location and technology are ultimately based on the alternative chosen for the project. The guiding principles for selecting an appropriate technical alternative are as follows:

- The size, location and technology match the project requirements.
- All technical features are reasonably defined and found feasible.
- Resources are available in the required quantity and quality in accordance with the selected alternatives adopted.

3) Financial analysis – The objective of financial analysis is to ascertain whether or not the proposed project is a financially viable proposition. For this purpose, financial costs are compared with the financial benefits expected to be generated during the life of the project. The financial feasibility is determined by the discounted cash flow measures, i.e. benefit–cost ratio (BCR), net present value (NPV) and internal rate of return (IRR).

4) Economic analysis – The economic analysis of the project helps to spell out the impact of the project on the economy or the society as a whole. Such an analysis involves comparison of the costs that the economy or society is required to bear to see the expected benefits. A project is considered to be economically viable if it contributes to the gross national product. The financial and economic analyses of projects are discussed in detail in the next chapter.

5) Operational aspects – Operational aspects are examined to ascertain the viability of a project on a legal, organisational, managerial and other administrative basis. The agencies responsible for project implementation are identified at this stage. The role of a sponsoring agency, whether it is a government department or a board of directors, is to decide policies, approve budgets and appoint management. The management on the other hand consists of key officials who are responsible for making day-to-day decisions about the operation and supervision of the project.

PROVISION FOR CONSULTANCY

Need for consultants

In the case of projects, the need for consultants should be carefully considered and approved during the appraisal / formulation of the project through a PC-I or PC-II. Here it is pertinent to mention that the approving forum for the PC-II, irrespective of its cost, is only the PDWP.

When consultants are used, it should be ensured that the functions and responsibilities to be assigned to the consultant are adequately defined in the Terms of Reference (ToRs). The consultants to be engaged by the client may, depending on the circumstances, be individual consultants or consulting firms.

Costing and funding

The provision for consultancy should preferably be prepared on a person-month or person-days basis. For development projects the client should use a PC-II or PC-I to secure the necessary funds for consultancy work. For non-development work the client can secure funding through an allocation to the budget head 'Payment to others for services rendered'.

Selection of consultants

After approval of the PC-II / PC-I from the competent forum, including ToRs for the consultants, the procuring agency shall select the consultants following the provisions of Punjab Procurement Rules 2014. In the said rules Chapter VII has specifically been added for procurement of consultancy services. The Client Department shall also ensure that the consultant has adequate expertise to perform the assignment. In the case of non-development funding, the Client Department may select the consultant/firm without having a PC-I/PC-II. However, ToRs may be cleared from the P&D Department.

Box 8: Provision for consultancy

2.3.4 Detailed planning of the project

Once the viability of a project is determined on the basis of pre-feasibility or feasibility study, its detailed planning is initiated. A number of activities need to be carried out at this stage, which include technical investigation, surveys and tests, site layout, design of basic civil works, design of auxiliary facilities and phasing of various project activities. Details are spelled out below:

Projects with civil works as major component

Technical investigations – For big projects, technical investigations in the form of research, surveys and tests are needed in various phases of the technical study. Field reconnaissance is performed to probe into the technical requirements further.

Land acquisition – For projects where land is required, either the government land is provided or it has to be acquired under Land Acquisition Act 1894.

Site layout – For projects where construction work is involved, a site plan is drawn. Such a plan shows spatial arrangements of various facilities. Thus, the site plan helps in finding out the functional layout for the project.

Basic civil works – Various civil works are identified on the basis of the objectives of a project. The types and characteristics of the civil works will depend on the selected design. At the feasibility stage, civil work design includes preliminary architectural and engineering plans along with specifications. The basic structural framework, thus determined, should give the desired operational efficiency.

Auxiliary facilities – Besides basic civil works, auxiliary facilities are also required to be spelled out. The auxiliary works normally include: roads, water supply and drainage, power supply, housing facilities for employees, etc. Such works are also planned in detail at the time of project formulation. The auxiliary works, in fact, are the key elements, which need to be properly identified and provided in a project to ensure its smooth and successful operation.

Projects without substantial civil work

For projects in which construction work is not a substantial part, the overall methodology would be as follows:

- For construction works, the guidelines as given in the preceding section are applicable.
- For other works, e.g. extension, research, training, education, health coverage, etc., the implementation schedule should specifically indicate the various activities and timings for their completion to achieve the desired objectives.
- Clear parameters for measuring the success of the project or achievement of objectives should be highlighted for subsequent M&E. For performance evaluation the benchmark survey should precede the project implementation.

Phasing of works and project activities

Once the basic and auxiliary civil works and other activities have been planned, the next stage is to chalk out suitable schedules for implementation and operation of the project. The implementation schedule should indicate the manner of executing the physical work. In short, it should clearly reflect:

- time required for land preparation/clearing, foundation work, building construction, roofing, etc.
- main elements affecting time and costs by using a network diagram[7]; and

[7] A network diagram, also referred to as a logic diagram, is an easy-to-use tool for visualising and depicting how the project is expected to proceed. A network diagram is a sequence of steps

- types and quantities of inputs (manpower, material, equipment, etc.) required for the project at different stages of its implementation.

2.3.5 Project requirements

The detailed planning of basic and auxiliary works enables the project planner to determine the types and quantity of resources required for project implementation and its subsequent operation. Different types of resources required for the project are finances, machinery and equipment, manpower, supplies, materials and various utilities, which should be commensurate with the requirements and implementation plan. Details are given below:

Machinery and equipment – The choice for machinery and equipment is influenced by the nature of project, alternative use of machinery, available technology levels, scale of output, costs and availability of spare parts, and the performance reliability. When selecting any machinery and/or equipment it is essential to consider the scale of production for its optimal use.

Workforce requirement – The requirements for different types of workforce (professional skilled, semi-skilled and unskilled) need to be worked out in detail. In addition, requirements of the workforce at the implementation and operation stages need to be clearly identified and determined.

Supplies and material – The quantities and specifications of supplies and materials required for implementation and operation of the project may also be worked out in detail. While estimating such requirements the availability and continuity of supply of these resources may be thoroughly examined.

Utilities – The requirements for different utilities such as water, power, and fuel should be properly identified for both implementation and operation of the project. The analysis should also clearly indicate the sources and the cost for provision of the required utilities.

In order to ensure timely implementation and subsequent smooth operation of the project, a schedule in respect of resource requirements may also be chalked out in detail. This schedule should clearly indicate the time quantities, specifications and resources to meet various project requirements at different stages of implementation and operation of project.

Project costs

Once the project requirements have been identified and quantified, its cost analysis is taken in hand. This task should preferably be undertaken jointly by the experts to

(activities), commonly represented by blocks that are linked together in the logical sequence in which they need to be carried out.

ensure that the technical as well as economic considerations have been taken into account at the stage of project formulation. Details are as follows:

Classification of project costs – Project cost consists of all the expenditure incurred on various goods and services required for the implementation, operation and maintenance of the project. It includes local and foreign costs. In addition, specification of the foreign assistance (donation/grant/loan), along with the local currency as the counterpart should be reflected on a year- and component-wise basis.

1) Capital cost – All the expenditure incurred on physical assets such as basic and auxiliary civil works, machinery and equipment constitute the capital cost of the project.

2) Recurring cost – The expenditure incurred on goods and services, e.g. salaries, wages and running costs of essential utilities (water, fuel, electricity, etc.) and expenses on repair constitute the recurring cost of a project.

Phasing of costs – The capital and recurring costs of a project should be phased out on an annual basis for the entire project life. The requirements for funds to implement the project will be mainly regulated by the financial phasing of the project.

Box 9: Classification of project costs

2.4 Cross-cutting themes

All project proposals should conform to certain cross-cutting themes such as sustainability, gender responsiveness and inclusive growth.

2.4.1 Sustainability

– Sustainability can be defined as the ability of a project to maintain its operations, services and benefits during its projected lifetime. The World Bank defines sustainability as 'the ability of a project to maintain an acceptable level of benefit flows through its economic life'. Some of the sustainability dimensions are the level of continued delivery of project goods and services; changes stimulated/caused by the project; and new initiatives caused by the project. In order to ensure that all project proposals are sustainable, the following issues must be considered:

- The project receives the necessary support (both budgetary and institutional) to enable it to maintain the required level of facilities.
- All the costs and benefits under varying conditions are weighted properly and the project guarantees an acceptable level of financial and economic return.

- There is continued community participation in projects where active community participation is crucial for stimulating new actions as well as for cost recovery.
- There is equitable sharing and distribution of project benefits.
- The project adequately considered the institutional requirements and thus made provisions so that management support to project operations continues during the life of the project.
- The project considered environmental implications so that negative impacts on environment are either avoided or mitigated during the life of the project.

2.4.2 Inclusive growth

All projects to the extent possible should have the inclusive growth integrated within the proposals. Each project proposal should address the following issues:

- Does the project aim to reduce absolute poverty[8] by appropriate targeting mechanisms for direct or indirect beneficiaries?
- Does the project aim to and is it likely that it will lead to increasing employment of poor people?
- Does the project aim to reduce economic and social disparities in income?
- Does the project positively impact non-income dimensions of well-being?
- Does the project encourage inclusion of disadvantaged and marginalised groups?
- Does the project promote the human capacities of poor people, especially in terms of health and education, so that they are better able to contribute to/benefit from economic growth?
- Does the project results framework have appropriate indicators to track inclusive growth?

2.4.3 Gender responsiveness

All projects should have gender-responsive proposals and ensure equitable gender representation in project beneficiaries. Project design and implementation should ensure that the projects aim to achieve positive results for women and girls, along with other social groups. For example, human resources should also be planned with a gender-sensitive lens. The project teams should also have gender considerations knitted into their recruitment/selection criteria. Reporting and M&E should be based on gender-disaggregated data. All public facilities as part of any development project should ensure women-friendly facilities and all services

[8] Extreme poverty, or absolute poverty, was originally defined by the United Nations in 1995 as 'a condition characterized by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to services'. Currently, extreme poverty widely refers to earning below the international poverty line of $1.25/day (in 2005 prices), set by the World Bank.

projects should have clear targets for women and girls. Some key questions to consider are:

- Does the project identify the needs of specific groups, especially for women, girls and other vulnerable groups?
- Do the project targets specifically include women, girls and other marginalised groups?
- Does the project help reduce gender disparity and help contribute to the empowerment of women and girls and help promote social inclusion?
- Does the project promote capacity building of women, girls and other marginalised groups?
- Does the project results framework have gender-sensitive indicators to track results for women and girls?

2.5 Results framework

A results framework comprises different forms of representation of different levels, or chains, of results expected from a particular project or programme. The results typically comprise the longer-term objectives (often referred to as 'outcomes' or 'impact') and the intermediate outcomes and outputs that precede, and lead to, those desired longer-term objectives. Other terms similar to 'results framework' include logical framework, logic model, theory of change, results chain, and outcome mapping. Thus, the results framework captures the essential elements of the logical and expected cause–effect relationships among inputs, outputs, intermediate results or outcomes, and impact. The Planning Commission has now also incorporated a results framework in the PC-I format and there is a separate sub-section in PC-I proforma for laying down RBM indicators. The topic of RBM is covered in much more detail in Section 5.

Irrespective of the level of results, for both intermediate and longer-term objectives, the project proposal should clearly list quantifiable or measurable indicators to make the project structure more objective and accountable. While these indicators would vary from project to project, each sector/department should develop a repository for relevant indicators to help the project formulation teams to make their results framework more crisp and clear. VOLUME TWO – SECTION A lists some indicators/parameters for social, productive and infrastructure sectors.

SECTION 3 – HOW TO APPRAISE AND APPROVE A PROJECT

3.1 Appraisal[9]

A project appraisal assesses the technical soundness and economic and financial viability of a project. Appraisal facilitates the selection of suitable projects by clearly identifying the financial and economic implications of various alternatives. If a project is well formulated and thoroughly appraised, a good follow-through on subsequent stages of the project cycle will see successful implementation of the project and achievement of desired outcomes. The overall objective of systematic appraisal is to achieve better spending decisions for capital and current expenditure on schemes, projects and programmes.

Appraisal involves a careful review of the basic data, assumptions and methodology used in project preparation, an in-depth review of the work plan, review of cost estimates and funding arrangements, an assessment of the project's organisational and management aspects, and finally an assessment 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 justifiable and economically viable. A comprehensive project appraisal is carried out in the P&D Department at approval stage. However, the responsibility of some form of appraisal lies at multiple stages whenever the PC-I is reviewed or approved (such as at district, division or department level).

This section provides an overview of the main analytical methods and techniques that should be used in the appraisal process.

3.2 Identification of costs and benefits

The first step in project appraisal is proper identification of costs and benefits.

3.2.1 Concepts of cost and benefit and their comparison

To determine the viability of a project, the costs are compared with the benefits, i.e. if the benefits are greater than costs, a project is considered viable. The proper identification of costs and benefits is, therefore, a step of basic importance. In project appraisal, the project objectives provide the basis of costs and benefits. For public projects, the objectives can be as specific as provision of municipal services to citizens of a community to sometimes as broad as to maximise the national income or reduce poverty or stimulate economic growth. All projects consume resources such as land, labour, capital, machinery, etc. and produce outputs in the form of goods and services. Whereas the consumption of resources through investment in projects is a 'cost' to the economy, the addition to the goods and services is the 'benefit' to the economy.

[9] An understanding of discounting and NPV calculations is fundamental to proper appraisal of projects and programmes. A good understanding of cost–benefit analysis (CBA), IRR, multi-criteria analysis and cost-effectiveness analysis (CEA) is also essential for economic appraisal purposes.

While appraising a project an analyst attempts to identify and value the costs and benefits that will arise 'with' the proposed project and compare them to the situation that will prevail 'without' the project. The difference between these two situations is the incremental net benefit arising from the proposed project. Therefore, to identify the contribution of a project, the correct approach is to compare the 'with-project situation' with the 'without-project situation'. It is inappropriate to compare the situations 'before' and 'after' the project because such a comparison fails to account for changes happening irrespective of the project.

3.2.2 Classification of costs and benefits

There are different categories of costs and benefits, which need to be identified carefully for their proper treatment. Various categories of costs and benefits are listed below:

COSTS

Direct costs – These costs are directly borne by the project and are also known as primary costs. The components of direct cost are expenditure incurred on all goods and services used in the execution of a project including taxes, import duties, subsidies, etc. However, these components are treated differently in financial and economic analyses.

Indirect costs – The project may lead to costs being incurred outside the project itself. Such a cost is known as indirect or secondary cost. For example, construction of a dam may reduce river flow, causing an increase in the cost of dredging of the dam site. If such a technological externality is significant and is to be identified and valued, it may be treated as an indirect cost to the project.

Tangible costs – The costs that can be monetised are known as tangible costs, and these may include components of direct and indirect costs.

Intangible costs (and negative externalities) – The costs that cannot easily be monetised are intangible costs. The damage caused to the human health by air, water and noise pollution gives examples of intangible costs.

Box 10: Various types of costs

BENEFITS

Direct benefits – Direct or primary benefits are those benefits that directly flow from the project.

Indirect benefits – The benefits that occur outside the project are considered secondary benefits. In contrast to the primary benefits, which accrue to the project itself and are also derived as direct benefits, secondary benefits are also known as indirect benefits.

Tangible benefits – All the direct and indirect benefits that can be measured in money terms are known as tangible benefits.

Intangible benefits (and positive externalities) – Intangible benefits refer to the benefits that cannot be measured in money terms. Examples of intangible benefits are improvement of a site as a result of construction of a dam and appreciation in value of real estate due to infrastructural development.

Box 11: Various types of benefits

3.3 Types of appraisal

Various types of appraisals are typically involved in project appraisal. As an appraiser, you may want to at least look into the following dimensions:

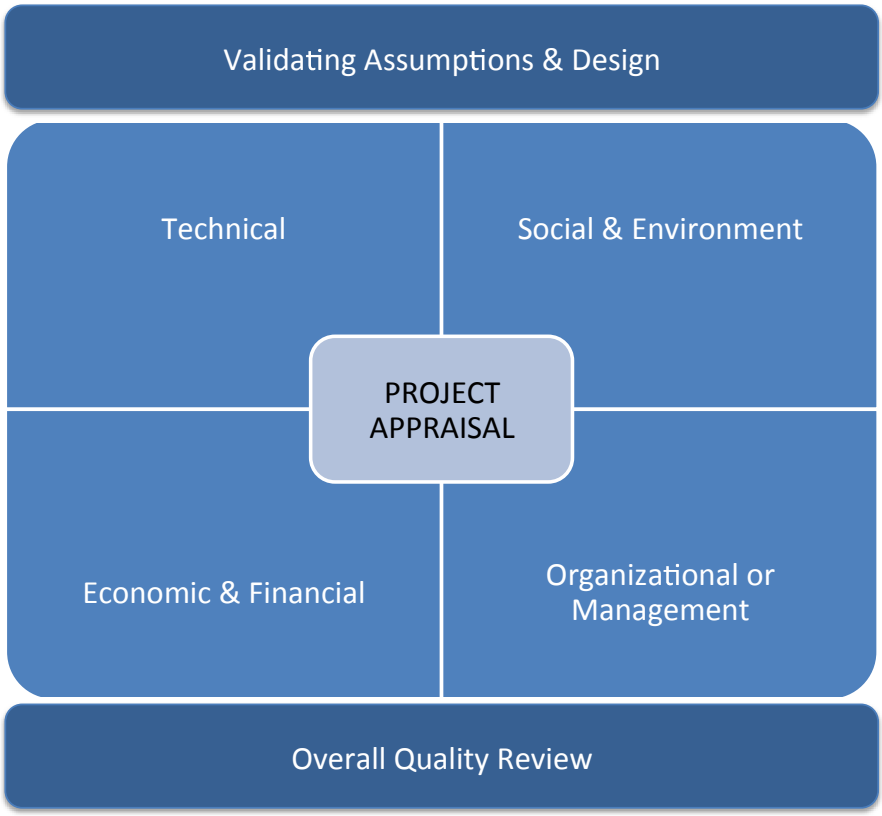

Figure 4: Components of project appraisal

3.3.1 Validating assumptions and design

The first step of any appraisal should be to carefully review the project proposal and to assess the following:

- Ensure that the project goal and objectives are in line with sector plans and the provincial growth framework.
- Validate all assumptions used.
- Make sure that specified project outputs are directly linked with intended outcomes. The results framework should be a core element of this technical review.

3.3.2 Technical appraisal

Every project must be technically feasible. Technical appraisal provides a comprehensive review of all technical aspects of the project such as rendering judgement on merits of technical proposals and operating costs. The following elements should be reviewed during technical appraisal:

- There is a sound rationale for the selected technical design or approach.
- The proposed design conforms to international standards to the extent possible.
- The proposed design meets the identified needs in the best possible way.
- The proposed technology has been proven or tested or has been in practice elsewhere.
- The proposed design is aligned with existing structure/facilities/programmes.
- A list of equipment and machinery to be installed with the costs and specifications of the equipment is attached.
- Equipment capacity is satisfactory and in line with requirements.

3.3.3 Social and environmental appraisal

A social appraisal reviews the project design and the process of project identification through to implementation and monitoring, from a social perspective. Particular attention is paid to the likely impact of the project on different stakeholders, their opportunities for participation and the project's contribution to poverty reduction. Social and environmental appraisal should focus on following dimensions:

- Is the project likely to cause air and water pollution?
- Is the project posing any threat to community health, safety and security?
- Is the project resulting in any land acquisition and involuntary resettlement?
- Is the project likely to create differential access to project benefits or changes in traditional rights or entitlements or does it ensure equal opportunities and resources for women, girls and other vulnerable groups?
- Is the project likely to adversely affect labour and working conditions?
- Is the project going to threaten biodiversity conservation and natural resource sustainability?
- Is the project causing any harm to indigenous peoples?
- What is the public perception and degree of voice in governance of the project?
- Has the project proposal ensured the adequacy of the targeting and delivery mechanism?
- Are interests of various stakeholder groups including women likely to be affected and have they been consulted?
- What are the intended and unintended impacts on various social groups, including women, girls and minority groups?
- Is the project going to destroy cultural heritage in any way?
- Has the project proposal addressed gender considerations to ensure balanced participation by women?
- Does the project have a poverty focus?

The likely impacts in each of the above areas should be categorised as a potentially significant impact; a potentially significant impact unless mitigation measures are taken; a less than significant impact; or no impact at all.

Social and environmental considerations require that all projects avoid adverse impacts on the people and environment and be appropriate for the culture of the local communities and project beneficiaries. If adverse impacts are unavoidable, efforts should be made to mitigate these impacts to ensure that the affected people can restore or improve their living standards compared with the situation before the project.

3.3.4 Financial and economic appraisal

3.3.4.1 Financial appraisal

For financial appraisal, the financial soundness of the project must be assessed. This should include the incremental financial benefits and costs to the project and the IRR or NPV. Assumptions underlying the forecasts of financial benefits and costs (e.g., market outlook for key outputs and inputs, pricing, phasing of development) and the results of sensitivity analysis testing and changes in assumptions are reviewed. The adequacy of project financing and any risks it presents are also assessed.

The recommended analytical methods for appraisal are generally discounted cash flow techniques, which take into account the time value of money. People generally prefer to receive benefits as early as possible while paying costs as late as possible. Costs and benefits occur at different points in the life of the project, so the valuation of costs and benefits must take into account the time at which they occur. This concept of time preference is fundamental to proper appraisal and so it is necessary to calculate the present values (PVs) of all costs and benefits.

NPV method – In the NPV method, the revenues and costs of a project are estimated and then are discounted and compared with the initial investment. The preferred option is the one with the highest positive NPV. Projects with negative NPVs should be rejected because the present value of the stream of benefits is insufficient to recover the cost of the project.

Compared to other investment appraisal techniques such as the IRR and the discounted payback period, the NPV is viewed as the most reliable technique to support investment appraisal decisions. There are some disadvantages with the NPV approach. If there are several independent and mutually exclusive projects, the NPV method will rank projects in order of descending NPV values. However, a smaller project with a lower NPV may be more attractive due to a higher ratio of discounted benefits to costs (see the section on BCR below), particularly if there are affordability constraints.

Using different evaluation techniques for the same basic data may yield conflicting conclusions. In choosing between options A and B, the NPV method may suggest that option A is preferable, while the IRR method may suggest that option B is preferable. However, in such cases, the results indicated by the NPV method are more reliable. The NPV method should always be used where money values[10] over time need to be appraised. Nevertheless, the other techniques also yield useful additional information and may be worth using.

The key determinants of the NPV calculation are the appraisal horizon, the discount rate, and the accuracy of estimates for costs and benefits.

Discount rate[11]: The discount rate is a concept related to the NPV method. The discount rate is used to convert costs and benefits to PV to reflect the principle of time preference. The calculation of the discount rate can be based on a number of approaches, including, among others:

- The social rate of time preference – the way society values present, as opposed to future, consumption.
- The opportunity cost of capital – the value of the next-highest-valued alternative use of capital.
- Weighted average method – weighted average of different rates reflecting proportions of funds obtained from their respective sources

The current recommended discount rate is 12.5%.

Box 12: Discount rate

EXAMPLE: Computation of NPV of Lahore–Sialkot Motorway (hypothetical figures)

Year	Capital Cost	O&M Cost	Total Cost	Toll Collected	Incremental Net Benefit	PV of Incr. Net Ben.
1	20		20		(20.00)	(17.86)
2	20		20		(20.00)	(15.94)
3	20		20		(20.00)	(14.24)
4		4	4	20	16.00	10.17
5		4.5	4.5	25	20.50	11.63
6		5	5	30	25.00	12.67
7		5.5	5.5	35	29.50	13.34
8		6	6	40	34.00	13.73
9		6.5	6.5	45	38.50	13.88
10		7	7	50	43.00	13.84
TOTAL	**60.00**	**38.50**	**98.50**	**245.00**	**146.50**	**41.23**

*PKR in billions; discount rate 12%

[10] Time value of money – 'The idea that money available at the present time is worth more than the same amount in the future due to its potential earning capacity. This core principle of finance holds that, provided money can earn interest, any amount of money is worth more the sooner it is received.' (Finance - Professional Essays and Assignments; Edited by Zoan NG)

[11] Cost-Benefit Analysis for Development – A Practical Guide; Asian Development Bank

NPV = PKR 41.23 billion

Based on these hypothetical figures, the NPV of the Lahore–Sialkot Motorway project at a 12% discount rate is PKR 41.23 billion. This value being positive shows that the project in question is feasible on the basis of the NPV.

IRR – The IRR is the discount rate[12] that, when applied to cash inflows of a project, sets them equal to the initial investment. The preferred option is the one with the IRR most in excess of a specified rate of return. An IRR of 10% means that with a discount rate of 10%, the project breaks even. The IRR approach is usually associated with a hurdle cost of capital/discount rate, against which the IRR is compared. The hurdle rate corresponds to the opportunity cost of capital. In the case of public projects, the hurdle rate is the discount rate. If the IRR exceeds the hurdle rate, the project is accepted. There are disadvantages associated with the IRR as a performance indicator. It is not suitable for the ranking of competing projects. It is possible for two projects to have the same IRR but different NPVs due to differences in the timing of when those costs and benefits are accrued. In addition, applying different appraisal techniques to the same basic data may yield contradictory conclusions. Moreover, the IRR technique is only suitable for projects that are supposed to yield some revenues/cash inflows.

EXAMPLE: Computation of IRR of Lahore–Sialkot Motorway (hypothetical figures)

Year	Capital Cost	O&M Cost	Total Cost	Gross Benefit	Incremental Net Benefit	PV of Incr. Net Ben. @ Disc Rate	PV of Incr. Net Ben. @IRR
1	20		20		(20.00)	(17.86)	(15.80)
2	20		20		(20.00)	(15.94)	(12.48)
3	20		20		(20.00)	(14.24)	(9.86)
4		4	4	20	16.00	10.17	6.23
5		4.5	4.5	25	20.50	11.63	6.31
6		5	5	30	25.00	12.67	6.08
7		5.5	5.5	35	29.50	13.34	5.67
8		6	6	40	34.00	13.73	5.16
9		6.5	6.5	45	38.50	13.88	4.62
10		7	7	50	43.00	13.84	4.08
TOTAL	**60**	**38.5**	**98.5**	**245**	**146.5**	**41.23**	**(0.00)**

*PKR in billions; discount rate 12%

IRR = 27%

(The calculation of IRR is done through an Excel model, the soft copy of which will be made available through Punjab's P&D Department's website.)

[12] Interest rate used for discounting future cash flows to compute present value of those cash flows.

The IRR is 27%. Since this rate is higher than the opportunity cost of capital (assumed to be 12%), the project is considered to be a feasible proposition.

BCR – The BCR is the discounted net revenue divided by the initial investment. The preferred option is the one with the ratio most in excess of 1. In any event, a project with a BCR of less than 1 should generally not proceed. The advantage of this method is its simplicity. Using the BCR alone to rank projects can lead to suboptimal decisions as a project with a slightly higher BCR ratio will be selected over a project with a lower BCR, even though the latter project has the capacity to generate much greater economic benefits because it has a higher NPV value and involves greater scale.

EXAMPLE: Computation of BCR of Lahore–Sialkot Motorway (hypothetical figures)

Year	Capital Cost	O&M Cost	Total Cost	PV of Costs	Toll Collected	PV of Benefits
1	20		20	17.86		0.00
2	20		20	15.94		0.00
3	20		20	14.24		0.00
4		4	4	2.54	20	12.71
5		4.5	4.5	2.55	25	14.19
6		5	5	2.53	30	15.20
7		5.5	5.5	2.49	35	15.83
8		6	6	2.42	40	16.16
9		6.5	6.5	2.34	45	16.23
10		7	7	2.25	50	16.10
TOTAL	**60.00**	**38.50**	**98.50**	**65.17**	**245.00**	**106.41**

*PKR in billion; discount rate 12%

BCR = PV of benefits/PV of costs = 106.41/65.17 = 1.63

Based on these hypothetical figures, the BCR of the Lahore–Sialkot Motorway project at a 12% discount rate is 1.63. This value being greater than 1 shows that the project in question is feasible on the basis of the BCR.

Sensitivity analysis – An important feature of a comprehensive CBA is the inclusion of a risk assessment. The use of sensitivity analysis allows users of the CBA methodology to challenge the robustness of the results to changes in the assumptions made (i.e. discount rate, time horizon, estimated value of costs and benefits, etc.). In doing so, it is possible to identify those parameters and assumptions to which the outcome of the analysis is most sensitive. Therefore, this allows the user to determine which assumptions and parameters may need to be re-examined and clarified.

Sensitivity analysis is the process of establishing the outcomes of the CBA, which is sensitive to the assumed values used in the analysis. This form of analysis should also

be part of the appraisal for large projects. If an option is very sensitive to variations in a particular variable (e.g. traffic estimates for a road), then it should probably not be undertaken. If the relative merits of options change with the assumed values of variables, those values should be examined to see whether they could be made more reliable. It can be useful to attach probabilities to a range of values to help pick the best option.

EXAMPLE: Sensitivity analysis of NPV and BCR with discount rate of Lahore–Sialkot Motorway (hypothetical figures; data given in earlier examples)

Discount Rate Sensitivity Analysis

Discount Rate	**NPV**	**BCR**
10%	51.94	1.75
11%	46.35	1.69
12%	41.23	1.63
13%	36.54	1.57
14%	32.72	1.52
15%	28.26	1.47
16%	24.62	1.42
17%	21.27	1.37
18%	18.19	1.32
19%	15.35	1.28
20%	12.74	1.24

Scenario analysis – The scenario analysis technique is related to sensitivity analysis. Whereas the sensitivity analysis is based on a variable-by-variable approach, scenario analysis recognises that the various factors impacting upon the stream of costs and benefits are independent. In other words, this approach assumes that altering individual variables while holding the remainder constant is unrealistic (i.e. for a motorway project, it is unlikely that traffic count and service area sales are independent). Rather, scenario analysis uses a range of scenarios (or variations of the option under examination), where all of the various factors can be reviewed and adjusted within a consistent framework.

A number of scenarios are formulated – best case, worst case, etc. – and for each scenario identified, a range of potential values is assigned for each cost and benefit variable. When formulating these scenarios, it is important that appropriate consideration is given to the sources of uncertainty about the future (i.e. technical, political, etc.). Once the values within each scenario have been reviewed, the NPV of each scenario can then be recalculated.

EXAMPLE: Scenario analysis with three Scenarios (best, middle, worst) of Lahore–Sialkot Motorway (hypothetical figures; data given in earlier examples; middle case uses information given in above examples)

SCENARIO 1 – BEST CASE			
Year	**Capital Cost**	**O&M Cost**	**Toll Collected**
1	15		
2	20		
3	18		
4		5	30
5		5.5	35
6		6	40
7		6.5	45
8		7	50
9		7.5	55
10		8	60
TOTAL	**53.00**	**45.50**	**315.00**
***PKR in billions; discount rate 10%**			
NPV		**PKR 90.90 billion**	
BCR		**2.36**	
IRR		**40%**	

SCENARIO 1: PROJECT FINANCIALLY FEASIBLE BY ALL THREE METHODS

SCENARIO 2 – MIDDLE CASE

Year	**Capital Cost**	**O&M Cost**	**Toll Collected**
1	20		
2	20		
3	20		
4		4	20
5		4.5	25
6		5	30
7		5.5	35
8		6	40
9		6.5	45
10		7	50
TOTAL	**60.00**	**38.50**	**245.00**
***PKR in billions; discount rate 12%**			

NPV	**PKR 41.23 billion**
BCR	**1.63**
IRR	**27%**

SCENARIO 2: PROJECT FINANCIALLY FEASIBLE BY ALL THREE METHODS

SCENARIO 3 – WORST CASE			
Year	**Capital Cost**	**O&M Cost**	**Toll Collected**
1	30		
2	25		
3	22		
4		3	10
5		3.5	12
6		4	14
7		4.5	16
8		5	18
9		5.5	20
10		6	22
TOTAL	**77.00**	**31.50**	**112.00**
***PKR in billions; discount rate 14%**			
NPV		**PKR (29.56) billion**	
BCR		**0.59**	
IRR		**1%**	

SCENARIO 3: PROJECT FINANCIALLY INFEASIBLE BY ALL THREE METHODS

3.3.4.2 Economic appraisal

For economic appraisal, the results of the analysis of economic soundness of the project must be assessed carefully. Economic appraisal aims to assess the desirability of a project from the societal perspective. This form of appraisal differs from financial appraisal because financial appraisal is generally done from the perspective of purely financial returns. Economic analysis also considers non-market impacts such as externalities[13].

Various analytical techniques are used for economic appraisal of projects but the most frequently used are CBA (after incorporating economic returns) and CEA.

[13] In economic analysis, an externality is the cost or benefit that affects a party that did not choose to incur that cost or benefit. For example, a dam that causes environmental degradation and resettlement problems impose environmental and social costs on the whole society. Similarly, a project may entail external benefits, such as improvement in public safety.

While the former is used for projects with benefits that are measurable in monetary terms, the latter is used for projects with benefits normally not quantified in monetary terms.

For projects appropriate for CBA, the analysis is based on summary measures of performance (economic internal rate of return or NPV), calculated based on the incremental benefits and costs of the project to society as a whole (using the 'with-project' and 'without-project' criteria). The main benefits and costs, including the key underlying assumptions made (e.g., market output for key outputs and inputs, phasing of development, shadow prices) and sensitivity analysis should be presented.

For projects not appropriate for cost-benefit analysis, the basis for the performance of project should be clearly specified. For example, the project's cost-effectiveness ratios may be compared with those of alternative designs that achieve the same desired results. The analysis should identify those key variables that render the cost-effectiveness ratio higher than that of a rejected alternative, or higher than some critical point. All key assumptions should be presented.

CBA – The general principle of CBA is to assess whether or not the social and economic benefits associated with a project are greater than its social and economic costs. To this end, a project is deemed to be desirable where the benefits exceed the costs. However, should the benefits exceed the costs, this does not necessarily imply that a projects will proceed as other projects with a higher NPV may be in competition for the same scarce resources. In addition, there are affordability constraints, which mean that projects should not proceed even if the NPV is positive.

In CBA, all of the relevant costs and benefits, including indirect costs and benefits, are taken into account. Cash values, based on market prices (or shadow prices, where no appropriate market price exists) are placed on all costs and benefits and the time at which these costs/benefits occur is identified. The analytic techniques outlined above (i.e. NPV method, IRR method, etc.) are applied using the discount rate. The general principle of CBA is that a project is desirable if the economic and social benefits are greater than economic and social costs. It is vital that CBA is objective. Its conclusions should not be prejudged. It should not be used as a device to justify a case already leaning for or against a proposal. Factors of questionable or dubious relevance to a project should not be introduced into an analysis in order to affect the result in a preferred direction.

3.3.5 Organisational and management appraisal

An essential part of any appraisal is to carefully review the project organisational and management aspects. This should include:

- ensuring that adequate resources exist or planned for;
- assessing if previous experience exists for managing similar projects; and
- verifying that any external support exists, if required.

3.3.6 Overall quality review

The overall quality review should include the following:

- Verify that all proposed financial management, recruitments and procurements processes are in line with the GoPb's policies and procedures.
- If it is a complicated project, the design and structure should be fully informed by a feasibility study or other diagnostic work.
- The project proposal should fully conform to the PC-I format and guidelines.

The users can also use the following appraisal toolkit as a hands-on tool to go through the important dimensions of project appraisal:

PROJECT APPRAISAL TOOLKIT[14]			
Validating Assumptions and Design			
No	**Criteria**	**☑☒?**	**Comments**
1	▪ Project outcomes are aligned with national/provincial framework	☐	
2	▪ Outputs are leading to outcomes	☐	
3	▪ Inputs are sufficient for producing outputs	☐	
4	▪ Inputs are not excessive	☐	
5	▪ Assumptions are valid and objective	☐	
Technical Appraisal			
No	**Criteria**	**☑☒?**	**Comments**
6	▪ Sound rationale for the selected technical design or approach	☐	
7	▪ Proposed design conforms to international standards	☐	
8	▪ Proposed design meets the identified needs in the best possible way	☐	
9	▪ Proposed technology is proven or tested	☐	
10	▪ Proposed design is aligned with existing structure/facilities/programmes	☐	
11	▪ List of equipment and machinery to be installed with costs and specifications attached	☐	
12	▪ Equipment capacity is satisfactory and in line with requirements	☐	
Social and Environmental Appraisal			
No	**Criteria**	**☑☒?**	**Comments**

[14] The person entrusted with appraisal may like to look at different criteria with varying importance, depending upon the project requirements. A simple checklist, rather than a scorecard, is deliberately used to accommodate a variety of projects.

13 14 15 16 17 18 19 20 21 22 23 24 25	▪ Air and water pollution ▪ Community health, safety and security ▪ Land acquisition and involuntary resettlement ▪ Differential access to project benefits or changes in traditional rights or entitlements ▪ Labour and working conditions ▪ Biodiversity conservation and natural resource sustainability ▪ Indigenous peoples ▪ Public perception and degree of voice in governance ▪ Adequacy of targeting and delivery mechanism ▪ Interest of various stakeholders and whether they have been consulted ▪ Cultural heritage ▪ Gender equity and considerations ▪ Poverty focus	☐ ☐ ☐ ☐ ☐ ☐ ☐ ☐ ☐ ☐ ☐ ☐	
Financial and Economic Appraisal			
No	**Criteria**	**☑☒?**	**Comments**
26 27	▪ Financial Appraisal ❖ Methodology Used ❖ Results ▪ Economic Appraisal ❖ Methodology Used ❖ Results	☐ ☐	
Organisational and Management Appraisal			
No	**Criteria**	**☑☒?**	**Comments**
28 29 30	▪ Adequate resources exist or are planned for ▪ Previous experience in agency for managing similar projects ▪ Any external support exists	☐ ☐ ☐	
Quality Review			
No	**Criteria**	**☑☒?**	**Comments**
31 32 33	▪ Data inputs are valid ▪ Proposal conforms to PC-I format and guidelines ▪ Feasibility study done, if required	☐ ☐ ☐	

Table 5: Project appraisal toolkit

3.4 Project approval and initiation

For project approvals, various bodies involved in granting approvals for execution of projects exist right from field levels to the federal level. These bodies/committees can be divided into three categories, i.e. approval of projects by bodies/committees constituted at federal, provincial, and sub-provincial (divisional and district) levels. Please see the approval matrix below. The functioning and powers of these bodies are briefly discussed below:

APPROVAL MATRIX	
WHO?	**WHEN?**
ECNEC	All projects referred by provincial government exceeding PKR 10,000 million or having external financing – no limit
PDWP	Projects up to PKR 10,000 million (with external financing for up to 25% of the project) No water project Projects referred by Departmental Development Sub-Committee (DDSC)
DDSC	Projects up to PKR 200 million
Divisional Development Working Party (DDWP)	Projects up to PKR 100 million
District Development Committee (DDC)	Schemes of devolved sectors up to PKR 50 million Schemes of town/tehsil municipal administrations (TMAs) exceeding PKR 5.0 million
Category I Officer	Schemes of respective offices/departments reflected in the ADP costing up to PKR 2.5 million (without PC-I)
Union Administration	Schemes with costs below PKR 0.100 million included in ADP of Union Administration
TMA Works Committee	Development works costing up to PKR 5 million included in approved budget of TMA
CDWP	Approving provincial projects up to PKR 3,000 million, where federal or foreign component is involved

Table 6: Development projects approval matrix

3.5 Approval at provincial level

3.5.1.1 PDWP

The highest body at the provincial level is the PDWP, composed of the following:

1.	Chairman, P&D Board	Chairman
2.	Secretary P&D	Secretary / Member
3.	Secretary, Finance Department	Member
4.	Secretary of the concerned Department	Member
5.	Secretary, Environmental Protection Department	Member
6.	Director, Punjab Economic Research Institute (PERI)	Member
7.	All P&D members	Member
8.	Director general M&E, P&D	Member
9.	Chief Economist, P&D Department	Member

Table 7: Composition of PDWP

The PDWP is competent to approve development projects costing up to PKR 10,000 million provided no external financing is involved. It cannot take any water project. In the case of foreign-funded schemes, where rupee cover is to be provided from the

provincial resources, the project should be discussed between the Planning Commission and the provincial government and the appropriate proposal, if required, may be brought before the NEC[15]. In the case of projects referred to the PDWP by the DDSC for consideration, the PDWP is fully empowered to approve/reject the same irrespective of the costs of the projects. However, the PDWP is a recommendatory body for projects whose costs exceed PKR 10,000 million.

Approval procedure – As regards the procedure for approval, concerned administrative secretaries send eight copies of each PC-I form, along with a soft copy of the same, with at least four copies of rough cost estimates to the Coordination Section of the P&D Department. Simultaneously, the administrative secretaries forward five copies of the PC-I form to the Finance Department and two copies each to the chief engineer, Buildings, Punjab, Lahore (only in cases where construction of a building is involved) and the director, PERI. On receipt of schemes by the Coordination Section, one hard copy each is sent to the member (technical), concerned member and concerned section chief to offer their comments. Each PC-I is also forwarded to the Finance Department as well as the federal government, while a soft copy is sent to the Environment Protection Department.

The task of economic/financial analysis of the schemes has been entrusted to PERI, an autonomous organisation attached to the P&D Department[16]. Once comments of the member (technical) and PERI are received by the Coordination Section, these are separately annexed with the working papers prepared by the sector chiefs. The sector chiefs supply the working paper (10 copies) to the Coordination Section within a week after the receipt of the schemes in their sections for placing it before the PDWP. The concerned chief of section of the P&D Department prepares minutes of the meetings. Having gotten the minutes approved from the chairman, P&D Board, the chiefs of sections send the minutes to the Coordination Section for issuing to all the concerned departments/agencies. The concerned administrative secretary then issues administrative approval.

The projects where costs exceed PKR 10,000 million are recommended by the PDWP to the CDWP for consideration. The PC-I of the project recommended by the PDWP is modified in light of its observations and after clearance from the section concerned of P&D, the Coordination Section of the P&D Department sends 50 copies of the relevant PC-I, duly signed by the chairman, P&D Board (and supplied by the Administrative Department), to the Ministry of Planning, Development and Reform, Government of Pakistan for placing it before the CDWP and for recommending it for final approval by the ECNEC.

The PDWP has no authority to approve such schemes involving foreign exchange component of more than 25% of the total cost of the projects.

[15] Notified by the Finance Department vide letter No.FD(FR)II-2/89 dated 10.07.2012
[16] Notified vide letter No.12(2)PO(COORD)P&D/ 2011 dated 04.04.2014

3.5.1.2 DDSC

The next important body at the provincial level is the DDSC, which has the following membership[17]:

1.	Administrative Secretary	Convener
2.	Representative of P&D Department *(Not below the rank of chief of section)*	Member
3.	Representative of Finance Department *(Not below the rank of additional secretary*	Member
4.	Director (Works), Communication and Works Department *(If building component is involved and technical advice is needed)*	Member

Table 8: Composition of DDSC

The DDSC is competent to approve the projects where the cost is up to PKR 200 million. The DDSC is fully competent to approve projects placed before it, reject them outright or approve them with certain conditions. However, in the case of a difference of opinion, the scheme is referred to the PDWP for consideration/approval.

[17] Notified under the Punjab Delegation of Powers Rules, 2006 (amended up to 26th May 2009); Powers of DDSC were enhanced from PKR 100 million to 200 million and notified vide letter No.35 (231)RO(COORD)/P&D/2006 dated 30.10.2006

Terms and conditions for DDSC

1) The DDSC is presided over by the administrative secretary in person and attended by officers not below the rank of additional secretary/chief of section of the Finance and P&D Departments.
2) These powers are exercised only in respect of approved plans of schemes included in the ADP.
3) No expenditure is allowed to be incurred on a scheme that is not included in the development budget of the year.
4) The scheme finally sanctioned by PDWP is sent to the P&D Department and Finance Department for their records.
5) Posts created under the approved scheme should not be in grade 17 or above. Whenever a post at grade 17 or above is involved, prior approval of the Finance Department would be necessary.
6) A notice of the meeting is sent simultaneously to the P&D Department and Finance Department at least 10 days before the scheduled date of the meeting.
7) The committee is not competent to approve any scheme based on a subsidy. All development schemes with a subsidy element are sent to PDWP for approval irrespective of their costs.
8) Five copies of the PC-I for all the schemes to be considered by the DDSC have to be furnished to the Coordination Section of the P&D Department at least two weeks earlier than the scheduled date of the meeting for internal distribution in the P&D Department.
9) The minutes of this sub-committee's meeting are approved and issued by the concerned department and be simultaneously furnished to the Finance Department and other members of the DDSC.
10) Administrative approval of the approved scheme is issued by the administrative secretary of the department concerned.
11) On receipt of the schemes by the Coordination Section, copies of PC-I are supplied to the technical, appraisal, and concerned chief of section. The views/comments of these sections are separately annexed with the working paper.
12) The DDSC is not competent to approve schemes based on foreign aid component and subsidy.

Box 13: Terms and conditions of DDSC

3.5.1.3 DDWP

DDSCs were established in 1979 at divisional headquarters. These committees were abolished in 2001 due to introduction of a devolution plan. In 2008, a DDWP was constituted at each divisional headquarters[18], which is competent to approve projects up to PKR 100 million. The existing composition of DDWP is as follows:

[18] Notified by the Finance Department vide letter No.FD(FR) II-5/82-P-III dated 6th November 2008; Finance Department's Notification No. FD(FR)2-5/82-P-III dated 1st January 2009.

1.	Divisional Commissioner	Convener
2.	District Coordination Officers in the division concerned	Member
3.	Divisional head of concerned department	Member
4.	Superintending Engineer, Irrigation & Power Department	Member
5.	Superintending Engineer, Highway & Building	Member
6.	Director (Development & Finance)	Member/ Secretary

Table 9: Composition of DDWP

Terms and conditions of DDWP

1) The administrative approval of the schemes approved by the DDWP is issued by the sponsoring department.

2) The development schemes relating to the judiciary under the Lahore High Court, Lahore and other special institutions, including the Provincial Assembly, Punjab Public Service Commission, Office of Ombudsman, Punjab Election Authority and Technical Educational & Vocational Training Authority (TEVTA), fall outside the purview of the DDWP.

3) Where a divisional tier of the concerned department exists, the divisional officer, with the signatures of the divisional commissioner, issues administrative approval. In cases where a divisional tier of the department does not exist, the administrative approval is issued by the director (development & finance), with the signatures of the divisional commissioner.

4) The schemes of district governments, financed through grants-in-aid of the provincial government, and beyond the powers (up to PKR 50 million) of the DDC, are approved by the administrative departments in DDSCs.

Box 14: Terms and conditions of DDWP

3.5.1.4 DDC

The DDCs were established in October 1998 to approve the schemes of the devolved sectors costing up to PKR 20 million. Later on these powers were enhanced to approve development schemes up to PKR 50 million[19]. The DDC can also approve schemes of TMAs exceeding PKR 5.0 million.

[19] Vide the Finance Department's Notification No. FD(FR)II-5/82 dated 20th October 2006; Notified by the Finance Department vide No. FD(FR)II-5/82 dated 11.08.2001.
The powers of DDC were enhanced from PKR 20 million to PKR 50 million vide the Finance Department's Notification No. FD(FR)II-5/82 dated 20.10.2006.
The TMO shall act as a member of the DDC to consider and approve development schemes of the respective tehsil/town above PKR 5 million vide the Finance Department's Notification No. FD(FR)II-5/82(P) dated 01.04.2014.

The DDC cannot consider the schemes involving subsidy, foreign aid, creation of posts, purchase of vehicles, etc. The composition of the DDC is as follows:

1.	District Coordination Officer	Chairman
2.	Executive District Officer, Finance & Planning	Member
3.	Executive District Officer, Works & Services Department	Member
4.	Executive District Officer, concerned sector	Member
5.	District Officer, concerned department	Member
6.	District Officer Planning	Member/ Secretary
7.	TMO, respective TMA	Member

Table 10: Composition of DDC

Category I officer – Category I officers (i.e. district coordination officers, heads of departments, administrative secretaries, etc.) are competent to approve schemes of the offices/departments reflected in the ADP costing up to PKR 2.5 million. There is no need for preparing a PC-I for a scheme costing less than PKR 2.5 million. Schemes involving subsidies, foreign aid or creation of new posts would not be considered by Category I officers.

Union administration – The Union Administration is competent to approve development schemes pertaining to union administration that have costs of less than PKR 0.100 million and are included in the ADP of union administration, approved by the Union Council. The composition is as follows:

1.	Union Nazim	Convener/Chairman
2.	Naib Union Nazim	Member
3.	Three councillors including one female	Member
4.	Union Secretary, Municipal Services	Secretary/Member

Table 11: Composition of Union Administration

TMA Works Committee – The TMA Works Committee is empowered to approve development schemes of TMA development works costing up to PKR 5 million included in the approved budget of TMA. Those schemes involving a subsidy, a foreign aid component or creation of new posts would not be considered. Administrative approval of the scheme is issued by the concerned TMO. The composition of the committee is as follows:

1.	TMO	Chairman
2.	Tehsil/Town Officer (Finance)	Member
3.	Tehsil/Town Officer (Planning)	Member
4.	Tehsil/Town Officer (I & S)	Secretary/Member

Table 12: Composition of TMA Works Committee

3.6 Approval at federal level

At the federal level, three main bodies are involved in the process of project approval. These are briefly described below.

3.6.1 DDWP[20]

The DDWP is a forum constituted in each ministry/division to approve projects costing up to PKR 60 million belonging to a ministry, division or federal-level department. The composition of DDWP is as below:

1.	Administrative secretary of the concerned ministry	Chairman
2.	Representative of Ministry of Finance	Member
3.	Representative of Ministry of P&D & Reform	Member
4.	Representative of Economic Affairs Division (EAD) *(In case of foreign-aided projects)*	Member

Table 13: Composition of DDWP

3.6.2 CDWP[21]

The next higher forum at the federal level is CDWP with the following composition:

1.	Deputy Chairman/Secretary, Ministry of Planning, Development and Reform, Government of Pakistan (in absence of DCPC)	Chairman
2.	Chairman, P&D Board, GoPb, Lahore	Member
3.	Additional Chief Secretary (DEV), P&D Department, Government of the Sindh, Karachi	Member
4.	Additional Chief Secretary (DEV), P&D Department, Government of the Khyber Pakhtunkhwa, Peshawar	Member
5.	Additional Chief Secretary (DEV), P&D Department, Government of the Baluchistan, Quetta	Member
6.	Additional Chief Secretary (DEV), P&D Department, Government of Azad Jammu and Kashmir, Muzaffarabad	Member
7.	Secretary, Development, Gilgit-Baltistan, Gilgit	Member
8.	Additional Chief Secretary, Development, Federally Administered Tribal Areas, Peshawar	Member
9.	Finance Division, Government of Pakistan, Islamabad	Member
10.	EAD, Government of Pakistan, Islamabad	Member
11.	Chairman, Pakistan Council of Science & Technology, Islamabad	Member
12.	Climate Change Division, Government of Pakistan, Islamabad	Member
13.	Relevant federal administrative ministry	Member
	MINISTRY OF PLANNING, DEVELOPMENT AND REFORM/PLANNING COMMISSION	
1.	Secretary	Member
2.	Chief Economist	Member
3.	Members, Planning Commission	Members
4.	Additional Secretary	Member
5.	Joint Chief Economist (Operation & Macro)	Member

[20] Decision of NEC in its meeting held on 04.06.2009, notified by the P&D Department vide its letter No. 35(231)RO(COORD)/P&D/2009.

[21] Decision of NEC notified by Ministry of Planning, Development and Reform vide letter No. 20(1)PIA-I/PC/2013 dated 03.06.2014 and also notified by the P&D Department vide its letter No. 35(231)RO(COORD)/P&D/2014 dated 12.06.2014.

6.	Adviser (Development Budget)	Member
7.	Chief, Public Investment Programming	Member
8.	Chief, Public Investment Authorisation	Member
9.	Chief, Physical Planning & Housing (PP&H)	Member
10.	Director general, Project Wing	Member
11.	Chief, Economic Appraisal	Member
12.	Chief, concerned section	Member
13.	Energy coordinator/official spokesman	Member
	BY SPECIAL INVITATION	
1.	Housing & Works Division, Government of Pakistan, Islamabad	Member
2.	Pakistan Engineering Council	Member
3.	Board of Investment	Member
4.	Infrastructure Project Development Facility	Member
5.	National Engineering Services Pakistan (NESPAK)	Member
6.	Environment Protection Agency	Member
7.	Representative of Pakistan Council of Architecture & Town Planning	Member

Table 14: Composition of CDWP

The CDWP is empowered to approve all the projects belonging to ministries/divisions costing up to PKR 3 billion. Projects of ministries/divisions with costs exceeding PKR 3 billion are forwarded to the ECNEC to arrange approval. All development projects of the provincial departments/agencies costing more than PKR 10 billion , initially recommended by the PDWP, are processed/examined by the CDWP and recommended to the ECNEC for consideration.

On the receipt of projects (50 copies) from the Provincial P&D Departments, the Ministry of Planning, Development and Reform, Government of Pakistan circulates copies of these projects among the concerned sections of the ministry. These projects are scrutinised for their economic/financial and technical aspects by each section and the findings/results are forwarded to the related section. For instance, in the case of a water supply project, the Chief, PP&H will prepare the working paper after incorporating views of different sections of the Ministry of Planning, Development and Reform. The working paper is then circulated among all the members of the CDWP for their comments. The sponsoring department/agency is required to prepare the replies to the points raised in the working paper and also to supply additional data, if required. The project is then put up for consideration by the CDWP and recommendation to ECNEC. ECNEC is fully competent to approve or reject a project on the basis of its merits and demerits. The CDWP may send a project back to the sponsoring agency after making some observations and suggesting modifications. These agencies carry out the amendments accordingly and again forward the projects to the Ministry of Planning, Development and Reform,

Government of Pakistan. The concerned sections of this division prepare summaries thereon for consideration by ECNEC.

Functions of CDWP

The CDWP, organised by the Planning Commission, should perform the following functions:

1) Review all development schemes submitted by the provincial governments and central ministries or departments, approve schemes costing up to PKR 1,000 million and recommend schemes costing more than PKR 1,000 million for the approval of ECNEC.
2) Ensure that the scheme has been prepared on sound lines and that the necessary economic, financial and technical scrutiny has been carried out.
3) Ensure that, as far as possible, the examination of the scheme in various offices is conducted simultaneously and not in successive stages, and that the scheme is completed in accordance with the schedule.

It is the function of Planning Commission to see that the scheme has been prepared correctly, that all the information required in the proforma has been furnished, and that relevant papers, such as project reports, maps and plans, are made available. The Planning Commission Secretariat can, when necessary, make a consolidated enquiry of the sponsoring authority with respect to deficiencies in the proforma, points requiring elucidation, and matters involving further data).

Box 15: Functions of CDWP

3.6.3 ECNEC

All the projects of provincial government departments/agencies recommended by CDWP and those of federal ministries/divisions/agencies costing more than PKR 3,000 million are submitted to ECNEC) for final approval. The current composition of ECNEC is as follows:

i.	Minister for Finance, Revenue, Economic Affairs, Statistics and Privatisation	Chairman
ii.	Minister for Planning & Development	Member
iii.	Minister for Industries and Production	Member
iv.	Minister for Water and Power	Member
v.	Member of Provincial Assembly, Baluchistan	Member
vi.	Senior Minister for Finance, Government of Khyber Pakhtunkhwa	Member
vii.	Minister for Finance, GoPb	Member
viii.	Adviser to CM, Sindh on Finance	Member

Table 15: Present composition of ECNEC

FUNCTIONS OF ECNEC

1) To sanction development schemes (in the public sector) pending their submission to the NEC.
2) To allow moderate changes in the plan and sectoral re-adjustments within the overall plan allocation.
3) To supervise the implementation of the economic policies laid down by the Cabinet and the NEC.
4) Reports asked for by the committee in pursuance of its earlier decisions.
5) Any other matter referred to the committee by the prime minister, the NEC, the Council of Common Interests or the Cabinet or raised by a member with the committee with the permission of the chairman.

Box 16: Functions of ECNEC

3.6.4 Multi-stage process of approval for projects

The detailed preparation of a project involves a considerable investment of money, amounting to sometimes as much as 3.5% of the total cost of the project. The sponsoring agency has a strong urge to seek approval of a project at a very early stage, even before the details of the project and the cost estimates are firm.

Therefore, ECNEC has approved a 'multi-stage' process of approval for projects where the individual costs exceed PKR 50 million. This system is as follows:

a) ECNEC should approve the project finally only when detailed cost estimates are available.

b) In cases where only rough cost estimates are available, ECNEC should give approval in principle, subject to preparation of detailed cost estimates and such other conditions as it may wish to impose.

c) Where approval, in principle, has been given, the sponsoring agency may proceed to work out the detailed cost estimates. The sanction would be specific and would not imply any permission to start work on the project or make other irrevocable commitments, and the expenditure would be confirmed for those elements necessary for project preparation.

d) The final sanction will be given by ECNEC after detailed estimates are ready. The chairman, ECNEC would have authority to give the final sanction when:

- there is no material change in the basic features of the projects as approved in principle;
- the increase in costs, compared to the estimates that were sanctioned in principle, is within 15%; and
- the project remains economically/financially and technically viable.

3.6.5 NEC

Although the NEC does not approve projects, it is important to explain the composition and functions of this body. According to Article 156 of the Constitution of Pakistan, the composition of the NEC is as follows:

- prime minister of Pakistan (chairman);
- CMs of all provinces;
- one member from each province, to be nominated by the respective CM; and
- four other members, nominated by the prime minister.

The following attend the meetings of the NEC by special invitation for all items on the agenda:

i.	Governor, Province of Khyber Pakhtunkhwa
ii.	*Prime Minister, Azad Jammu and Kashmir*
iii.	Chief Minister, Gilgit-Baltistan
iv.	Deputy Chairman, Planning Commission
v.	Secretary, EAD
vi.	Secretary, Finance Division
vii.	Secretary, P&D Division

Table 16: Special invitees for NEC meetings

Other federal secretaries, including the secretary of the Board of Investment and chief secretaries of the provinces Azad Jammu & Kashmir and Gilgit-Baltistan, attend the meetings of the NEC by special invitation, as needed.

CHARTER OF NEC

156- National Economic Council:

1) *The President shall constitute a National Economic Council which shall consist of*
   - *the Prime Minister, who shall be the Chairman of the Council;*
   - *the Chief Ministers and one Member from each Province to be nominated by the Chief Minister; and*
   - *four other members as the Prime Minister may nominate from time to time.*
2) *The National Economic Council shall review the overall economic condition of the country and shall for advising the Federal Government and the Provincial Governments, formulate plans in respect of financial, commercial, social and economic policies; and in formulating such plans it shall, amongst other factors, ensure balanced development and regional equity and shall also be guided by the Principal of Policy set out in Chapter-II of Part-II.*
3) *The meetings of the Council shall be summoned by the Chairman or on a requisition made by one-half of the members of the Council.*
4) *The Council shall meet at least twice in a year and the quorum for a meeting of the Council shall be one half of its total membership.*
5) *The Council shall be responsible to the Majilis-e-Shoora (Parliament) and shall submit an annual Report to each House of Majlis-e-Shoora (Parliament).*

Box 17: Charter of NEC

3.7 Administrative approval

3.7.1 Prescribed procedure

With the approval of a scheme by the competent authority, e.g. administrative secretary, DDSC, PDWP, CDWP and ECNEC, the stage is set for the issue of administrative approval, release of funds and implementation of the scheme.

The administrative approval is issued by the concerned Administrative Department on behalf of the governor of the province. Before issue, the audit copy of the draft of the administrative approval approved by the PDWP or a higher body is sent to the Finance Department for countersigning. As soon as the audit copy is received back from the Finance Department, the administrative approval is issued and its copies are sent to the P&D Board, Finance Department, Accountant General's Office and the executing agencies.

Countersigning of audit copy by the Finance Department is not required for a scheme costing up to PKR 6 million and approved by DDSCs, DDCs and Category I officers. The administrative approval of such schemes can be issued straight away by the aforementioned bodies.

The administrative approval contains details regarding the total cost of a scheme, its breakdown into capital and revenue expenditure, number of posts created, provision for machinery and equipment, etc. Apart from capital costs, the administrative approval also includes recurring expenditure of a scheme after its completion. The head of account under which the expenditure would be debited is indicated in the administrative approval as well.

If the implementation of a scheme is spread over a period of more than one year, the sanction of the scheme is issued on a yearly basis for the continuation of the scheme and release of funds. The administrative approval once issued remains valid unless there is a change in the cost and or scope of work of the scheme. If a scheme is revised, the revised administrative approval is issued by the Administrative Department without seeking the approval of the P&D Board and Finance Department, provided the increase in the cost is less than 10%. Increases in costs of more than 10% are referred to the P&D Board and Finance Department for approval. Similarly, revised approval is also required if the design or scope of a scheme already approved is changed.

3.7.2 Re-appropriation of funds

During the course of implementation, if the work on a project is not proceeding according to the plan for various reasons, such as non-availability of required manpower, problem with the acquisition of land due to litigation, delay in the import of equipment and machinery for the project, etc., then some or all of the funds allocated for the scheme may have to be surrendered at the end of the financial year. On the other hand, there may be some schemes that are expected to run short of funds on account of rapid progress. In such cases, re-appropriation of

funds from the schemes for which these cannot be utilised to those schemes that are in need of more funds can be made by the Administrative Department with the prior permission of the Finance Department through the P&D Board. The scrutiny of a re-appropriation case should be based on the following factors:

i) The importance of a scheme to which the diversion of funds is suggested through a re-appropriation proposal should be carefully ascertained.

ii) The stage of completion should also be kept in view. If a scheme can be completed through re-appropriation of funds, it should be a better case for this purpose. Simultaneously, the stage of implementation of the scheme from which funds are proposed to be withdrawn should also be looked into. If this scheme is also important and is nearing completion, re-appropriation should normally not be allowed.

iii) No re-appropriation should be allowed from an unapproved scheme.

iv) Re-appropriation should also generally not be allowed in cases where it will increase the approved cost of the project beyond 10%.

v) Re-appropriation should also not be made if the scope of work of the scheme for which re-appropriation is being made is changed. This should in fact be treated as a revised unapproved scheme.

The Administrative Department is empowered to make re-appropriations within the schemes/sector provided the scope of the work remains unchanged.

3.7.4 Anticipatory approval for projects

In some of the projects, whose approval is not granted by the ECNEC, a request for anticipatory approval is made to the secretary, Planning Division, Government of Pakistan, generally through a D.O.[22] letter addressed by the Chairman, P&D Board. Anticipatory approval is sought for those projects that have been recommended by the PDWP. If the ECNEC cannot consider this project for some reason, then the provincial governments move to the federal government for a grant of anticipatory approval, so that objectives/physical targets of the project may not suffer. Along with the request of the Provincial P&D Department an annexure is enclosed (VOLUME TWO – SECTION C), which clearly explains the main features of the project. The annexure includes information such as the name of the project, its location, the sponsoring agency, a brief description of the project entailing the scope of the work, its physical targets, organisational structure, head-wise financial phasing, etc. Apart from this, the date of consideration of the project by the PDWP and, in case the project has been recommended by the CDWP, this date as well, should be indicated. The reasons for getting anticipatory approval should be elaborated as well. The finances already incurred and the physical targets achieved should also be depicted in the annexure, so that the approving authority may have a picture of the ongoing state of the project. It may be mentioned that anticipatory approval should only be sought for those projects whose cost is beyond the approving competency of the PDWP.

[22] Demi official

3.7.5 Proposal for project concept clearance

All those projects that involve a foreign exchange component in the form of aid, grants and technical assistance need to be cleared by a project concept clearance committee. For all such projects whose sanction is within the competency of the provincial government and that involve a foreign exchange component as well, the concept clearance should be given by the provincial government and then forwarded to the EAD directly for finding a suitable donor agency for foreign assistance.

The chairman, P&D Board, GoPb has constituted a committee for the concept clearance of foreign-aided projects. The composition of committee is as follows:

Chairman, P&D Board	Chairman
Finance Secretary/Additional Secretary, Finance Department	Member
Joint Chief Economist, P&D Department	Member
Additional Secretary, in charge of ECA, P&D Department	Member
Chief (ECA), P&D Department	Member
Chief, concerned section, P&D Department	Member
Representative of department concerned, not below the rank of additional secretary	Member

Table 17: Composition of committee for concept clearance for foreign-aided projects

All the administrative departments are required to submit proposals for project concept clearance on a prescribed proforma.

3.8 Project procurement, governance, appointments and allowances

The following guidelines apply for projects as well as programmes, policy units and policy cells.

- For larger projects, project steering committees may be formed, with due approval from the government. Such steering committees should be empowered to take all key decisions regarding project implementation. The ToRs for such steering committees should include:
    - providing overall policy direction to the project;
    - deciding strategies for the implementation of the project;
    - constituting sub-committees as and when required;
    - reviewing work of any sub-committees and the project management for conformity to the overall policy framework of the government;
    - sorting out administrative and financial matters relating to the project;
    - monitoring the performance of the project in the terms of quality and timelines;
    - reviewing the impact of the project;

- taking corrective/remedial actions in the case of delays in the implementation of the project activities; and
- ensuring corrective/remedial actions in cases where the quality of the deliverables is not in accordance with specifications.

- As per the existing rules and regulations, all officers/officials appointed/posted in different projects after selection through a competitive process are entitled to a certain project allowance (as explained below) in addition to their admissible salary under their respective pay scales. Appointment of an independent project director is mandatory for projects costing PKR 1,000 million and above. However, if an independent project director is required to be appointed for projects costing below PKR 1,000 million, such cases have to be submitted for approval of the PDWP by providing proper justification.

- Project directors have to be appointed for the project's life, in any case not exceeding five years. Upon expiry of this project posting, a project director is liable to serve under government for at least same period before jumping to the next posting in a project. The higher pay packages/project allowances are admissible for those government servants who are posted in different projects and entities (both development and non-development) after selection through a competitive process.

- The government officers/officials assigned special duties as ex-officio under various projects may also be granted a special allowance/honorarium @ 50% of the project allowance sanctioned for the same categories. ToRs or specific tasks to be accomplished by the project director and other project employees have to be made part of the PC-I.

Qualification/experience requirements

- The minimum educational qualification for the post of project director should be broad based and not less than 16 years of education in the relevant field from institutions recognised by the Higher Education Commission of Pakistan. However, administrative departments may fix minimum qualifications according to the nature and requirement of the project.
- Project directors must have a minimum five years' experience in project management/implementation. They must also possess basic knowledge of the project planning and management processes and procedures.
- An age limit may be prescribed by the administrative department according to the requirement of the project.

Box 18: Qualifications/experience requirements for project staff

- Private sector employees posted in projects are entitled to a market-based salary that is standardised by the Finance Department separately.

- As per the prevalent rules and regulations, officers/officials so appointed/posted in projects through a competitive process are entitled to the following monthly rates of project allowances in addition to their admissible salary (substantive pay + admissible allowances) under their respective pay scales with immediate effect:

Sr. No.	Basic Scale	Project Allowance (PKR)
1.	BS-20 to BS-22	80,000/-
2.	BS-19	60,000/-
3.	BS-18	50,000/-
4.	BS-17	40,000/-
5.	BS-16	15,000/-
6.	BS-11 to BS- 15	8,000/-
7.	BS-5 to BS-10	4,000/-
8.	BS-01 to BS-04	2,000/-

Table 18: Project allowances for different basic pay scales[23]

Selection Committee

i. A committee headed by the secretary of the project sponsoring department concerned and including representatives of P&D (chief head of concerned section), Finance and Service and General Administration (S&GA) Departments (additional secretary concerned) shall select the programme/project director.
ii. For mega projects/foreign funded projects or projects financed by the federal and provincial government on a 50:50 cost sharing basis, the chairman, P&D Board would chair the committee with representatives of the Planning, Finance and S&GA Departments (not below the rank of the additional secretary concerned).
iii. In the case of disagreement between members of the Committee, the matter will be referred to the chairman, P&D (in the case of i) and to the chief secretary (in the case of ii) for final decision.
iv. The Selection Committee mentioned in para (i) headed by the administrative secretary shall also be empowered to select all other project employees.
v. The administrative secretary of the concerned department may approve the appointment of the project director on the basis of recommendations of the aforementioned committee.

Box 19: Selection Committee for recruitment of project staff

Project procurement

Projects may entail procurement of works, goods, consultancy services or other services. All such procurements have to comply with Punjab Procurement

[23] Notification No. FD. SR-I/9-20/2006; dated 21st November 2014; GoPb; Finance Department

Regulatory Authority Act, 2009 and Punjab Procurement Rules 2014. Key steps involved in procurement cycle include[24]:

- identification of procurement needs;
- definition of specifications and the procurement method;
- supplier selection through pre-qualification and open bidding;
- technical and financial bid evaluation;
- acceptance of the bid and contract award; and
- management of the contract.

[24] Procurement Training Handbook; Punjab Cities Governance Improvement Project

SECTION 4 – HOW TO MONITOR AND EVALUATE

4.1 Project planning and M&E

Effective M&E of a project depends on how effectively it has been planned and how clearly the desired outcomes have been stipulated. It has been observed that in many ongoing government projects, the outputs have been clearly earmarked but either the intended outcome and impact are not clear or there are gaps in the results chain. Planning and M&E processes should be geared towards ensuring that results are achieved — not towards ensuring that all activities and outputs get produced as planned. Moreover, these individual project results must be in line with the overall national, provincial, sectoral and departmental goals and vision.

RBM is a good approach to synthesise planning and M&E, and is adopted by the Planning Commission of Pakistan as well as the GoPb. All the PC-Is now have a section on desired results, although they are seldom given due consideration in project planning.

RBM[25] is defined as 'a broad management strategy aimed at achieving improved performance and demonstrable results'[26], and has been adopted by many multilateral development organisations, bilateral development agencies and public administrations throughout the world. RBM is an ongoing process, encompassing continuous feedback, learning and improving. Existing plans are regularly modified based on the lessons learned through M&E, and future plans are developed based on these lessons. More details on RBM are covered in Section 5.

Monitoring is also an ongoing process. The lessons from monitoring are discussed periodically and used to inform actions and decisions. Evaluations should be done for programmatic improvements while the project/programme is still ongoing and should also inform the planning of new projects/programmes. This ongoing process of implementing, learning and improving is what is referred to as the RBM life-cycle approach.

[25] At some places, RBM is also referred to as Managing for Development Results (MfDR) to place the emphasis on development rather than organisational results.
[26] Handbook on Planning, Monitoring and Evaluating for Development Results; UNDP

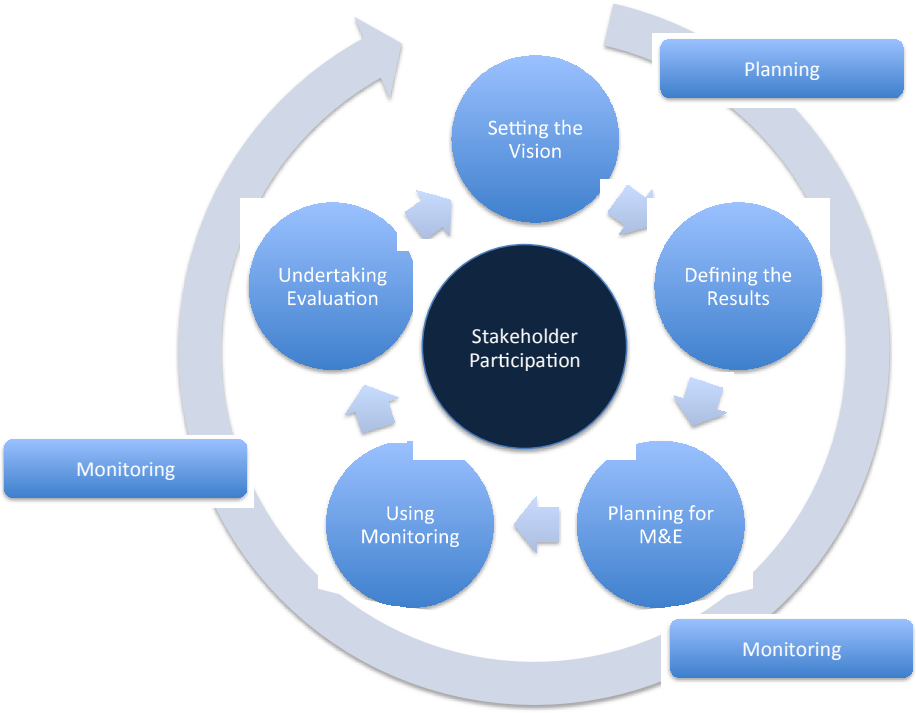

Figure 5: The RBM life-cycle approach[27]

4.2 Implementing the M&E regime for a project

There is a need to implement an efficient M&E regime for each project. While the subsequent sections discuss in detail how to carry out M&E, this section presents a step-by-step approach for relevant project managers or departmental staff on how to implement the M&E regime for a particular project or activity.

[27] Handbook on Planning, Monitoring and Evaluating for Development Results; UNDP 2009

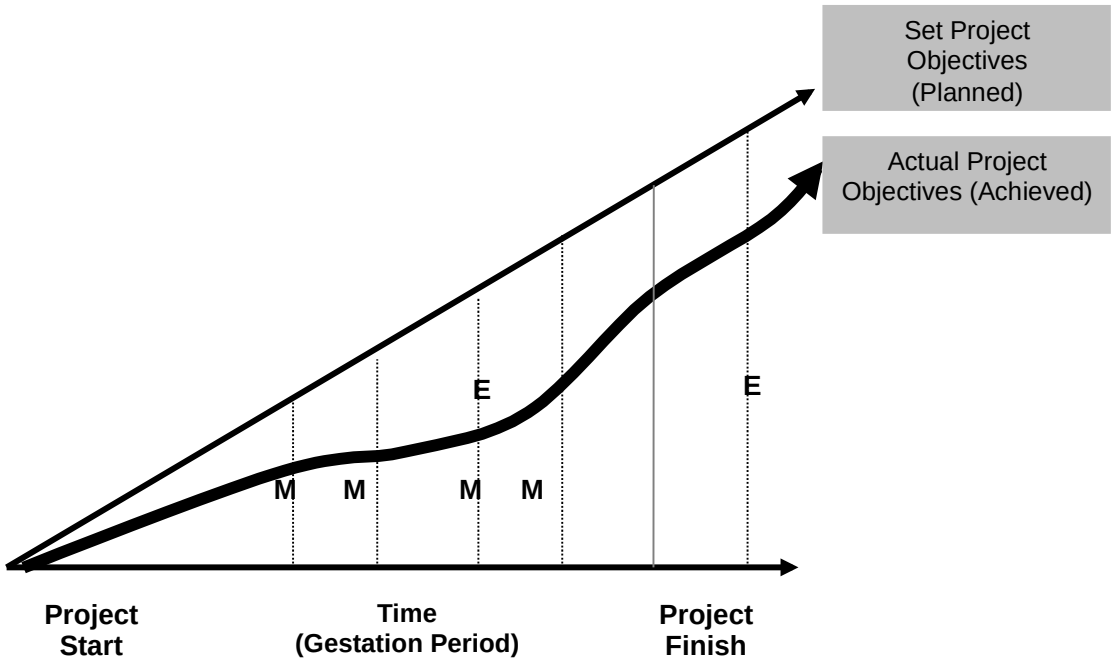

Figure 6: M&E – conceptual differences[28]

In order to start M&E for any ongoing or new project or activity, there are seven steps involved:

STEP 1 - Identify the key questions to be asked and answered by the M&E

STEP 2 - Agree the overall M&E approach and methodology

STEP 3 - Choose the appropriate indicators

STEP 4 – Select tools and instruments for data collection and analysis

STEP 5 – Plan clear timeframes with milestones

STEP 6 – Identify people and other resources for undertaking the M&E

STEP 7 – Implement the M&E plan

Box 20: Steps for implementing M&E regime

All these steps have been summarised here with relevant examples:

STEP 1 – IDENTIFY KEY QUESTIONS TO BE ASKED

The first step for developing any M&E regime would be to identify key questions

[28] Director general, M&E, P&D Punjab

that need to be answered through M&E. The answers to these questions would then help in reviewing progress of their projects and would feed into better planning. While identifying these questions, the relevant project manager/secretaries/officials may want to ask the following questions:

- Does this project have a results framework? If it does, then what are the key outputs and desired outcome and impact for the project? If it does not, then what should be the desired results?
- Did any other organisation undertaken a similar project earlier? If yes, then what has been the learning?
- How would the M&E results feed into the project cycle? Is the design flexible enough to incorporate the learning?

This section provides some guidance on developing a results framework for various projects. However, detailed technical guidance is also available through a number of internationally available resources on implementing RBM[29]. To begin with, the project development team needs to clearly identify the desired impact and outcome of every project and other activities as well as the planned outputs and inputs (or activities) for them. Indicators for all targets also need to be identified along with the source of their verification. The following matrix provides some guidance on these terms:

PARAMETER	QUESTIONS THAT THE RELEVANT PROJECT MANAGER OR SECRETARY OF THE DEPARTMENT SHOULD ASK:
IMPACT (Vision, goal, objective, longer-term outcome, long-term results)	What are we trying to achieve? Why are we working on this problem? What is our overall goal?
OUTCOME (First, positive result or immediate result, prerequisites, short- and medium-term results)	Where do we want to be in three to five years? What are the most immediate things we are trying to change? What are the things that must be in place first before we can achieve our goals and have an impact?
OUTPUT (Interventions)	What are the things that need to be produced or provided through projects for us to achieve our short- to medium-term results? What are the things that different stakeholders must provide?
ACTIVITIES (Inputs, actions)	What needs to be done to produce these outputs?

[29] A) Results Based Management Handbook for UNDP
http://www.ilo.org/public/english/bureau/program/dwcp/download/undg_rbm1011.pdf
B) Promoting Results-Based Management in the Public Sectors of Developing Countries
http://www.adb.org/publications/promoting-results-based-management-public-sectors-developing-countries

INDICATORS (Measurements of performance, performance standards)	How will we know if we are on track to achieve what we have planned?
MEANS OF VERIFICATION (Data sources, evidence)	What precise information do we need to measure our performance? How will we obtain this information? How much will it cost? Can the information be monitored?

Table 19: Relevant questions about results chain

The outcome and impact part answers the 'why' question, while the outputs present the answer to what is going to be done under any given project. Together, they define the desired results. The input and activities on the other hand answer how all of this is going to be done and what resources would be required for achieving this.

Evaluation usually involves using a number of different data collection tools to obtain a range of quantitative and qualitative information about the outcomes and impact of a project or programme. For example, focus group discussions and a small number of detailed case studies as well as in-depth interviews may complement surveys with key informants. This performs a checking role or triangulates the information collected by combining multiple data sources and methods. In this way, this can help to overcome the bias that comes from only using one source and method of data collection.

What are the key questions for evaluation?[30]

'Evaluation is the systematic and objective assessment of an ongoing or completed project, program or policy, its design, implementation and results. The aim is to determine the relevance and fulfillment of objectives, development efficiency effectiveness, impact and sustainability. An evaluation should provide information that is credible and useful, enabling the incorporation of lesson learned into the decision making process of both recipients and development partners.'

Box 21: Key questions for evaluation

[30] Development Effectiveness Framework; Inter-American Development Bank; 2008

EXAMPLES	
SOLAR POWER PROJECT	**MOBILE HEALTHCARE UNITS**
Desired impact: poverty reduction; economic growth **Desired outcome: better access to electricity; sustainable development** **Desired output: solar power plant up and running, connected to national grid** **Suggested inputs: civil works; equipment (photovoltaic (PV) technology with solar panels, inverters and control systems); technical services; engineering, procurement and construction contractor; etc.** **Overall project statistics would be used for subsidy for solar tariff regime, national feed-in tariff**	Desired impact: poverty reduction; reduction in mortality rates Desired outcome: better access to healthcare Desired output: fully equipped mobile healthcare units delivering primary healthcare services Suggested inputs: vehicles; doctors and paramedics; equipment; etc. M&E results from pilot project will feed into full-scale project

STEP 2 – M&E APPROACH AND METHODOLOGY[31]

This step would include developing the overall design of the M&E regime, such as the target population, sampling, control points, etc. Some of the questions that need to be answered at this stage include the following:

- What is going to be the best approach for M&E? What is the counterfactual?
- What has been learned from previous M&E designs?
- What is going to be the baseline? Would secondary data suffice or are primary data needed?
- How will the sample be selected?
- What will be the periodicity of data collection?

M&E projects and activities help an organisation in assessing its performance, calibrating and refining ongoing activities, and informing development of future programmes and activities. M&E is also closely linked with planning as effective project plans clearly lay out the results framework, determine expected outputs and outcomes, and identify relevant indicators. It is also important to distinguish between monitoring and evaluation as they generally encompass different activities.

***Monitoring* –** Monitoring can be defined as the ongoing process by which regular feedback can be obtained on the progress being made towards achieving a project's goals and objectives. Monitoring in its true sense should focus not only on reviewing

[31] The Monitoring and Evaluation Handbook For Business Environment Reform

progress made in implementing actions or activities, but also reviewing progress against achieving goals. This would mean that monitoring should focus on not merely tracking inputs, as has been the case in many government projects, but also output tracking.

Monitoring gives information on where a programme or project is at any given time (or over time) relative to respective targets and outcomes. Monitoring focuses in particular on efficiency and the use of resources. While monitoring provides records of activities and results, and signals problems to be remedied along the way, it is descriptive and may not be able to explain why a particular problem has arisen, or why a particular outcome has occurred or failed to occur.

Box 22: What is monitoring?

Evaluation[32] **–** Evaluation is a rigorous and independent assessment of either completed or ongoing activities to determine the extent to which they are achieving stated objectives and contributing to decision-making. Evaluations, like monitoring, can apply to many things, including an activity, project, programme, strategy, policy, topic, theme, sector or organisation. The key distinction between the two is that evaluations are done independently to provide an objective assessment of whether or not they are on track. They are also more rigorous in their procedures, design and methodology, and generally involve more extensive analysis. However, the aims of monitoring and evaluation are very similar: to provide information that can help inform decisions, improve performance and achieve planned results.

Evaluations can be done at the beginning of a project (baseline evaluation), during the course of a project (mid-year, year-end or mid-term evaluations), at the end of a project (end-term evaluation), or even after a few months or years subsequent to the completion of a project (impact assessment).

Evaluation deals with questions of cause and effect. It is assessing or estimating the value, worth or impact of an intervention and is typically done on a periodic basis – perhaps annually or at the end of a phase of a project or programme. Evaluation looks at the relevance, effectiveness, efficiency and sustainability of an intervention. It will provide evidence of why targets and outcomes are or are not being achieved and addresses issues of causality.

Box 23: What is evaluation?

[32] Director general, M&E has issued detailed evaluation guidelines, which are appended to this manual.

Monitoring Regular systematic collection and analysis of information to track the progress of project implementation against pre-set targets and objectives. ***Did we deliver?***	• Clarifies project objectives • Links activities and their resources to objectives • Translates objectives into performance indicators and sets targets • Routinely collects data on these indicators, compares actual result with targets • Reports progress to decision-makers and alerts them to problems
Evaluation Objective assessment of an ongoing or recently completed project, its design, implementation and results. ***What has happened as a result?***	• Analyses why intended results were or were not achieved • Assesses specific casual contributions of activities to results • Examines implementation process and explores unintended results • Provides lessons, highlights significant accomplishments or programme potential, and offers recommendations for improvement
Impact assessment Impact assessment assesses what has happened as a result of the project and what may have happened without it – from a future point in time. ***Have we made a different and achieved our goal?***	• Seeks to capture and isolate the outcomes that are attributable (or caused by) the project • Will review all foregoing M&E activities, processes, reports and analysis • Provides an in-depth understanding of the various causal relationships and the mechanisms through which they operate • May seek to synthesise, compare or contrast a range of interventions in a region, timeframe, sector or reform area

Table 20: Monitoring, evaluation and impact assessment

Randomised controlled trials

Randomised controlled trials (RCTs) have recently gained a lot of popularity in development science for evaluations. Under an RCT, the people being studied are randomly allocated one of the different treatments under study. RCTs are currently being used by a number of international development experts to measure the impact of development interventions worldwide. The GoPb is also using RCTs in a number of projects including Performance Incentive Scheme for Excise Officers as well as the Punjab Economic Opportunities Programme implemented by the Punjab Skills Development Company.

Box 24: Randomised control trials

EXAMPLES

SOLAR POWER PROJECT	MOBILE HEALTHCARE UNITS
Approach for M&E: physical inspection; consultant validation	Approach for M&E: smart geographic information system (GIS)-based monitoring by special M&E firm; vehicle tracking system; feedback system by calling selected treated patients
What has been learned from previous M&E designs? Project completion time estimates; approved tariffs	What has been learned from previous M&E designs? Staff absenteeism; pilferage in medicine dispensation
What is going to be the baseline? Greenfield project	What is going to be the baseline? Special baseline study commissioned to assess state of access to primary healthcare services
How will the sample be selected? Not required	How will the sample be selected? Stratified sampling
What will be the periodicity of data collection? Monthly site visit by line department; resident consultant on site	What will be the periodicity of data collection? Weekly visits by M&E firm; occasional visits by line departments; real-time data on tracking devices
M&E will cover periodic monitoring and final project evaluation	M&E will cover baseline study, mid-term and end-term evaluations, and impact assessment, besides regular monitoring

STEP 3 – SELECTING INDICATORS

Selecting the right indicators is of paramount importance. Once key questions have been identified these need to be translated into indicators and then targets (in the results framework). Indicators are then measured to demonstrate that the project is or is not doing what it set out to do. The key questions that need to be asked at this stage include the following:

- Does the relevant sector/department use any core indicators?
- What should be the right mix of quantitative, core and customised, activity and process indicators?
- How can indicators be appropriately disaggregated for various dimensions, such as for gender, geography, etc.?

To measure something it is important to have a unit or variable 'in which' or 'by which' a measurement is made, i.e. an indicator. The fundamental challenge for various project development teams is to develop appropriate performance indicators, which measure project performance. These indicators measure the things that projects do, what they produce, the changes they bring about and what

happens as a result of these changes. In order to choose indicators, decisions must be made about what to measure. Having the right indicators underpins effective project implementation and good M&E practice. Therefore time, effort, debate and thought should be given to their identification, selection and use.

Indicators for M&E should be SMART

- **Specific –** Reflect what the project intends to change and are able to assess performance
- **Measurable –** Must be precisely defined; measurement and interpretation are unambiguous
- **Attainable –** Achievable by the project and sensitive to change
- **Relevant –** Relevant to the project in question
- **Time bound –** Describes when a certain change is expected

Box 25: SMART indicators

Firstly, there is need to distinguish indicators for different levels of assessment – that is monitoring, evaluation and impact indicators. The former (monitoring) concern tracking the progress of project implementation and primarily relate to inputs and activities. The latter two (evaluation) relate to measuring the results of the project: the outputs, the outcomes and ultimately the impact. Each aspect of implementing a project or programme has typical types of indicators illustrating performance at each project level, as the following table shows.

LEVEL OF INDICATORS	GENERAL EXAMPLES	EXAMPLES FOR BRICK-AND-MORTAR PROJECT	EXAMPLES FOR SERVICES PROJECT
Inputs/activities	Human resources; financial resources; material resources; training	Utilisation of project funds; staff time; construction material; equipment	Training for unskilled youth
Outputs	Buildings; roads; bridges; schools; hospitals; plans; products; studies/reports	Completed school	Training sessions conducted; youth trained
Outcomes	Better access to healthcare and education facilities; less time to communicate and travel; change in knowledge and/or behaviour; improved practices; increased services	Enrolment of students from community	Skilled employment of youth
Impact	Reduction in mortality; improvement in life expectancy; economic growth; increased employment	Improvement in literacy rate	Reduction in unemployment

Table 21: Indicators at various levels of results chain

EXAMPLES	
SOLAR POWER PROJECT	**MOBILE HEALTHCARE UNITS**
Does the relevant sector/department use any core indicators? Access to electricity; average household electricity bill; number of fans/lights; energy mix (renewable versus non-renewable energy)	Does the relevant sector/department use any core indicators? Access to primary healthcare services; infant and adult mortality rate; life expectancy; percentage coverage of immunisation services
What should be the right mix of quantitative, core and customised, activity and process indicators? Design validation at design stage; percentage of completion during construction; days left in project commissioning	What should be the right mix of quantitative, core and customised, activity and process indicators? Impact should focus on quantitative indicators in terms of better access as well as qualitative indicators such as improvement in life expectancy indicators; process tracking should also have thresholds for acceptable level of service
How can indicators be appropriately disaggregated for various dimensions, such as for gender, geography, etc.? Electricity access to rural versus urban areas	How can indicators be appropriately disaggregated for various dimensions, such as for gender, geography, etc.? Electricity access to rural versus urban areas: women's access to healthcare services; availability of female staff on board

STEP 4 – DATA COLLECTION

Although this is the simplest step, it is also quite critical because the information that would feed into the M&E results is going to be collected at this stage. Data collection needs to be undertaken at different times: prior to and during project implementation, as well as at fixed points including at and after the end of the project. Some of the key considerations here would include:

- In the case of secondary data, are the sources reliable?
- In the case of primary data, who will be collecting the data? How can data integrity be ensured?
- How often should the various data sets be collected?
- Who will be responsible for subsequent steps such as data entry, consolidation, cleaning and analysis?

As noted earlier, monitoring is ongoing provision of information on where a programme or project is at any given time (and over time) relative to its respective targets and outcomes. The function and role of evaluation is to build upon monitoring data, bring together additional information and examine whether or not the project results have been achieved.

How to monitor? – Monitoring includes periodically collecting information, through use of appropriate tools, at specific points in the process. This information is then

used to assess various parameters, as against the initial plan or set standards. There are a number of tools or instruments that can be used in M&E and in most of the projects more than one tool can be used. Some of these tools and approaches are complementary; some are substitutes. Some have broad applicability, while others are quite narrow in their uses. The choice of which is appropriate for any given context will depend on a range of considerations. These include the uses for which M&E is intended, the main stakeholders who have an interest in the M&E findings, the speed with which the information is needed, and the cost. Different tools/instruments have strengths and weaknesses as methods of collecting different types of data and their use with different types of stakeholders, application with different types of indicators and different target groups. Some of the tools used for data collection for both monitoring and evaluation are listed below, with a matrix indicating their various attributes:

DATA COLLECTION TOOL	DESCRIPTION	EXAMPLES
Monitoring form	A form to record observations of an M&E officer/manager against certain pre-selected parameters. Qualitative information can also be collected and converted to categorical information (scale 1 to 5). Such forms can also be sent to project staff for reporting purposes.	Templates developed by various government organisations and projects to record monitoring field visits' findings.
Sample surveys	Collect a range of data through questionnaires with a fixed format that are delivered via the post, electronically, over the telephone and in face-to-face interviews. Can be used with a range of subjects such as households (socioeconomic survey); a sector (livestock or agriculture survey); or an activity (school beneficiaries).	A number of citizens are interviewed for use of a basic health unit. Quantitative data is produced on the average time taken by citizens on getting a *fard* (land revenue record) from a land revenue record centre. A livestock census is another example.
Group interviews/focus groups	Collect largely qualitative data through structured discussions among small groups of pre-selected participants. Usually these groups will comprise no more than 12 people and the sessions will last up to three hours. These discussions are managed by an appointed facilitator who is not a participant.	Citizens participate in a focus group discussion on a community-driven water supply and sanitation scheme. Parents participate in a focus group on school council activities.

Individual interviews	Collect a range of data through face-to-face discussions with individual stakeholders often called 'informants'. These can be 'open' interviews or 'structured' interviews, with questionnaires as part of a sample survey. They can vary in time and be held over a number of sessions. Often stakeholders who are viewed as being critical to the success of a project or programme will be selected for an interview. These are often called 'key informant interviews'.	A resident engineer is interviewed on the progress of a brick-and-mortar overhead bridge construction project.
Case studies	Collection of data usually through face-to-face interviews with a particular individual, group, location or community on more than one occasion and over a period of time. The questioning involves open-ended and closed-type questions and involves the preparation of 'histories'.	Information is obtained on how learning outcomes of a particular school have improved over time.
Participant observation	Data are collected through observation where the M&E person takes part in an event or attends a place or situation and assesses what is happening through what they see. May involve some questioning for clarification. Observations may take place over a period of time through a number of visits.	Observation is sought through participating in a TEVTA skill-training centre.
Tracer studies	A range of data collection methods are used to collect different types of data on an individual group or community to determine the effects of an aid intervention over a longer period.	A sample of beneficiaries who have been provided literacy training are observed.

Table 22: Data collection tools

Types of evaluation

Project evaluation and impact evaluation are two main types of evaluation techniques. The following matrix summarises the main components of these evaluations.

	Review Evaluation	Impact Evaluation
DESCRIPTION	Focuses on outcomes in terms of effectiveness, efficiency and relevance. Examines whether the activities have delivered the planned outputs and whether	Is typically carried out towards or at the end of projects, or after their completion. Is usually carried out by those 'outside' of the project in an effort to enhance objective

	these outputs have in turn led to outcomes that are contributing to the purpose of the project.	accountability but may also involve insiders in order to enhance lesson learning. Impact evaluations focus on relevance, effectiveness, efficiency and sustainability in relation to project goals. Impact evaluations can also be carried out to assess and synthesise the outcomes of several initiatives together on a thematic, sector or programme basis to examine their overall impact.
MEASURING CRITERIA	Programme/project outcomes	Programme/project goals or impact
	Whether the beneficiaries have been given due support and facilitation and whether they have been positively impacted	Whether support to beneficiaries has led to increased contribution to the economy, leading to growth and poverty alleviation

Table 23: Types of evaluation

The evaluation methodology adopted by P&D's Directorate General, M&E has laid out the following process.

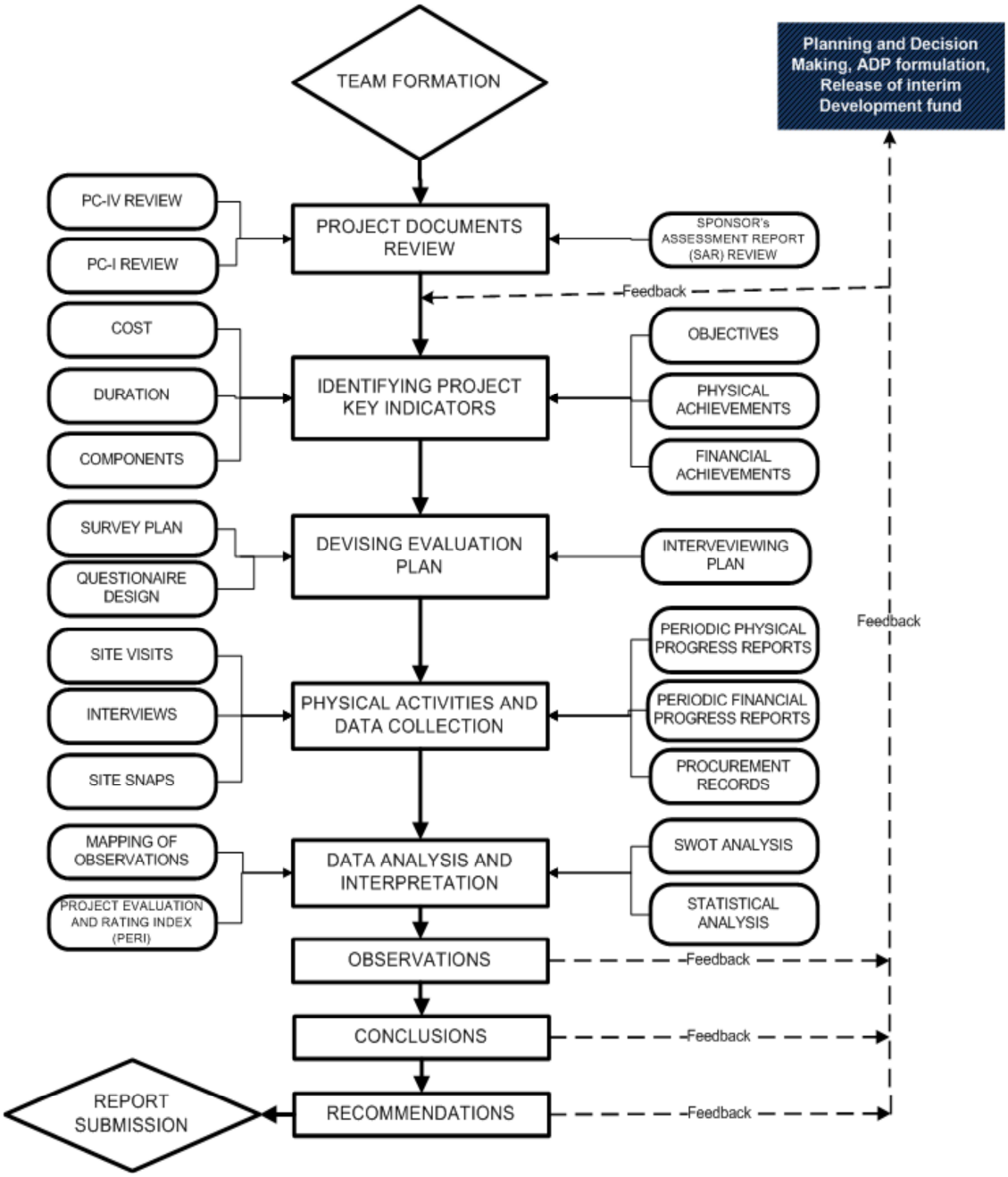

Figure 7: Schematic for evaluation methodology adopted by Director General, M&E, Punjab

EXAMPLES

SOLAR POWER PROJECT	MOBILE HEALTHCARE UNITS
In case of secondary data, are the sources reliable? Not applicable	In case of secondary data, are the sources reliable? Benazir Income Support Programme data partially used for baseline study
In case of primary data, who will be collecting the data? How can data integrity be ensured? Line department staff visit; consultant reports	In case of primary data, who will be collecting the data? How can data integrity be ensured? M&E firm validating staff-submitted data; triangulation through spot checks by department staff and feedback calls made to selected patients; real-time information coming from smart monitoring and vehicle tracking
How often should the various data sets be collected? Monthly inspection visit; 24/7 availability of resident consultant	How often should the various data sets be collected? Monthly M&E reports; real-time data plotted on web-based dashboard
Who will be responsible for subsequent steps such as data entry, consolidation, cleaning and analysis? Line department's M&E cell	Who will be responsible for subsequent steps such as data entry, consolidation, cleaning and analysis? M&E firm; vehicle tracking firm; etc.

STEP 5 – TIMEFRAME

It is essential to plan clear timeframes with milestones. The key considerations at this stage include:

- What are the key M&E milestones and when should they be reached?
- How can the activities leading to these milestones be designed?
- What are the implications of delay?

Periodic reporting and review meetings – For smooth and timely implementation of development projects, a number of periodic progress reports are obtained from all the key departments and agencies. On-the-spot inspection is carried out and periodic meetings are held on the basis of performance data furnished by the line departments and agencies. A few words on the reporting procedure are given below:

- **Monthly progress reports:** The monthly progress reports are collected from all the administrative departments and agencies on a regular basis. The proforma used for this purpose is given in VOLUME TWO – SECTION C. The most important information collected through this proforma relates to the approval status, total cost, financial and physical targets and, progress registered during the month being reported. The administrative departments/agencies are supposed to furnish monthly progress reports, which are usually received with a time lag of 16 days.

- **Quarterly progress reports:** The quarterly progress reports are obtained from all the administrative departments/agencies in the PC-III proforma. These reports are forwarded to the said agency on a quarterly basis. The quarterly progress reports consist of three parts. Part 'A' covers overall information regarding a project. Part 'B' is meant to record progress during the month being reported. Part 'C' gives the consolidated picture of the progress during the quarter being reported.

- **Meetings:** Apart from monitoring through reporting, review meetings are also held at different levels to review the pace of implementation of projects. At the provincial level, ADP review meetings are organised regularly in the P&D Board. In these meetings, monthly progress reports sent by the administrative departments/agencies are considered. Of these, the most important are the mid-year ADP review meetings. A series of meetings are held in the P&D Board wherein sector-wise and scheme-wise discussions are carried out to review the progress of implementation of ADP. The main purpose of these meetings is to ascertain the absorptive capacity of each department. The schemes with poor progress are weeded out and additional funds are allocated to the schemes with good progress. The inter-sectoral and intra-sectoral re-appropriation proposals are also discussed and finalised in these meetings so as to ensure successful implementation of the ADP. The line departments/agencies also hold meetings to review the pace of implementation of their respective projects. At the divisional level, the implementation of development projects/programmes is reviewed by the Divisional Coordination Committees.

The M&E work needs to be carried out at multiple stages, depending upon the project requirement. These stages include the following:

Baseline or initial mapping – If a project involves undertaking a baseline or mapping exercise then the findings from this work need to be analysed and reported quickly because they form an integral base from which the project proceeds and will often determine what tasks will be progressed and which will not.

Pilot phase – A project may involve undertaking a pilot phase, where something will be tested out with a group or a particular locality before the project is 'rolled out' further. Again it is important that the analysis of M&E data from this pilot is undertaken thoroughly and quickly, as the findings from this are needed to inform the progression of the project.

Mid-term or periodic evaluation/review – Key findings from periodic evaluation work, usually from the mid-term timeframe of the project onwards, need to be analysed and reported in a timely manner as they illustrate whether the outputs of the project are being achieved or not and whether process issues are progressing. The findings from these mid-term evaluations inform the ongoing validity of the M&E plan for assessing outcomes and impact for the project. If initial findings show that the project is not achieving and/or is achieving in an unexpected way, then the

M&E plan may need to be reviewed and updated for the end of project evaluation activities.

End of project evaluation/review – This is usually the most substantive analysis as it is bringing all of the above together, as well as undertaking data collection analysis and reporting for the end of project evaluation. This is the key time of activity for M&E work if findings are to be processed and reported in a timely manner after the end of the project. Therefore resources need to be in place and tasks managed well during this period.

Impact assessment or post-project evaluation/review – This comes a certain time period after the project completion to assess the impact of the project.

Box 26: Multiple stages for M&E

EXAMPLES

SOLAR POWER PROJECT	MOBILE HEALTHCARE UNITS
What are the key M&E milestones and when should they be reached? Design sign-off and validation; ground breaking; civil works completion; equipment installation; grid connectivity; commissioning	What are the key M&E milestones and when should they be reached? Procurement of vehicles and equipment; recruitment of staff; procurement of medicine; commissioning
How can the activities leading to these milestones be designed? Design sign-off and validation – technical due diligence; ground breaking – physical inspection; civil works completion – physical inspection; equipment installation – consultant sign-off; grid connectivity – consultant sign-off; commissioning – provision of power as per required technical parameters	How can the activities leading to these milestones be designed? M&E firm inspections and spot checks; validation by line department staff
What are the implications for delay? Cost overruns; Demand–supply gaps	What are the implications for delay? Limited access to health services; cost overruns; delays in meeting national/provincial poverty reduction targets

STEP 6 – RESOURCES

Considering the general resource crunch and fiscal considerations, the resource identification would be critical. It is important to have a realistic M&E regime in place, so that the resource availability does not become a problem. Some of the important questions at this stage would include:

- Who is going to bear the costs or provide resources for these activities?
- Is there any provision for M&E costs in the PC-I?

EXAMPLES

SOLAR POWER PROJECT	MOBILE HEALTHCARE UNITS
Cost provision for technical consultant	2.5% of project cost dedicated for M&E
Partial funding for joint venture	
No separate provision of M&E costs; to be borne by line department's M&E cell	

STEP 7 – IMPLEMENTATION

Once the M&E plan is approved, the next stage is to undertake M&E activities. This would include assigning M&E tasks and responsibilities; preparing ToRs for any external sources needed; initiating baseline work; collecting data; etc.

4.3 Use of GIS in monitoring

'A Geographical Information System (GIS) is a computer-based system capable of assembling, storing, manipulating and displaying geographically referenced information, i.e. data identified according to their locations.' [33]

A GIS makes it possible to link or integrate information that is difficult to associate through any other means. Presenting data in the form of a map helps to understand the significance of where, when, and by whom. GIS represents data on a map using points, lines and polygons. Features that can be represented as points include schools, hospitals and other points of interest. GIS is designed to capture, store, manage, integrate and manipulate various layers of data, allowing the user to visualise and analyse the data in a spatial environment.

Linking GIS with M&E in a development project/programme helps to assess progress while considering geographic characteristics. This can better be achieved by establishing a reliable baseline. For larger projects/programmes, baseline studies encompass socioeconomic surveys and their results are generally spatially distributed. Therefore, analysis of survey data benefits greatly from spatial display and analysis, as spatial patterns can be identified and generally data are more easily comprehensible if displayed graphically/spatially.

After baseline values for performance indicators are set, their change over time can be monitored using GIS to see if the planned targets are reached or can be reached realistically in the defined timeframe.

[33] What is GIS? (https://www.e-education.psu.edu/geog468/l2_p3.html)

In Punjab, the work done by The Urban Unit (TUU) has provided a strong technological foundation for implementing a GIS-based system. TUU has developed a provincial GIS-based electro-mobile governance system – 'IRIS' – merging spatial data and providing valuable insights to a wide variety of users, through attribution of information. IRIS, when fully functional, will also have the capability of storing and maintaining spatial data from various government departments and geo-referencing them. The participating departments will be given access to respective datasets and information; TUU would also assist them in developing customised applications to make use of this information for effective decision-making.

IRIS will be a transformational solution, providing new insights for urban planners and managers, through integrating various layers of data and providing ready access to information. This in turn, once fully implemented, is expected to ensure better coordination among departments; information validation from various sources, increasing transparency; and access to digitised information, thereby increased planning and responsive capacity of client departments. It is also a major step towards e-governance, as it is resulting in digitisation of data sets in selected sectors and processes and has introduced use of technology by various government departments[34].

IRIS – TUU

TUU has been working on IRIS since its inception in 2006 and the funding has been provided from government's own resources. The IT interface and solution have also been developed and deployed by an in-house team of experts, based at TUU. TUU initially collected spatial data of city boundaries by taking their paper maps and geo-referencing them. Government departments, which became clients for specific applications, were requested to share their lists of assets and other related information. TUU's staff mapped these assets on the GIS-based map, after physical verification of their location and recording of their geo-coordinates. The spatial maps were then shared with the department for population of the attributed departmental data layer.

Evolution of GIS has proven to be a technological shift from paper-based maps to spatial data and has opened up numerous possibilities for data integration, mining and analysis. The government departments, which were initially hesitant in embracing technology, have also now gotten used to this innovative use of technology and are moving ahead, with TUU's assistance, to develop various new applications. IRIS basically acts as an information cube, with multiple applications of various departments running on it.

Box 27: IRIS – TUU

Guidelines for using GIS in M&E

[34] A provincial department may only get access to its own data. Presently there is no mechanism in IRIS to download boundary files, road layers, locations of schools and hospitals, or other layers. A provincial department requiring such GIS layers for its M&E work would need to make some arrangement with TUU to access this data – possibly a licensing arrangement. Presently inter-departmental access to GIS layers from TUU is still facing some challenges and would require some memoranda of understanding between departments to facilitate access to whatever GIS layers they have themselves and to the GIS layers of TUU.

- All large projects should integrate a GIS-based approach into their M&E solutions.

- Any GIS-based solution should be aligned with IRIS, to the extent possible.

- The M&E plan should also explore using mobile GIS and the concept of smart monitoring through use of smartphones.

- GIS integration should start right from the baseline survey.

- All efforts should be made to align GIS-based systems with other systems deployed in the province to ensure data integration.

- Adopting a GIS-based approach should encompass carefully reviewing planning consideration, technical considerations and implementation considerations.

    - At the planning stage, the project development staff should carefully review the project needs, type of information required for M&E, spatial maps and visualisation required for decision-making, resource requirements, etc.

    - On the technical side, due thought must be given to the platform used, data source identification, existing systems in use, integration and scalability issues, etc.

    - On the implementation front, adequate plans should be made for data updating, system deployment, troubleshooting, personnel requirements, etc.

Recommendations for use of geospatial tools[1]

1. **Include geographic identifiers in programmatic data –** In order to use data in a GIS, it must have a link to geography. This can be something as simple as district or community name or could be coordinates collected using GPS receivers or from a digital globe such as Google Earth.
2. **Adhere to data standards for both geographic identifiers and programmatic data –** Many countries have standardised unique identifiers and spellings of geographic features in their country. Following these standards will make it easier to link datasets. Programmatic data should follow relevant standards for metadata, indicator selections and other key factors.
3. **Be open –** Making programmatic data widely available makes it easier to employ those data in other evaluations. There are confidentiality and security issues that must be considered; however, the growth of the open data movement offers promise to M&E.
4. **Build organisational capacity to use GIS first –** Before asking stakeholders to share data, it is critical they have the necessary skills to use GIS technology, and their own data, within their own organisations. Ensuring the training has a practical use builds ownership and supports effective data-sharing.
5. **Develop a strong logical framework –** Linking data through GIS is feasible without a logframe. However, a robust logframe is critical to ensure a clear linkage between programme activities and the output and outcomes indicators associated with these programme activities. It is essential that GIS users understand not only GIS technology, applications and use, but also the need for a sound logic framework to justify the data linkage as well as how to use linked data to support decision-making.
6. **Continue to build the evidence base –** More research and better data are needed to improve project M&E information.

Box 28: Recommendations for use of geospatial tools

4.4 M&E institutional regime in Punjab

In Punjab, the agencies at the provincial level that carry out monitoring functions are as follows:

Monitoring Section – P&D Board – The main functions of this section are monitoring of sector-wise projects in terms of financial utilisation against the allocations and physical achievements in comparison with the envisaged targets at various levels. For the purpose of monitoring, monthly progress reports are collected in the prescribed proforma in respect of all the projects included in the ADP. The administrative departments and other agencies are required to send monthly progress reports by the 16th of each month for the previous month. These reports are considered in the ADP review meetings held regularly in the P&D Board at various levels, i.e. under the chairmanship of the chief minister and minister, P&D Department or chairman, P&D Board. The mid-year review of ADP is the most important exercise. In a series of meetings a scheme-by-scheme review is carried out in association with the Finance Department and the concerned administrative departments. As a result of this exercise, schemes with slow/poor progress are identified; additional funds are allocated to the schemes that register fairly good

progress. Apart from monthly progress reports, quarterly progress reports are also obtained from the line departments. An example of the proforma used for quarterly reporting is given in VOLUME TWO – SECTION C. The Monitoring Section incorporates the information received through project inspection by P&D sections and respective divisional directors (development) for their review meetings.

Departmental monitoring – Administrative departments monitor their projects on a regular basis. For this purpose, their monitoring system consists of supervisory tiers at different levels. For important projects the departmental inspection teams are constituted for checking the progress on the project site.

Divisional level – At the divisional level, a Divisional Coordination Committee has been constituted under the chairmanship of the divisional commissioner, to undertake monitoring of development projects. The committee holds regular review meetings, which are attended by all divisional heads. In these meetings efforts are made to remove bottlenecks in the pace of progress. The minutes of these meetings are circulated to all concerned, including the P&D and Finance Departments, for taking appropriate action. The development director acts as Secretary of the Divisional Coordination Committee.

The existing institutional arrangements for evaluation of projects at different levels in the province are briefly reviewed below:

Evaluation Section – P&D Board – At present, an Evaluation Section is functioning in the P&D Board, Punjab. The P&D Board is assigned the work of evaluating the completed projects along with mid-term evaluation of important development projects.

Planning cells – All the Nation-Building Departments and agencies are supposed to have Planning & Evaluation Units. However, a number of departments do not have proper Planning and Evaluation Cells. As such these units do not seem to be effective in carrying out evaluation functions in their respective sectors.

Other agencies – From time to time the evaluation of important and big programmes/projects is entrusted to other independent/autonomous organisations. At the provincial level these agencies include PERI, NESPAK and other consultant firms.

Divisional Directorates of Development – Divisional Directorates of Development are functioning under the administrative control of the P&D Board. The staff provided in a directorate includes a director, a research officer and other supporting staff. With the creation of these directorates, schemes costing up to PKR 3.5 million in respect of rural and urban water supply, education, health and government buildings are processed and approved at the divisional level. These Directorates are also responsible for carrying out M&E functions. The monitoring function is being performed by these directorates mostly through review meetings.

Chief minister's Inspection Team – The chief minister's Inspection Team has the function of monitoring and inspection of the specific development projects at the direction of the chief minister. For this purpose, financial utilisation and physical achievements of the concerned departments/agencies are scrutinised. The reports are duly submitted to the chief minister, on whose direction the follow-up action is initiated by the concerned agencies.

Directorate General, M&E – The Directorate General, M&E, headed by the director general, has been established in the P&D Department to focus on the following core areas:

- policy guidelines and standards for project management;
- project management services;
- project management capacity building;
- third party inspection and performance monitoring; and
- project/programme evaluation.

The post-completion evaluation of development projects is an important function being performed by the Directorate General, M&E. In order to finalise the post-completion evaluation reports of development projects, an Evaluation Committee is constituted with the director general, M&E as chairperson; and the concerned sector chief in the P&D Department, representative of the Finance Department, chief (monitoring), P&D Department; and project director/executing agency as members. The Monitoring Wing of the P&D Department in constitution with the sector chiefs prepares a list of completed projects every year in the month of July and forwards it to the director general, M&E for post-completion evaluation. The director general, M&E then constitutes an Evaluation Team for evaluation and the reports prepared would be considered by the aforementioned committee. The committee critically reviews actual implementation of projects with reference to their costs and physical work as given in the PC-I and identifies any costs and time overruns. No evaluation report is required for the repetitive/standardised nature of schemes, e.g. projects relating to establishment/upgrading of health and education institutions. However, the concerned Administrative Department/sponsoring agency has to submit completion report on the PC-IV of all completed projects in the month of July each year to the (Monitoring Wing) P&D and Finance Departments for record keeping and estimation of recurring/SNE[35] liability of such schemes. The Directorate General, M&E is an integral part of the quarterly review meetings of the P&D Board, wherein it submits its reports and also takes follow-up actions for implementation of recommendations of the Evaluation Committee/reports.

[35] Schedule of New Expenditure

ToRs for Evaluation Committee

- Make recommendations for further continuation of the project/programme in light of the evaluation report or its transfer to the recurring budget, indicating the annual budgetary requirement.
- Spell out factors responsible for deviation (if any), either in physical or financial terms or both, in implementation of the project.
- Make recommendations to the government for future planning on the basis of lessons learnt/feedback from evaluation.
- Handle direct preparation of PC-Vs and impact assessment reports of completed projects.
- Forward the final evaluation report to the concerned administrative department for implementation with a copy to the chairman, P&D Department and Finance Department.
- The Directorate General, M&E will provide secretarial/logistical support to the committee.

Box 29: ToRs for Evaluation Committee

SECTION 5 – NEW PLANNING IMPERATIVES

5.1 Foreign-funded projects

Apart from structural adjustment lending primarily secured from the International Monetary Fund to redress balance of payment deficits, foreign assistance is also sought for projects and programmes in the shape of soft loans, commodity aid, grants and technical assistance to supplement provincial domestic resources, poverty reduction and technical expertise for achieving accelerated growth in priority areas. Specifically to Punjab, these areas include agriculture and livestock, irrigation and energy, physical infrastructure, urban development, governance, education, skill development, health, water and sanitation, and other areas.

Foreign assistance can be divided into the following categories:

Loans **–** Loans constitute the first category of foreign aid. These are obtained for development projects as well as programmes. Major multilateral DPs extending loans include the World Bank Group (including the International Development Association (IDA), International Bank for Reconstruction and Development, and International Finance Corporation) and the Asian Development Bank. Apart from these international agencies, bilateral DPs such as the Department for International Development (DFID)-UK and Canadian International Development Agency provide grant assistance, whereas France, Germany, Italy and Japan provide loans as well as grants/technical assistance. Loans are normally provided on beneficial terms such as a nominal interest rate of approximately 1–2% and a repayment period averaging 25 years, including a grace period of 5–10 years. The International Fund for Agricultural Development provides interest-free loans in the agriculture and livestock sector with a longer repayment period.

Credit **–** IDA used to provide interest-free credit to Pakistan. However, IDA is now providing 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 are not to be paid back. Major agencies that provide grants include the United Nations agencies such as the United Nations Children's Fund (UNICEF), World Food Programme, United Nations Development Programme (UNDP), United Nations Educational, Scientific and Cultural Organization (UNESCO) and Food and Agriculture Organization, along with bodies granting official development assistance in Japan, Canada, Germany, etc. A project-specific technical grant may include equipment/material and technical expertise/consultancies. These grants must be availed as needed..

Technical assistance **–** Foreign-assisted projects usually contain a component of technical assistance in the form of consultants, training, project preparation

facilities, feasibility studies, design surveys, etc. The technical assistance is normally provided by the United States Agency for International Development, UNDP, Asian Development Bank, DFID-UK, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)-Germany, Japan International Cooperation Agency and a number of other countries. Under technical assistance, training facilities and advisory services are provided with a view to improve the technological base in the recipient country. Project preparatory technical assistance is also provided by donors, under which services of experts are arranged on a grant basis for preparation of feasibility studies and project documents. Technical assistance could be on a loan or grant basis.

Lending and guarantee instrument types

APL	Adaptable Programme Loan
DPC	Development Policy Credit
DPL	Development Policy Loan
DRL	Debt Reduction Loan
EFF	Extended Fund Facility
ERL	Emergency Recovery Loan
FSL	Fixed-Spread Loan
FIL	Financial Intermediary Loan
LIL	Learning and Innovation Loan
OCR	Ordinary Capital Resources
PBG	Policy-based Guarantee
PSAL	Programmatic Structural Adjustment Loan
RIL	Rehabilitation Loan
SAL	Special Assistance Loan or Structural Adjustment Loan
SECAL	Sector Adjustment Loan
SIL	Specific Investment Loan
SIML	Sector Investment and Maintenance Loan
SSAL	Special Structural Adjustment Loan
TAL	Technical Assistance Loan
VSL	Variable-Spread Loan

Box 30: Lending and guarantee instrument types

5.1.1 Seeking foreign assistance[36]

The DPs prepare medium- to long-term strategic plans for specific countries in consultation with all stakeholders in the public and private sectors. Accordingly, the provincial government starts initial consultations with the DPs. Loans must not be requested on a supply basis; rather, they should be demand driven. A foreign agency showing interest in any project on its own must be discouraged. EAD coordinates all

[36] Detailed guidance on seeking foreign assistance is available from the Government of Pakistan's Debt Management Manual, which can be accessed from http://www.ead.gov.pk/gop/index.php?q=aHR0cDovLzE5Mi4xNjguNzAuMTM2L2VhZC9mcm1EZXRhaWxzLmFzcHg%2FaWQ9NSZhbXA7b3B0PXBvbGljaWVz

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 DPs. On receiving a formal request from EAD, the donor sends a project scoping/(pre) identification mission, which is followed by a (pre) appraisal mission. On the basis of recommendations of the appraisal mission, the PC-I is prepared and approved by ECNEC. Subsequent to the finalisation of the negotiations, the loan documents are signed. 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 CDWP/CCC. However, no loan document can be signed without the approval of the PC-I by ECNEC. In the loan agreements there are sometimes conditions for effectiveness, which must be fulfilled to declare the loan effective. Some of the conditions could be furnishing the legal opinion and establishing a Project Implementation Unit with the project director and with support/basic essential staff.

Selected multilateral and bilateral donors

ADB	Asian Development Bank
DFID	Department for International Development
FAO	Food and Agriculture Organization of the United Nations
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Islamic Development Bank
IFAD	International Fund for Agriculture Development
ILO	International Labour Organization
IOM	International Organization for Migration
IMF	International Monetary Fund
JICA	Japan International Cooperation Agency
MIGA	Multilateral Investment Guarantee Agency
OFID	OPEC Fund for International Development
OPEC	Organization of the Petroleum Exporting Countries
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNHABITAT	United Nations Human Settlements Programme
UNHCR	United Nations High Commissioner for Refugees
UNIC	United Nations Information Centre
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
UNOCHA	United Nations Office for the Coordination of Humanitarian Affairs
UNODC	United Nations Office on Drugs and Crime
UNOPS	United Nations Office for Project Services
UNWOMEN	United Nations Entity for Gender Equality and the Empowerment of Women
WB	World Bank
WBG	World Bank Group

Box 31: Selected multilateral and bilateral donors

In the case of foreign-assisted projects, allocation of the counterpart funds in the ADP must be ensured. Monitoring of the projects is done on a regular basis by the government and donors. It should be ensured that projects are completed on time; otherwise the commitment charges on the unspent balance have to be paid by the government for an extended period as well.

It should be ensured that projects are completed on time; otherwise the commitment charges on unspent balance have to be paid by the government for an extended period.

Box 32: Commitment Charges – Foreign-assisted projects

Foreign assistance is usually obtained for projects that involve large investment outlays and foreign exchange requirements or modern technology. To obtain foreign assistance, the administrative departments furnish the copies of relevant projects on concept clearance proformas. The P&D Department, after getting the clearance of the PDWP, submits the proposals to P&D Division, Government of Pakistan for concept clearance by the Federal Concept Clearance Committee headed by the deputy chairman, Planning Commission. Thereafter, the project proposals are forwarded to EAD, Government of Pakistan to be presented to the DP.

5.1.2 Coordination with foreign missions

The P&D Department plays a coordinating role between the recipients and the donors via EAD by coordinating visits of various types of foreign missions. Usually at the end of the visit of a foreign mission, a wrap-up meeting is held in the P&D Department wherein the mission presents its findings and recommendation. The future course of action is agreed upon between project authorities and the mission for smooth implementation of projects. The coordination role of the P&D Department also includes the processing of all communications on federal government participation in loan negotiation, signing of the project agreements, and M&E of the foreign-assisted projects. The P&D Department also convenes review meetings with various administrative departments/PMIUs to ensure timely utilisation of the foreign assistance. Project Steering committees are usually housed in P&D and led by the chairman, P&D Board. The Project Director is the member / secretary of the committee.

KEY ISSUES FOR CONSIDERATION IN LOAN NEGOTIATIONS

Some of the key issues in negotiating a financing agreement include:

- **Credit amount:** Agreeing on the overall credit amount.
- **Commitment charge rate:** The commitment charge is a fee lenders charge their borrowers for unused credit or credit that has been promised at a specified future date. A lender charges a borrower a commitment fee to keep a line of credit open, or to guarantee a loan at a certain future date even through the credit is not being used at that particular time.
- **Service charge rate:** Service charge on the withdrawn balance.
- **Interest rate:** Interest rate charged on the withdrawn financing balance. The withdrawn financing balance is defined as 'the amounts of Credit withdrawn from the Credit Account and outstanding from time to time'.
- **Repayment schedule**

Box 33: Loan negotiations – Key issues for consideration

5.1.3 Key guidelines for managing foreign-funded projects

Major foreign-funded projects may follow the following guidelines:

- ***Country partnership documents*** **–** Provincial departments and authorities/agencies should actively participate in preparation of country strategy documents of various donors to align sector plans as well as development priorities of the province with donors' development portfolios.

- ***Provincial Working Group*** **–** For each significantly large foreign-funded project, the concerned line department(s), with assistance from P&D, should form a Provincial Working Group to work with the project design team/mission deployed by the donor agency. Once the draft project design is ready, the same working group should be entrusted the task to review the design document. The PC-I prepared subsequently should also be reviewed by the same working group to ensure synergies.

- ***Policies and procedures of donor agency*** **–** Unless explicitly mentioned in grant/loan agreement, all the policies and procedures of donor agencies, in the case of conflict, will take precedence in managing the projects regarding issues of procurement, administration, etc.

- Proactive ***management of reviews*** **–** Departments should pro-actively prepare for mid-year, mid-term or other reviews by the donor missions, through formulation of a working paper/presentations, and ensure that

donor agencies' concerns regarding effective programme implementation are addressed.

- ***Programme/project bank accounts*** – More complicated programmes/projects generally have two streams of funds coming in, including ADP allocation from the government as well as a foreign assistance allocation coming in 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 in foreign currency (if required) for funding provided by the donor agency and the other assignment account in rupees for the contribution of the GoPb (counterpart funding). The project director should be authorised to operate both accounts and should act as the principal signatory for both accounts. The Finance Department should authorise any other project staff member or any other suitable official to act as a co-signatory of such accounts. If the programme/project has district/operational tiers, for efficiency purposes, such offices may open assignment accounts for operational expenses and the relevant project staff along with any other official nominated by the Finance Department can be the co-signatories. All requests/withdrawal applications, however, for replenishing of accounts/transfer of funds should be routed through the Project Management Unit.

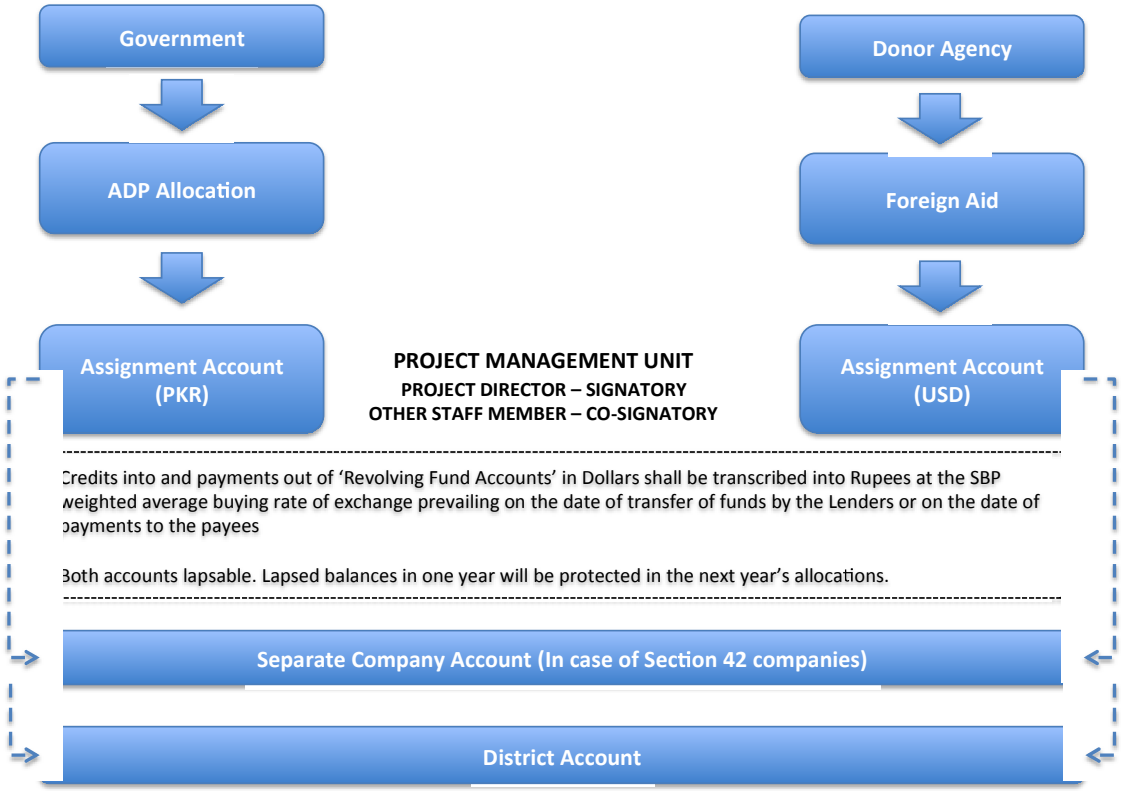

Figure 8: Assignment accounts and funds flow

- **Fund flow and disbursement arrangements –** Foreign agencies will transfer their funds through the State Bank of Pakistan (SBP) to the assignment accounts opened in the name of the respective programme/project. The transfer of funds to the State Bank and subsequently from the State Bank to the programme/project accounts should be governed by the Finance Division's OM[37] no. F.2(1)- BR-II/2007-949 effective from 2 August 2013. Disbursements are translated into Pakistani rupees by the SBP and therefore the local currency should form the transaction basis for operation accounting and reporting.

- **Reconciliation of contributions –** Periodically, or at the end of every six months, the contributions of the GoPb and donor agencies should be reconciled. Before the end of the financial year it should be ensured that the partner that contributed less than agreed in the arrangement bridges the difference.

- **Accounting and financial reporting –** All financial transactions should be recorded separately in the accounts in a manner that allows identification of expenditures under different components and under different heads. Accounting records of project accounts should be maintained using the government-wide integrated financial management information system being implemented under the Project to Improve Financial Reporting & Auditing regime, and in accordance with the country accounting procedures and policies defined in the New Accounting Model.

- **Internal controls and internal audit –** The project payments should go through an internal audit process to ensure transparency and adherence to financial rules and regulations. Management should ensure the financial propriety of expenditures and revenues.

- **External audit –** The accounts of the programme/project, together with the record of expenditures, should be audited annually by an auditor/(s) acceptable to the donor agency in line with the grant/loan agreement. The auditor general may manage/arrange an audit through its subsidiary offices or through an auditor agreed between the donor agency and the GoPb.

ACCOUNTING PROCEDURE FOR REVOLVING FUND ACCOUNTS (FOREIGN AID ASSIGNMENT ACCOUNT)

For a foreign donor-assisted project, a revolving fund account (RFA) in respect of donor financing under a loan/credit/grant shall be established at a branch of the National Bank of Pakistan (NBP), separately from the account to be established for the government's share of project financing (counterpart funds), if any is required. Such accounts shall be in the nature of assignment accounts.

[37] Office memorandum

The NBP shall be the designated bank for handling all transactions of RFAs. The foreign currency amounts received under a foreign credit/loan/grant for RFAs shall be translated/ converted into Pakistani rupees at the SBP's weighted average buying rate of exchange prevailing on the date of transfer of funds by the donors.

The payments out of RFAs by way of reimbursement to NBP would be translated notionally at the aforesaid SBP rate of exchange at which the foreign currency was purchased by the SBP (date of receipt of funds from the donor in the SBP). The RFAs at NBP branches shall show debits, credits and the balance in Pakistani rupees as the funds available to the project management would be in Pakistani rupees.

The rate of exchange used for donor reporting purposes by the project authorities would be the rate of exchange applied by the SBP for converting foreign currency into Pakistani rupees for that tranche at the time of receipt of funds in the SBP from the donor. In the case of more than one tranche, the rate applied for each tranche will be used for donor reporting purposes; the funds received in the first tranche will be utilised first and the unutilised balance shall be attributed to the last tranche.

The 'foreign currency' for the purposes of this procedure would mean the United States Dollar (USD), Euro (EUR), Pound Sterling (GBP), Japanese Yen (JPY), Australian Dollar (AUD), Canadian Dollar (CAD), Swiss Franc (CHF) and any other foreign currency that may be permitted specifically or generally later on by the Finance Division (Budget Wing) in consultation with SBP (Finance Department), Karachi.

Separate RFAs shall be established by the project management by the NBP for each of the loans/credits/grants, and each RFA will be designated a special sub-fund identification number upon establishment of the account. These individual sub-accounts will together constitute a single but separate account (child account) under Central Government Account No. 1 (Non-Food) held presently with the SBP.

The RFA shall be lapsable at the end of each financial year. However, the lapsed balance in one financial year will be protected through a budgetary allocation in the next financial year.

If the funds from donors are received in currencies other than US dollars, these shall be credited in respective RFAs in Pakistani rupees at the prevailing rate of exchange.

On receipt of the credit advice in respect of a disbursement of foreign currency funds to the project from donors that must be routed through the SBP Karachi, the SBP's Finance Department will advise the chief manager (SBP-Banking Services Corporation (BSC)) Karachi, to credit the Pakistani rupee equivalent of the foreign currency to the assignment account (sub-account of Central Account-I) under the appropriate debt or grant head. The chief manager will, in turn, and at the latest by the next business day, authorise the amount in Pakistani rupee credit into the relevant RFA of the project.

The (SBP-BSC) Karachi will immediately report the receipt in Pakistani rupees and the equivalent foreign currency to NBP headquarters with a copy to respective NBP branch, the relevant project director, P&D Division/Department (as the case may be), EAD, Finance Division/Department and AGPR/AG. No accounting entry shall be made in the books of DAO/AG/AGPR at this stage.

Box 34: Accounting procedure for revolving fund account

5.2 RBM[38]

The DPs and the developing countries under the Paris Declaration are bound to work together and jointly monitor and evaluate foreign-funded development projects and programmes to make sure that funds are spent on the approved projects and programmes. To strengthen and streamline the system, the developing countries agreed to introduce RBM systems. Other similar frameworks for results mapping include:

- MfDR;
- results-based M&E;
- result management;
- performance measurement/management; and
- management by objective.

What is a result?

'A result is a describable or measurable change that is derived from a cause-and-effect relationship. There are three types of such changes – outputs, outcomes and impact - which can be set in motion by a development intervention. The changes can be intended or unintended, positive and/or negative. It is expected that careful management for development results within programmes using RBM will lead to positive change. However, this is not always the case. Change can sometimes lead to unintended or negative consequences. It is therefore important to continually manage for results so that programmes can truly result in positive change.'[39]

Box 35: What is a result?

Traditional monitoring looks into financial and physical progress but RBM probes into the outcomes and impacts of development projects and programmes. RBM has been promoted as an important means to improve the quality and impact of development efforts. It is essentially a special public management tool; governments can use it to measure and evaluate outcomes and then feed the information back into the ongoing processes of governance and decision-making. At its core are notions of:

- ***Goal orientation*** **–** Setting clear goals and results providing targets for change and opportunities to assess whether change has occurred.
- ***Causality*** **–** Various inputs and activities leading logically to outputs, outcomes and impacts, also called the 'results chain'.
- ***Continuous improvement*** **–** Periodically measuring results providing the basis for adjustment (tactical and strategic shifts) to keep programmes on track and to maximise their outcomes.

[38] This section has been largely extracted from Planning Commission's Guide on Project Management and the United Nations Development Group's RBM Handbook.
[39] United Nations Development Group's RBM Handbook

RBM framework – The RBM framework of a project/activity consists of four phases, namely input, output, outcome and impact, which are explained below:

- **Impact –** The higher-order objective to which a development intervention is intended to contribute.
- **Outcome –** The likely or achieved short-term and medium-term effects of an intervention's outputs.
- **Output –** The products, capital goods and services that result from a development intervention; this may also include results from the intervention that are relevant to the achievement of outcomes.
- **Input/activity –** Actions taken or work performed through which inputs such as funds, technical assistance and other types of resources are mobilised to produce specific outputs.

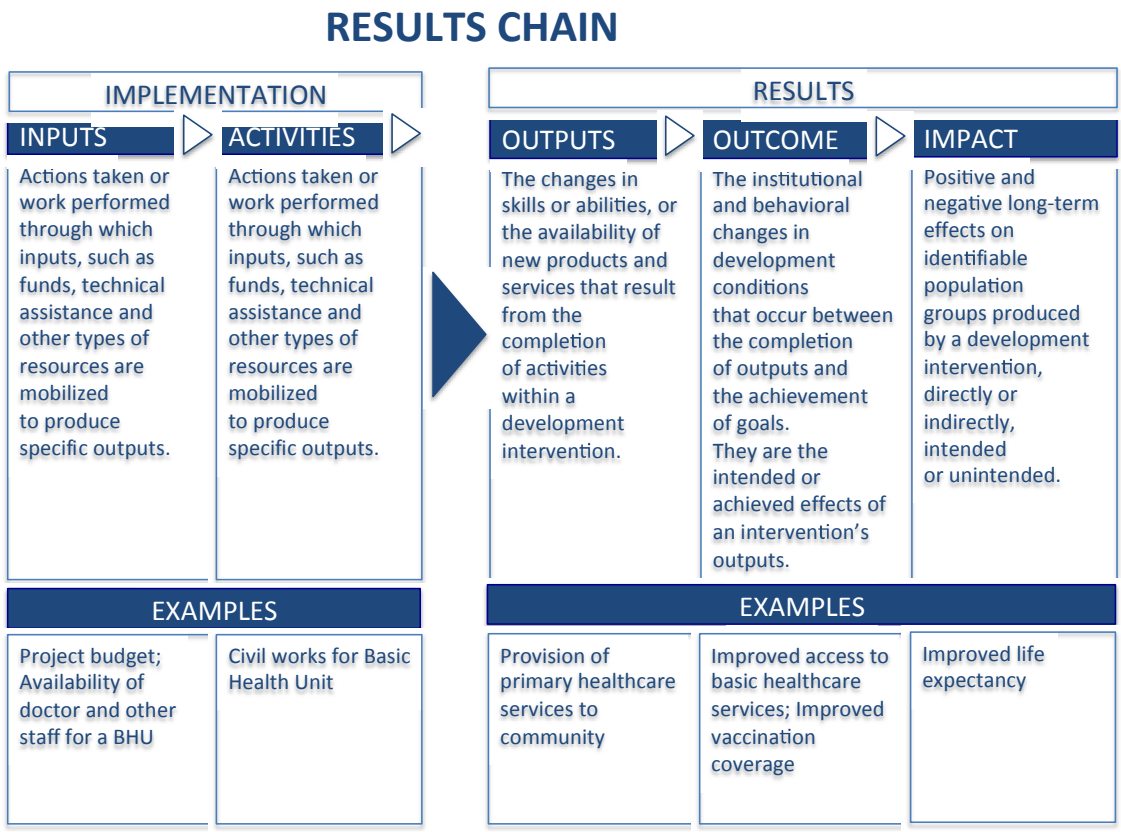

Figure 9: Results chain schematic

In RBM, a results chain is used, which shows how activities, through a number of intermediate causal links, are expected to result in the realisation of the goals of those projects, programmes and policies. For example, training of farmers in improved agricultural techniques can lead to changes in agricultural practices,

which can improve their yields, which in turn can enhance incomes of household livelihoods.

Measuring results – The success of an RBM system hinges upon quantifying or measuring results of a development project or a programme. The power of measuring results comes from tracking them over time through tracking their expenditures, revenues, staffing levels, resources, programme and project activities, goods and services produced, and so forth. This is explained below:

- If you do not measure results, you cannot tell success from failure.
- If you cannot see success, you cannot reward it.
- If you cannot reward success, you are probably rewarding failure.
- If you cannot see success, you cannot learn from it.
- If you cannot recognise failure, you cannot correct it.
- If you can demonstrate results, you can win public support.

Utilising monitoring results after conducting field or desk monitoring of a development project or a programme is the key step in reaping the benefits of the project. Once this step has been taken, RBM itself begins to generate results.

5.2.1 RBM implementation

The following steps explain RBM implementation for a programme or a project:

- agreeing on performance outcomes to monitor and evaluate;
- developing key indicators to monitor results;
- gathering baseline data on indicators;
- planning for improvements – setting realistic targets;
- building a monitoring system;
- analysing and reporting findings;
- collecting and providing evaluative information; and
- using the findings – getting that information to the appropriate users.

5.2.2 Key indicators

Another important step for an organisation is to develop key indicators so that a sustainable M&E system based on RBM is established. Without indicators, it is hardly possible to monitor the targets vis-à-vis achievements of a development project or programme. Indicators are 'yardsticks' that can be used to demonstrate that changes have (or have not) taken place. Indicators of the achievement of objectives are required in order to establish whether a project or programme is achieving the desired changes. The key indicators will usually have been defined during the planning process. Later, these need to be reviewed, and perhaps adjusted or supplemented. The key questions concerning indicators are:

- For whom should something change?
- To what extent should something change?
- By when should something change?

5.3 PPPs – looking for alternative financing options[40]

The GoPb is committed to sustainable economic growth and inclusive social development. Global experience has shown that there is a close relationship between these objectives and infrastructure development as well as growth in private investment. The correlation works in both ways – private investments and infrastructure development are major drivers for economic growth, and economic growth requires well-functioning infrastructure facilities and services as well as financing to fuel growth. If infrastructure investments are not kept at a sufficient level, economic growth becomes constrained by power shortages, traffic congestion, high transport costs and other infrastructure bottlenecks. Similarly, public financing is often limited and runs dry, in the absence of a healthy flow of private investments.

The government has therefore decided to significantly increase private investments in infrastructure services and other sectors. The preferred mode is PPPs, where the private and public sectors enter into mutually beneficial contractual agreements for the provision of public infrastructure services. To provide an enabling framework for private sector participation in infrastructure development, the government has approved the Punjab Public–Private Partnership Act 2014, has issued a PPP policy and issued detailed PPP policy guidelines and PPP rules for Punjab.

The lack of sufficient viable projects to offer to private investors has been pointed out in a number of countries as one of the major constraints to promoting PPPs. Therefore, a proactive approach is needed for identifying and screening projects that are potentially suitable for implementation in the PPP mode. As the line departments and local governments in Punjab lack experience in this area, there is a need for adopting a relatively simple methodology and procedures, which they could follow.

To provide the necessary support, the government has established a PPP cell in the P&D Department, which is staffed by technical, financial and legal experts. All line departments and local governments that want to implement PPP projects in their sector and/or geographical area of responsibility can seek support from the PPP cell in project identification, screening, preparation and transaction execution.

A practice-oriented methodology is described for the identification and screening of potentially suitable PPP projects in Section 2 of this manual, which can be used by

[40] For detailed information on the subject, please see Punjab's PPP Policy Guidelines, which can be accessed at http://ppp.punjab.gov.pk/guidelines, as well as the PPP Act and Rules at http://ppp.punjab.gov.pk/policy_act

line departments and local governments in-house without undertaking complex and time-consuming assessment studies requiring external support.

5.3.1 PPP project life-cycle

The following four main phases can be distinguished in the overall life-cycle of PPP projects:

- project inception;
- project preparation (feasibility study);
- transaction execution (procurement of the private party); and
- construction, operation and transfer (development, delivery and exit).

The sequence of the main activities during these phases is shown in the chart below:

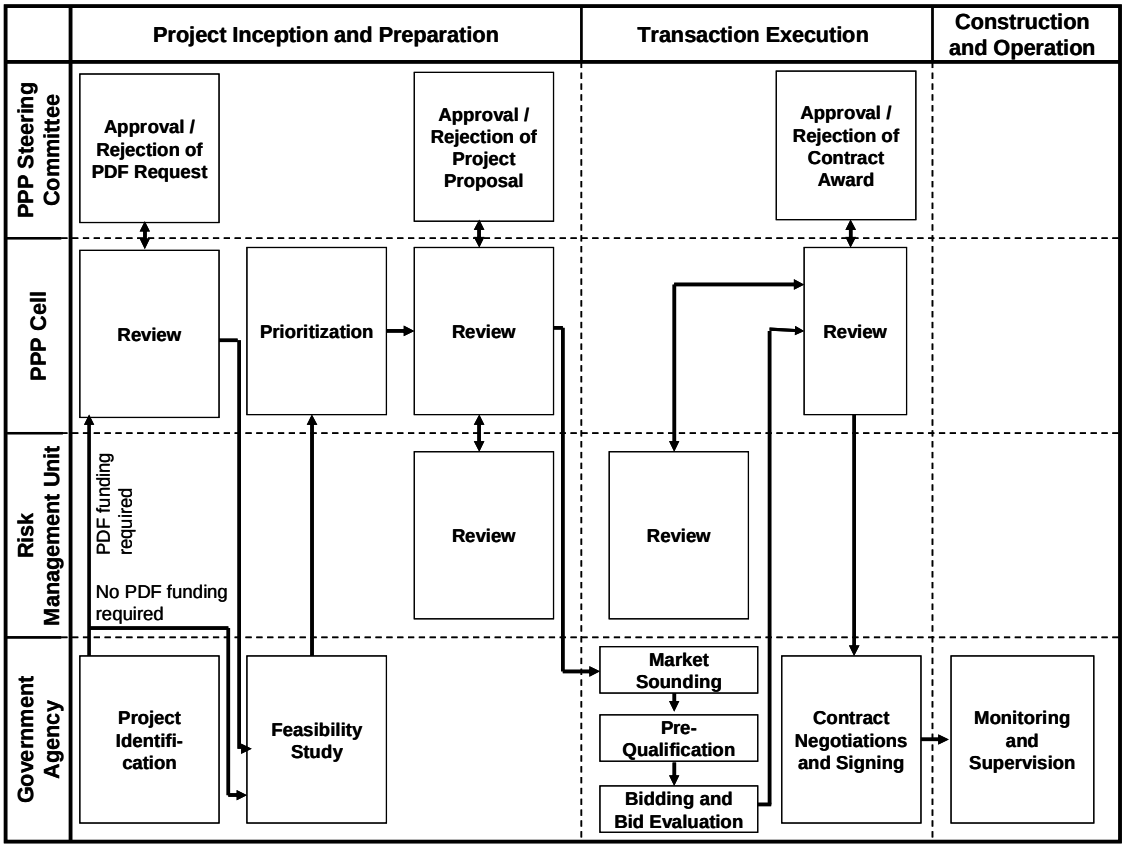

Figure 10: Flowchart of PPP approval process

5.3.2 Inception phase

During the inception phase, the line departments can identify and conceptualise a potential PPP project from its master plans and other planning documents. This phase should include an initial needs and options analysis to determine the best solution for developing the given infrastructure facility and/or providing the necessary infrastructure service, as well as an initial viability analysis. To help prepare the PPP project and select the private party, the line departments need to recruit qualified consultants. Prior to doing so, they need to decide whether to cover their cost from their own budget or the project development facility (PDF).[41] In the latter case, the line departments should submit a request for PDF funding through the PPP cell to the PPP Steering Committee. The project inception phase ends with the recruitment of the consultants who will provide support to the government agency during the next two phases.

5.3.3 Project preparation phase

In the second phase, the line departments should manage preparation of the PPP project by the consultants. The preparation consists of a feasibility study, supplemented by an initial environmental examination, environmental impact assessment (if required), risk analysis, assessment of the need for government support, stakeholder consultations, determination of the PPP modality (project structuring)[42] , and drafting of tender documents including the PPP agreement. An important part of the feasibility study is financial modelling to determine project bankability and affordability.

5.3.4 Transaction execution phase

Provided the outcome of the feasibility study is positive and the PPP project proposal is approved by the PPP Steering Committee for implementation, the third phase – transaction execution – starts. During this stage, the consultants should assist the line departments in undertaking market sounding aimed at packaging the project in a way that attracts the interest of private investors. The market sounding should be followed by the tendering process as prescribed in the Punjab Public–Private Partnership Act 2014. Based on technical and financial evaluation of the bids received, the preferred bidder should be determined and invited to contract negotiations. After the PPP agreement has been signed, the selected private party should endeavour to arrange the necessary financing and thereby achieve financial closure for the PPP project. This will mark the end of the transaction execution phase and the beginning of project construction.

5.3.5 Project construction and operation phase

[41] As the costs of consultants are significant and cannot be funded frequently by the annual budgetary allocations, the government has established the PDF as a part of the overall enabling PPP framework. The PDF, which will be administered by the PPP cell, will ultimately be a revolving fund, with the project preparation and transaction execution costs reclaimed from winning bidders.

[42] These activities are sometimes referred to as technical, legal, environmental and financial due diligence.

During the last phase, which covers construction, operation and transfer (if applicable), the line department should be responsible for monitoring and evaluating the PPP project to ensure its conformity with the plans, specifications, performance standards and tariffs in the PPP agreement. The line departments should submit annual reports on the PPP project to the PPP cell. At the end of the period covered by the PPP agreement and if so provided therein, the PPP project should be transferred by the private party to the government.

The following matrix lists the main responsibilities of different partners during the PPP project life-cycle:

MAIN STEPS DURING THE PROJECT LIFE-CYCLE

Phase	Steps	Responsibility				
		LD	PPPC	RMU	CF	PPPSC
1. Project inception	➢ Decide to explore the PPP mode	✓				
	➢ Identify a potential PPP project from the master plan or through preliminary needs analysis	✓	✓ a)			
	➢ Screen the project using multiple criteria	✓	✓ a)			
	➢ Decide whether to pursue the project any further	✓	✓ a)			
	➢ Prepare a project concept paper	✓	✓ a)			
	➢ Register the project with the PPP cell	✓				
	➢ Appoint a project manager	✓				
	➢ Draft ToRs for the feasibility study and transaction execution	✓	✓ a)			
	➢ Prepare a budget estimate for the required consulting services	✓				
	➢ Decide whether to request financing from the PDF	✓	✓ a)			
	➢ Prepare and issue a request for proposals for consulting services	✓				
	➢ Evaluate the technical and financial proposals	✓	✓ a)			
	➢ Negotiate and sign a contract with the first-ranked consultants	✓				
2. Project preparation	➢ Carry out the feasibility study				✓	
	➢ Review its conclusions and recommendations	✓				
	➢ Decide on whether to proceed with the project any further	✓				
	➢ Prepare a report on the project proposal	✓			✓	
	➢ Submit the project proposal through the PPP cell to the PPP Steering Committee	✓				
	➢ Review the project proposal and prepare a briefing paper for the PPP Steering Committee		✓	✓ b)		
	➢ Decide on whether to approve, reject or send back for reconsideration the project proposal					✓

3. Transaction execution	➢ Prepare an information memorandum for project marketing				✓	
	➢ Undertake market sounding of potential investors and lenders				✓	
	➢ Finalise project structure and tender documents				✓	
	➢ Establish a data room for due diligence by investors	✓			✓	
	➢ Issue a request for pre-qualification applications	✓				
	➢ Evaluate pre-qualification applications	✓			✓	
	➢ Issue a request for technical and financial proposals to pre-qualified bidders	✓				
	➢ Evaluate bids received	✓			✓	
	➢ Prepare a bid evaluation report including recommendations on the contract award	✓			✓	
	➢ Submit the bid evaluation report through the PPP cell to the PPP Steering Committee	✓				
	➢ Review the bid evaluation report and prepare a briefing paper for the PPP Steering Committee		✓	✓ [b]		
	➢ Decide on whether to approve, reject or send back for reconsideration the contract award recommendation					✓
	➢ Conduct negotiations with the preferred bidder	✓			✓	
	➢ Sign the PPP agreement	✓				
	➢ Fulfil conditions precedent to financial close	✓			✓	
4. Development, delivery and exit	➢ Monitor project implementation to ensure conformity with plans and specifications	✓				
	➢ Monitor and evaluate project operation to ensure conformity with performance standards and tariffs	✓				
	➢ Prepare annual reports on project performance to the PPP cell	✓				
	➢ Monitor and evaluate financial performance of the project			✓		
	➢ Make arrangements for project transfer to the government at the end of the term of the PPP agreement	✓				

Table 24: PPP project life-cycle steps

CF = Consulting Firm; LD = Line Department; PDF = Project Development Facility; PPP = Public–Private Partnership; PPPC = PPP Cell; PPPSC = PPP Steering Committee; RMU = Risk Management Unit.

[a] If support by the PPP cell for this activity is requested by the government agency.

[b] If government support is required for the project.

5.4 Private sector support calibration

The GoPb has been endeavouring to support a number of industries in recent years, through various interventions. Furthermore, in the past few years, the sponsoring departments have increasingly opted for developing independent companies to take responsibility for implementation of these interventions. These recently established organisations usually take the form of a not-for-profit company, registered under Section 42 of the Companies Ordinance (commonly referred as Section 42 companies). Most of these Section 42 companies have been established through a direct grant or loan from the GoPb, but after the utilisation of initial seed money, these companies often seek more funding through their parent department, with or without PC-I, for meeting their recurring costs as well as for new development initiatives.

It is imperative that anybody who is involved in requesting, appraising or approving such grants should apply some objective criteria to ensure that such grants are rightly targeted and effectively used. For this purpose, this section outlines an approach to assess such cases, in line with the best practices followed across the world to benchmark similar industrial support interventions.

The core principles in criteria for assessing private sector support initiatives include the sunset clause; exit strategy; targeted interventions; clear objectives; performance indicators; M&E mechanism; shareholder consultation and participation; transparency; whole or partial cost recovery; simple design to implement and manage; flexibility to adjust and scale up; market mechanism; targeting of productivity or innovation gains; and ownership and accountability.

5.4.1 Market failures

The need for government interventions for industrial support should only be justified if they are addressing a market failure that cannot be addressed by the private sector itself[43]. These failures include coordination failures and information spillover.

> *Coordination failures occur when markets are incomplete so that the return to one investment depends on whether some other investment is also made: building a hotel near a beautiful beach may be profitable if someone builds an airport. The opposite may also be the case. However, there may be not be a way for the market to coordinate both investments. A typical solution is for the government to provide a guarantee to both investors. If done well, this will be costless for the government ex post as the investments would be profitable when they both take place. If the guarantee is not credible, then the government can just build the airport and the hotels would follow.*

Similarly, hypothetically a number of furniture manufacturers in Chiniot may not be investing in high-quality designs or a highly skilled workforce, due to the absence of a wood seasoning facility in the area. Nobody may be willing to invest in such a seasoning facility, in the absence of high-quality manufacturers in the area. Again, the government may either provide guarantees or invest and establish such a facility to ensure availability of high-quality wood for more expensive designs.

Information spillovers mean that an entrepreneur shies away from investing in something where he/she would incur costs (personalised costs), but if he/she is successful the gains would be shared by others as well (social costs).

For instance, surgical instrument manufacturers may not invest in training their workforce, as these workers, once trained, may be hired by other players in the market. However, the government may address this failure by establishing a technical and vocational training institute in the area for the surgical manufacturing workforce.

5.4.2 Clear objectives and results-based performance indicators

[43] Hausmann and Rodrik, 2006. Doomed to Choose; Industrial Policy as Predicament

All industrial support interventions should have well-defined objectives with commitment at the outset of the intervention, so that all stakeholders know what the new industrial support initiatives are trying to achieve. A well-designed industrial support intervention must have both output- and outcome-level goals. For instance, a technical and vocational training facility may have the outcome-level objective/goal of enhancing the skill of the workforce in particular industries; however, the output-level goals must include the number of trainees or number of courses delivered over a period of time. Moreover, the outcome-level goals should be quantifiable, which may then be verified through impact assessment exercises, carried out by P&D Department, a third party or any other institution.

5.4.3 Performance benchmarks for beneficiaries

All private sector support interventions should have clear performance benchmarks for beneficiaries, and if these are not met, there should be a clear process for filtering out such beneficiaries. For example, in special industrial or export processing zones, the beneficiaries can be asked to meet certain export targets.

5.4.4 Stakeholder consultation and participation

It is important to lay down this procedure to demonstrate how all relevant stakeholders have been consulted. In many cases, a handful of stakeholders are consulted or sometimes an important stakeholder is missed.

5.4.5 Whole or partial cost recovery

The notion of cost recovery is important not only for creating ownership and responsibility but also so that the government's limited resources could be channelled in the most effective manner. The government may decide to support interventions that do not contribute anything towards cost recovery; nevertheless, the principle should be there to prioritise, rank and assess any such interventions.

5.4.6 Targeting

The government has the mandate of directing limited resources to the initiatives that meet its strategic priorities. Some of the interventions, while having clear objectives, only aim at increasing the profitability of the private enterprises. However, all such interventions should target either productivity or innovation as clear criteria for targeting. For instance, at the federal level, the export rebates are given to all exporters, thereby increasing their profitability. As per this principle, however, these rebates should be focused on certain types of exporters, including those exporting to new markets (where they could not previously export and now due to productivity enhancement have become more competitive) or in new product categories (which indicates innovation).

5.4.7 Sunset clause

Sunset clauses define the time duration of an intervention and as such are termed as the most effective policy design feature. Governments operate at a distance from private enterprises. Most of the time, it is difficult for the government to pick winners from among the interventions, and there is no explicit timeframe for an intervention after which a third party may carry out a CBA to decide on continuing or otherwise for that particular initiative. Therefore all the industrial support interventions should exist for a limited period and must have sunset clauses. For instance, provision of milk cooling tanks, mechanisation support for farms, etc. under various industry support initiatives should have had a sunset clause with an inherent assumption that by the time they end, they would have achieved the desired objectives. Even the Section 42 companies, as well as public-sector training institutions, exhibition centres, etc. must also have a sunset clause, as government should not keep on supporting this essentially private sector activity for an unlimited period. If the private sector continues to see value in these initiatives, they should be taken up by the private sector itself. For example, Section 42 companies for sector development in a particular industry can be taken up by the respective industry association after a certain time. Similarly the public sector-led training can be taken over by private sector players, if there is a sufficient element of cost recovery. These sunset clauses, however, should correspond to an appropriate exit strategy.

PRIVATE SECTOR SUPPORT CALIBRATION TEMPLATE			
No	**Criteria**	✓✗	**Comments**
1	▪ Does the proposed project address a market failure? Please explain:	☐	
2	▪ Does the project have clear objectives and results-based performance indicators?	☐	
3	▪ Are there clear selection criteria for beneficiaries?	☐	
4	▪ Are there any performance benchmarks for beneficiaries?	☐	
5	▪ Have relevant stakeholders been consulted?	☐	
6	▪ Are beneficiaries making any cost contributions?	☐	
7	▪ Does the project have a sunset clause?	☐	
8	▪ Does the project have an exit strategy?	☐	

Table 25: Private sector support calibration template

VOLUME TWO - APPENDICES

SECTION A – Standards and yardsticks

SECTION B – Planning Commission guidelines/templates and other relevant federal government documents

SECTION C – Government of Punjab notifications and documents

SECTION D – Relevant policies and procedures