

PUNJAB PLANNING MANUAL 2023



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ACRONYMS

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| ADP | Annual Development Programme |
| AEDB | Alternative Energy Development Board |
| AGPR | Accountant General Pakistan Revenues |
| AIIB | Asian Infrastructure Investment Bank |
| ARE | Alternative and Renewable Energy |
| BCR | Benefit Cost Ratio |
| BoD | Board of Directors |
| BoG | Board of Governors |
| BOR | Board of Revenue |
| BOT | Build Operate Transfer |
| CDM | Clean Development Mechanism |
| CDWP | Central Development Working Party |
| CM | Chief Minister |
| CPM | Critical Path Method |
| DAO | District Accounts Officer |
| DC | Deputy Commissioner |
| DDC | District Development Committee |
| DDO | Drawing and Disbursement Officer |
| DDSC | Departmental Development Sub-Committee |
| DDWP | Divisional Development Working Party |
| DISCOs | Distribution Companies |
| EAD | Economic Affairs Division |
| ECNEC | Executive Committee, National Economic Council |
| EIA | Environmental Impact Assessment |
| EIRR | Economic Internal Rate of Return |
| EMP | Environmental Management Plan |
| EPC | Engineering, Procurement and Construction |
| ESS | Environmental and Social Safeguards |
| FD | Finance Department |
| FEC | Foreign Exchange Component |
| FIDIC | International Federation of Consulting Engineers |

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|--------------------|---|
| FIP | Financial Intermediation Programmes |
| FIRR | Financial Internal Rate of Return |
| GoPb | Government of the Punjab |
| HR | Human Resource |
| HUD&PHD | Housing, Urban Development and Public Health Department |
| IDAP | Infrastructure Development Authority of Punjab |
| IEE | Initial Environmental Examination |
| IPAS | Intelligence Project Automation System |
| JPC | Joint Priorities Committee |
| LFA | Logical Framework Analysis |
| LG&CD | Local Government and Community Development Department |
| M&E | Monitoring and Evaluation |
| MfDR | Management for Development Resources |
| MICS | Multiple Indicator Cluster Survey |
| MTBF | Medium Term Budgetary Framework |
| MTDF | Medium Term Development Framework |
| NBP | National Bank of Pakistan |
| NEC | National Economic Council |
| NPV | Net Present Value |
| NTDC | National Transmission and Dispatch Company |
| O&M | Operations and Maintenance |
| P&DB | Planning and Development Board |
| PAO | Principal Accounting Officer |
| PD | Project Director |
| PDWP | Provincial Development Working Party |
| PEFAC | Provincial External Financial Assessment Committee |
| PERI | Punjab Economic Research Institution |
| PERT | Program Evaluative Review Technique |
| PFM | Public Financial Management |
| PforR | Programming for Results |
| PGS | Punjab Growth Strategy |
| PIM | Public Investment Management |
| PITB | Punjab Information Technology Board |
| PLGA | Punjab Local Government Act |

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|----------------|--|
| PMIU | Programme Monitoring & Implementation Unit |
| PMU | Project Management Unit |
| PPP | Public Private Partnership |
| PPRA | Punjab Public Procurement Regulatory Authority |
| PSDP | Public Sector Development Programme |
| PSLM | Pakistan Living Standards Measurement |
| R&D | Research and Development |
| RBM | Results Based Management |
| RFA | Revolving Fund Account |
| RMU | Risk Management Unit |
| SDGs | Sustainable Development Goals |
| SMDP | Smart Monitoring of Development Projects |
| SNE | Schedule of New Expenditure |
| TA | Technical Assistance |
| TEVTA | Technical Education and Vocational Training Authority |
| TO | Tehsil Officer |
| TPV | Third-Party Evaluation |
| UNDP | United Nations Development Programme |
| UNFCC | United Nations Framework Convention on Climate Change |
| UNISDR | United Nations International Strategy for Disaster Reduction |
| WASA | Water and Sanitation Authority |
| WASH | Water, Sanitation and Hygiene |
| WB | World Bank |

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Chapter 1: Introduction

Key Concepts

Public Investment

Public investment refers to investment made by the state (federal, provincial, and local governments as well as public sector entities operating under them) to create fixed assets or infrastructure that is required to provide public goods and services (e.g., transport, schooling, healthcare) for citizens' consumption¹.

Revenue Expenditure

The Provincial Consolidated Fund is divided into the Revenue, Capital, and Debt Accounts. Revenue Expenditure is simply expenditure that is made from revenue receipts (from taxes and levies) raised by the provincial government².

Capital Expenditure

Capital expenditure is made from extraordinary receipts (sale of assets, debts, loans, etc.) in the Capital Account and is aimed at the creation of concrete assets of a material character³.

Development expenditure

Development expenditure refers to all expenditure that:

1. Is intended to keep intact, enlarge, or improve the physical resources of the province.
2. Improves the knowledge, skill, and productivity of human resources.
3. Encourages efficiency in the utilization of available resources.

In sum, items of expenditure that replaces or expands the existing capacity/coverage of public goods and services should in-principle be categorized as developmental.

For instance, agricultural extension, replacement and depreciation in industry, and non-recurring expenditure in health or education may be funded by development expenditure. In contrast, expenditure to meet run routine, operating

expenses of departments and agencies should not be termed developmental.⁴

Fixed assets

Fixed assets are mainly physical structures such as plants and equipment with strategic or long-term value and a useful life exceeding one year⁵. According to global standards, nontangible assets such as computer software and artistic creations are also classified as fixed assets.⁶

Non-financial assets

According to the System of National Accounts 2008, they refer to all economic assets other than financial assets, which include non-produced assets (land, subsoil assets, patents, leases) as well as produced assets (fixed assets, inventories, and valuables).⁷

Asset management

Asset management is a systematic process of maintaining, upgrading, and operating physical assets to realize maximum value.⁸ This includes asset inventory management where key information regarding each asset is maintained and regularly updated so that timely actions regarding maintenance, performance assessment, repair, up-gradation, renewal, and disposal may be planned and executed.

New and Ongoing Schemes

A development scheme which is included first time in Development Programme of a financial year and no expenditure had been incurred on that scheme during previous financial years should be shown as a new scheme in the Annual Development Programme. Whereas, a scheme, where expenditures have been incurred during previous years (other than new schemes), should be shown as an on-going scheme in the Annual Development Programme.

¹ IMF definition.

² Punjab Budget Manual, 2008. Source: https://finance.punjab.gov.pk/system/files/Revised%20Budget%20Manual%202008_0.pdf

³ Ibid

⁴ Ibid

⁵ Punjab Budget Manual, 2008.

⁶Source:

<https://www.imf.org/external/pubs/ft/wp/2013/wp1395.pdf>

⁷ Ibid

⁸ It has been defined in ISO 55000 as "coordinated activity of an organization to realize value from assets".

Other Development Program (ODP)

Other Development Programme (ODP) reflects allocations / development grants earmarked for Autonomous Bodies / Public Sector Companies / Special Institutions established under the Act of Punjab Assembly / Companies Ordinance, 1984 / Societies Registration Act, 1860. The Board of Directors of autonomous bodies are empowered to

accord approval of their development programmes / work plans.

Mega projects

The projects approved by the ECNEC are considered '**Mega Projects**'.

General project categories are: '**Major Projects**' are those approved by the PDWP, '**Medium Projects**' are approved by DDSC, and '**Small Projects**' are approved by DDWP or DDC.

1.1. Overview of Development Planning

Why is there any need for development planning? This question needs to be answered so as to appreciate the overarching rationale for planning. A closer look at the cross-sectional data among developing countries manifestly reveals a few common characteristics/features that consequently lead to low levels of economic development. A list of these common features include:

- poverty
- primitive agriculture
- population pressure
- scarcity of capital
- social exclusion and gender inequality
- inequitable income distribution
- low level of literacy and
- high unemployment

Planning is thus based on the following fundamental grounds:

- Taking care of the collective needs of people including women, and other vulnerable segments of society.
- Determining the future desirable direction of the economy.
- Facilitating the equitable distribution of economic power.
- Reducing uncertainty and providing direction for future development.
- Providing effective coordination and optimally utilizing a country's scarce resources.
- Coping credibly and efficiently with major socio-economic challenges.
- Enabling the economy to look ahead, and thereby laying foundation for long-term growth perspective.

Development planning typically follows a set of distinct phases including

- Situation analysis
- Prioritizing key issues, problems or outcomes
- Developing objectives
- Developing plans to address the objectives, including strategies, activities and projects;
- Developing a spatial picture of the situation as well as plans and
- Mobilizing resources to achieve the objectives of plans.

Development planning in Punjab seeks to enhance the quality of life of people manifold through sustainable, effective, and robust interventions / initiatives in the areas of social

welfare, infrastructure development, economic growth, and environmental sustainability. The overarching goal is to navigate through socio-economic challenges of present times, without losing sight of the long-term development and well-being for all. While resource limitations, and inequality pose hurdles, Punjab has made significant progress in literacy, healthcare, infrastructure, and economic diversification. And to solidify the progress made so far, strengthening governance, prioritizing human capital, attracting private investment, and adapting to climate change are crucial considerations.

This manual will facilitate the development of robust economic planning frameworks characterized by their data-driven approach, alignment with social realities, and responsiveness to citizen priorities. At its core, an economic development plan represents a comprehensive set of socio-economic interventions (plans, programmes, and projects) designed to achieve pre-defined, quantifiable objectives within a specified period. An effective planning system aims to articulate a long-term development vision, translate it into concrete policy goals and programs, and subsequently allocate scarce resources efficiently to maximize impact on targeted socioeconomic objectives.

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.

Accomplishing pre-defined economic sector targets relies on formulating numerous programs and projects. To differentiate these, understanding the distinction between a program and a project is crucial. **Typically, a program comprises a set of related, homogenous projects.** For example, a Southern Punjab poverty alleviation program might encompass multiple projects, including establishing a micro-loan enterprise fund and conducting skill development initiatives. On occasion, the terms "program" and "project" may be employed interchangeably. However, it's essential to recognize that a program generally aggregates interlinked projects under a broader umbrella.

A project is however 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 the 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.

1.3. Constitutional and Legal Context

The constitutional and legal aspects of economic planning and development practices in Pakistan are described as below:

- **Article 29 of the Constitution of Pakistan** mandates that it is the responsibility of each organ and authority of the State and each person performing functions on behalf of an organ or authority of the State to act in accordance with those Principles they relate to the functions of the organ or Authority⁹.
- **National Planning and Economic Coordination** including planning and coordination of science and technology research falls under Part II of the Federal Legislative List (Entry No. 7) and therefore is the domain of Council of Common Interest (CCI), which shall formulate and regulate policies in relation to matters in Part II of the Federal Legislative List and shall exercise supervision and control related institutions vide Article 154 of the Constitution.
- **The Federal Public Finance Management (PFM) Act 2019** was enacted (effective from July 1, 2019; and amended in 2020)¹⁰ to ensure compliance with Article 79 of the Constitution. Chapter III of the Act titled ‘Development Projects and Maintenance and Use of Public Assets’ (sections 13-20) has the following provisions:
 - 1) Classification of development projects (Section 13)
 - 2) Preparation of development projects (Section 14)
 - 3) Quality assurance (Section 15)
 - 4) Technical Approval (Section 16)
 - 5) Inclusion of development projects in demands for grants (Section 17)
 - 6) Monitoring and evaluation of development projects (Section 18)
 - 7) Budgetary provision for maintenance of assets (section 19)
 - 8) Utilization of public assets (Section 20)
- **Punjab Public Finance Management (PFM) Act 2022** was enacted (effective 2nd December 2022) to regulate financial affairs in the public sector and matters relating to the Provincial Consolidated Fund and Public Account of the Punjab. It is necessary to regulate and manage financial affairs in the public sector in a comprehensive, efficient, transparent and sustainable manner contributing to long-term socio-economic stability and growth of the Province; to make provisions relating to custody of the Provincial Consolidated Fund, the payment of moneys into that Fund, the withdrawal of moneys therefrom, the custody of other moneys received by or on behalf of the Government, their payment into and withdrawal from the Public Account of the Punjab; and to provide for the matters connected with or ancillary thereto in pursuance of Article 119 of the Constitution of the Islamic Republic of Pakistan.
- Punjab PFM Act 2022 stipulates specific provisions on “Approval and monitoring of Public investment projects and programs and maintaining stock of Public Assets”. This manual has accordingly clarified and laid out provisions on classification and preparation of projects,

⁹ Principles of Policy as per Chapter 2 of Part-II of the Constitution of Pakistan.

¹⁰ Public Finance Management Act, 2019 (amended up to 30th June 2020). Source:

https://www.finance.gov.pk/budget/PFM_Act_2019.pdf

quality assurance, technical approval, and monitoring & evaluation. Sections 28(2), (3) of Punjab PFM Act 2022 state:

“The Planning and Development Board shall prepare and notify a Planning Manual containing the criteria and process for appraisal, approval and monitoring of public investment projects and programs for inclusion in Annual Development Plan.”

- The government of Punjab implemented a version of IMF’s self-assessment **Public Investment Management Assessment (PIMA)** framework in 2022 to assess its PIM capacity and institutional arrangements¹¹. The framework primarily evaluated 15 key institutions across the project lifecycle and provided a comprehensive assessment of the public investment decision-making process including reform areas for substantially enhancing the quality of public service delivery. The PIMA analysis identified weaknesses in the project appraisal¹² framework; evidently pointing at the need to update planning framework including manual in line with recent legislative and other practical changes in the governance and planning structures of Punjab. The details of PIMA are available in Appendix B.
- Punjab PFM Act 2022 has also mandated need for recurrent PIMA analysis at provincial level under Section 30(3) as:

“The Planning and Development Board shall, at least once in every four years, carry out a Public Investment Management Assessment (PIMA) in accordance with international standards.”

1.4. Purpose of the Manual

In compliance with Section 28(2) & (3) of the Punjab PFM Act 2022, this updated manual shall facilitate the development of robust economic planning systems grounded in empirical evidence, responsiveness to prevailing socio-economic conditions, and cognizance of the need for enhanced policy agility in addressing collective priorities of citizens. It will also elaborate on key processes in the programme/project cycle such as project identification and financing, preparation including use of all PC proformas, appraisal, approval, implementation, monitoring, closure and transfer of assets, and evaluation. It guides the user on requirements at every stage of the programme/project lifecycle, with helpful examples wherever necessary.

The immediate objective(s) of the Punjab Planning Manual (2024) is to provide sound, legally valid, procedurally responsive, and globally cognizant operational guidance for main functions performed by development planning practitioners in the Government of Punjab (GoPb). This means that this guidance should:

1. Reflect the prevailing policy framework in terms of policies, laws, rules, and plans promulgated by the federal and provincial governments.

¹¹ Details provided in the Planning Reform Strategy of Punjab.

¹² Refer to sections 4b and 4c of PRS.

2. Resolve procedural bottlenecks that arise from missing, ambiguous, conflicting, or outdated formal guidance on the project planning cycle.
3. Document, embed and mainstream innovations, solutions and best practices emerging from practitioners' experience, expert knowledge, or systematic research.
4. Collate, harmonize, and update recent relevant instructions issued by P&DB.
5. Document, embed and mainstream innovations, solutions and best practices emerging from practitioners' experience, expert knowledge, or systematic research.

The ultimate objective(s) of the Punjab Planning Manual is to raise the standard of public investment management by the Government of Punjab, enabling efficiency gains in public investments and higher productivity in non-financial assets created by the Government of Punjab (GoPb).

This manual is structured in the same order as the Planning process being practiced in the province. Key concept definitions are provided at the start of each Chapter to familiarise the user with the concepts discussed in the chapter. This manual is essentially divided into five sections. The first section presents an introduction of the planning regime including project identification, formulation, and planning. The next four sections address various user-planning needs like appraisal techniques, implementation methodology / protocol, monitoring & evaluation, and other cross-cutting key conceptual areas like public-private partnerships, and foreign funded projects. A reader does not have to go through the whole manual to get help and should rather consult the relevant section for quick reference. For the convenience of the users this Manual along with the compendium is available at the website of the Planning and Development Board. A list of all annexures in the compendium is given in Appendix B.

1.5. Architecture of Planning & Development

In the aftermath of 18th Constitutional Amendment, provincial planning has undergone a transformation with the introduction of a medium-term perspective, increased inflow of resources, and new planning imperatives such as public-private partnership (PPP) and result-based management (RBM). The formulation of the Annual Development Programme (ADP) and approval of development projects are important exercises carried out by the Planning and Development (P&D) Boards/Departments at provincial/special area level, in consultation with concerned provincial departments and agencies. This exercise is based on the guidelines provided by the Federal Government in accordance with the national priorities and resources availability. The ADP formulation exercise determines the size and the direction of the public sector programmes in the provinces.

The planning process was initially formalized 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 Board; and
- Planning agencies at the department/divisional/district level.

Federal Bodies / Forums

| Forum | Function(s) |
|--|---|
| Planning Commission | The Planning Commission including the Ministry of Planning, Development & Special Initiatives occupies the central position in the overall planning machinery of Pakistan. The Prime Minister is the Chairman of the Planning Commission, which, apart from the Deputy Chairman, comprises various Members. The Commission is responsible for preparing the annual Public Sector Development Programme, undertaking economic policy research and review, and building development planning capacity among other agencies. |
| National Economic Council (NEC) | It is the apex economic and development policy forum mandated by the Constitution, responsible for approval the vision statements, long-term perspective plans, 5 years plans, annual plans, and the Public Sector Development Programme (PSDP). The NEC is chaired by the Prime Minister. |
| Executive Committee of the NEC (ECNEC) | The ECNEC sanctions development projects in PSDP (Federal/provincial) that cost more than Rs. 7.5 billion and are according to the sanctioning limits approved by the NEC and notified/issued by the M/o PD&SI. For provincial projects without federal or foreign funding component, the approval forum would be PDWP, up to project value of Rs. 10 billion. It allows changes, as deemed appropriate, in the plans initiated by the Planning Commission / M/o PD&SI. Finally, it reviews policy issues relating to development projects/programs/plans before submission to the NEC ¹³ . |
| Annual Plan Coordination Committee (APCC) | The APCC is mandated to review the previous and current annual plans while recommending the next year's annual plan for submission to the NEC. In addition, it reviews the PSDP of the previous and current year and recommends the proposed PSDP of the next year for submission to the NEC. The APCC is chaired by the Minister of Planning, Development & Special Initiatives or Deputy Chairman Planning Commission. Its members include; Governor State Bank of Pakistan, Ministers for Finance Division, P&D Departments/Board of all provinces and AJ&K, Deputy Chief Executive of Northern Areas, Chairmen P&D Boards Punjab and Sindh, Additional Chief Secretaries (Development) of Balochistan, Khyber Pakhtunkhwa, AJ&K and GB, Provincial Finance Secretaries, Secretaries of all Federal Ministries, Chief Economist Planning Commission, Chairmen FBR, NHA, WAPDA, PAEC, PNRA, HEC and |
| Central Development Working Party (CDWP) | It is responsible for the scrutiny and approval of development projects above Rs.1 billion and up to Rs.7.5 billion, provincial projects having federal financing and/or foreign component, and federal projects having more than 25% of foreign component. For |

¹³ Revised sanctioning powers as per notification No.24(7)PIA-I/PC/22 issued by the Planning Commission dated 3rd August, 2022 forwarded by P&DB on the 17th August, 2022

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| | provincial projects without federal or foreign funding component, the approval forum would be PDWP, up to project value of Rs. 10 billion (as described below). The CDWP is chaired by the Deputy Chairman Planning Commission ¹⁴ . |
| Departmental Working Party (DDWP) | It is a body for approving development projects /programs for the Federal Ministries/ Divisions/ Departments costing up to Rs. 2,000 million. It is headed by the respective Secretary /Principal Accounting Officer of an Administrative Division and includes the representation of Finance Division and concerned technical section of Planning and Development Division. |
| Development Working Party (DWP) | DWP is body of public sector autonomous organizations whether commercial or noncommercial (with a functional board by any name) whereby they are competent to sanction their development schemes based on 100% self- financing having no government guarantees and involving less than 25 % foreign exchange component on specific requirements. |

Table 1: Federal Bodies / Forums

Provincial Bodies / Forums

Planning and Development Board

The Planning and Development Board, Government of Punjab, is the principal planning organization at the provincial level. It coordinates and monitors development programs and activities of various departments of the provincial government. The department also prepares an overall Medium Term Development Framework (MTDF) of developmental activities in the province. The Medium-Term Development Framework lays down the developmental activities to be carried out in the province in various sectors of the provincial economy. In this manner, the Planning & Development Board is one of the main actors in the growth of the economic potential of the province.

Objectives

The main objectives of the department are as follows:

- Assessment of the material and human resources of the province
- Formulation of long- and short-term plans
- Recommendations concerning prevailing economic conditions, economic policies, or measures.
- Examination of such economic problems as may be referred to it for advice.
- Coordination of all economic activities in the provincial government

The detailed functions of the P&D Board are provided in the Punjab Government Rules of Business 2011 (as amended from time to time). An abstract from the aforesaid functions is at Appendix A. The P&DB is also functioning as the Secretariat of the Provincial Development Working Party.

Distribution of work – The P&D Board is divided into self-contained sectors/sections, each of which is headed by a member/senior-chief/chief-of-section, and performs functions as

¹⁴ Ibid

notified from time to time by the competent authority. The details of distribution of work and organogram are provided in Appendix B.

Provincial Development Working Party (PDWP)

The PDWP is the highest body in the Punjab province to approve the provincial development projects; its composition is notified by P&DB and may be amended from time to time.¹⁵

The PDWP is competent to approve development projects costing up to PKR 10,000 million (as amended by the competent authority from time to time), provided no external financing, and federal government funding is involved. In case of such fundings as well as the water-sector projects, the PDWP after consideration shall recommend the matter to the federal government for placing before CDWP. 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.

Departmental Development Sub-Committee (DDSC)

The DDSC in Punjab is authorized to sanction development schemes up to PKR 400 million; its composition and approval limit are notified by P&DB (as amended from time to time).¹⁶ The DDSC must be chaired by the Administrative Secretary in person and no proxy would be allowed in any circumstances. Similarly, the representation of the P&D Board in DDSC should not be less than Member / Chief of Section concerned. Only in exceptional circumstances, the Chief of Section may be allowed to attend the meeting and the viewpoint / comments on the PC-I should be cleared by the Member in-charge.¹⁷

Category I officer – Category I officers are competent to approve works or development schemes costing up to PKR 10 million. There is no need to prepare a PC-I for a scheme costing less than PKR 2.5 million. Schemes involving subsidies, foreign aid, or the creation of new posts would not be considered by Category I officers¹⁸.

Divisional Forum(s)

Divisional Development Working Party

The DDWP is competent to approve development projects up to PKR 200 million. The DDWP comprises:

- i. Divisional Commissioner (as Chairperson)
- ii. Deputy Commissioners concerned
- iii. Superintending Engineers Irrigation
- iv. Superintending Engineers C&WD
- v. Divisional heads of concerned departments
- vi. Director (Development/Finance) (Member/Secretary) as a member/secretary.

¹⁵ Current notification on composition of PDWP is: Notification No.12(24)PO(COOR-II)/P&D/2015-16 dated 09th January, 2024 issued by the P&DB.

¹⁶ Composition and Powers of DDSC is reflected in the Punjab Delegation of Financial Power Rules, 2016.

¹⁷ Notification No.BI-28(60)/2017-18 issued by the P&DB dated 25th October 2018.

¹⁸ Delegation of Financial Power Rules, 2016 .

NOTE: Composition and Powers of DDWP is reflected in the Punjab Delegation of Financial Power Rules, 2016 (as amended from time to time)

District Forum(s)

District Development Committee (DDC)

The DDC is authorized to approve development projects costing up to PKR 50 million in a district. The Committee is composed of:

- i. Deputy Commissioner (Chairperson)
- i. Additional Deputy Commissioners (Finance & Planning)
- ii. Executive Engineer C&WD.
- iii. Executive Engineer Irrigation.
- iv. District Head of concerned department
- v. Deputy Director, (Development), P&D Board (Member/Secretary)

FINANCIAL POWER

The District Development Committee (DDC) shall have power to approve development projects upto the value of PKR 50 million funded by the Provincial Government pertaining to:-

- i. Education
- ii. Primary & Secondary Healthcare
- iii. Public Health
- iv. Water Supply, Sewerage & Sanitation
- v. Roads/ Farm to Market
- vi. Public Buildings
- vii. Any other Sector/ Programme assigned by the Government

NOTE: The composition and powers of the DDC is notified by the Finance Department vide notification No. FD(FR)II.5/82 dated 24 January 2017 (as amended from time to time).

NOTE: The DDSC, DDWP and DDC are not competent to approve any scheme having a foreign exchange or foreign assistance component and/or subsidy, irrespective of the project cost. These must be placed before the PDWP for consideration and approval. Similarly, any survey and feasibility study (**PC-II**) is submitted to the PDWP for consideration and approval, irrespective of the cost.

Autonomous Bodies / Public Sector Companies (Other Development Program)

Approval of Development Projects

P&DB has defined the following mechanism for approval of development projects for autonomous bodies / public sector companies¹⁹:

- Development project proposals, work plans of autonomous bodies / public sector companies would be approved by their respective Boards of Directors (BoD) / Board of Governors (BoG). Representatives of the P&DB, Finance Department and Administrative Department concerned not below the rank of Member / Additional Secretary, shall be nominated as Members of BoGs/BoDs of all these autonomous bodies / public sector companies.

¹⁹ Notification No.35(231)PO(COORD-II)P&D/2019 issued by P&DB dated 12th September 2019.

- A Development Working Party (DWP) of each entity will be constituted headed by the respective Chief Executive of the organization to work as recommendatory body to scrutinize the development projects of these entities and forward to BoGs / BoDs for consideration/approval. These Parties will also include representatives of P&DB Finance Department and concerned Administrative Department (not below rank of Additional Secretary, Chief of Section).
- Project documents for each development proposal / project will be prepared (preferably on PC-I format) and processed for approval by the respective DWP / BoG / BoD.
- Special institutions / autonomous bodies / public sector companies shall, however, approve development projects within their budgetary allocations provided by the Government of Punjab.

Planning and Development in line Departments

Section 27(5) of the Punjab Public Financial Management Act,2022 provided that the line Departments shall prepare and update the medium-term Public Investment Plans in consultation with the Planning and Development Board and ensure that estimates of costs and revenues are prepared for each Public Investment project or program included in such Plans. These plans shall be an integral part of the Growth Strategy prepared under section 27 of the Act, Section 7 of the Act provides that within three months of the close of a financial year, each Department shall submit a performance report to the Government. The report shall contain the details of the actual results achieved during the financial year regarding the outputs, outcomes, and key performance indicators agreed at the time of finalization of the budget for that financial year; and the targeted outputs, outcomes, and key performance indicators achieved along with the reasons for gap between the targets and actual results. In short, the line departments help the P&D Board in the finalization of ADP, as well as implementation, monitoring and evaluation of the ADP projects. This is done by:

- i. Formulating development schemes after stakeholder's consultation and collaboration, ensuring that the schemes are in line with the National and Provincial plans as well as international commitments;
- ii. Submitting a tentative size of the annual development budget keeping in view the sectoral priorities;
- iii. Preparing PC-Is for development schemes and recommendations to the relevant forums for assessment and approval;
- iv. Implementing the projects as per approved scope and cost in close collaboration with all stake holders;
- v. Internal monitoring for relevant development projects;
- vi. Helping in preparation of post evaluation reports to evaluate the efficiency of public spending.

Planning and Development at the level of Local Government

Under 18th amendment in the Constitution of Islamic Republic of Pakistan,1973 a sperate Article 140-A has been inserted in the constitution under local governments have been acknowledged as third tire of Government. All the provincial governments have promulgated Local Government laws. The Punjab has promulgated The Punjab Local Government Act,2022 Local Governments shall perform the Planning and Development as prescribed in Part 9 Chapter XXVII-Planning and Development.

Policy of Federal Government to Finance Provincial Projects

The National Economic Council in its meeting held on 7th June 2021 approved policy to finance provincial projects, which interalia include:

1. The Federal/PSDP funding will cover only:
 - i. Capital investment
 - ii. Projects located in deprived areas
 - iii. Original approved cost. Any subsequent change due to scope or any other reason in cost would be responsibility of Provincial Government
2. The Provincial Government would be responsible:
 - i. To bear the cost of land acquisition, resettlement, provincial taxes and cost of PMU
 - ii. To take over the project on completion immediately.
 - iii. In the case of irrigation projects, Provincial Governments would simultaneously develop command areas to fully benefit from the project.
3. The projects which are selected for financing by the Federal Government adhering to the above policy would be approved by the competent forum by adopting the following approval procedure:
 - i. Projects identified by Provincial Governments for Federal financing are to be recommended by concerned PDWP for placing before CDWP/ ECNEC for consideration as the case may be. The PC-Is of these projects would be signed by the respective Chairman/ ACS, Planning & Development Boards/ Departments.
 - ii. For projects identified by Ministries/ Divisions to be implemented / executed with the collaboration of Provincial Governments, the PC-Is are to be signed by PAO of the concerned Ministry and approved by relevant fora as per project cost.
 - iii. The project PC-I must also be uploaded on i-PAS online by logging on to the web link www.ipas.pc.gov.pk

Key Planning Processes and Instruments

Medium Term Development Framework (MTDF)

The Medium-Term Development Framework is a 3-year projection of annual development expenditure allocated across different sectors and sub-sectors. It covers the current year, as well as the subsequent two fiscal years. The Punjab Public Financial Management Act, 2022 obligates all government departments to:

Prepare and update the medium-term Public Investment Plans in consultation with the Planning and Development Board and ensure that the estimates of costs and revenues are prepared for each Public Investment project or program included in such plans.

Annual Development Programme (ADP)

The Annual Development Programme (ADP) for a financial year is the statement indicating capital and revenue expenditure proposed for all development schemes that will be implemented by the GoPb during the year in question. As such, it is the main public investment policy and planning instrument for provincial governments. It presents a snapshot of planned annual development expenditure and articulates the medium-term (based on the MTDF) development priorities of the provincial government in terms of relative importance attached

to various economic sectors and geographic regions. The ADP includes data on Public Private Partnership (PPP) schemes, foreign-aided projects, and projects being executed by autonomous bodies (under 'Other Development Program'). The size of the ADP depends primarily on the scope and purposes of the Plan covering the financial year and the availability of resources for financing the ADP²⁰.

In essence, the ADP is a catalogue of public sector projects that the GoPb will invest in during the next fiscal year. These include both on-going schemes and those planned for initiation. Projects are listed under relevant sectors (e.g., Social, Infrastructure Development, Production, Services, Others) and sub-sectors (e.g., School Education under Social Sector), with each entry providing data on:

1. Scheme ID (GS number), name, approval date and location
2. Total estimated cost
3. Its status i.e., accumulated expense till start of fiscal year
4. Provision for the current fiscal year (disaggregated by revenue and capital outlay)
5. Cost projections for the next 2 fiscal years (linked to the MDTF)
6. Throw forward beyond the next 2 fiscal years i.e., the amount of total estimated cost remaining unspent.
7. Foreign exchange component of the proposed provision with its breakup under foreign aid and own resources.

The five stages involved in preparation of ADP are as under:

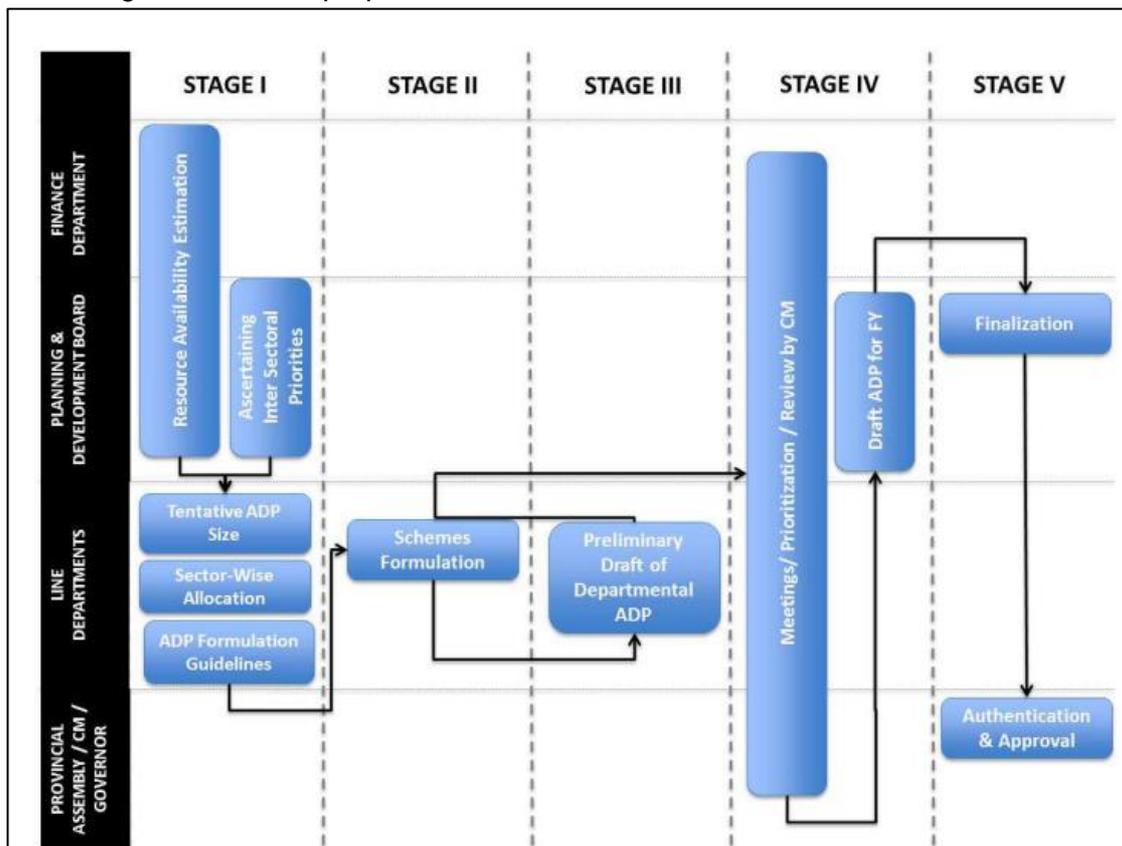


Figure 1: Schematic of ADP Formulation

²⁰ Punjab Budget Manual, 2008.

ADP Timelines & Guidelines

The Planning & Development Board (P&DB) coordinates and guides the ADP formulation process in close consultation with the Finance Department. The P&DB issues guidelines for ADP formulation every year along with timelines. The guidelines issued for ADP formulation 2024-25 are at Appendix B.

Timelines The process follows the following steps and tentative timelines:

| Tentative Timelines | Milestones | Responsible Agency(s) |
|---------------------------------|---|------------------------------|
| Oct - Nov | Budget Call Circular issued by Finance Department | Finance Department |
| 15th December | ADP Formulation Guidelines circulated by P&DB | P&DB |
| 30th December | <ol style="list-style-type: none"> ADP Formulation Teams notified by line departments. Evidence based needs assessment and stakeholder consultations concluded (as and where required) to inform ADP Strategy Papers ADP Strategy Papers prepared by line departments and submitted to P&DB. | Line Departments |
| 31st January | <ol style="list-style-type: none"> Project Concept Notes prepared by line departments and submitted to P&DB Schemes with GPS coordinates are uploaded on the Smart Monitoring of Development Project (SMDP) portal. | Line Departments |
| 15th February | <ol style="list-style-type: none"> First draft of ADP uploaded on the SMDP portal by line departments. Preparation of PC-Is initiated by line departments | Line Departments |
| 15th March | Scrutiny of draft ADP by Members of the P&DB (in due consultation with line departments) | P&DB |
| 17th April | Inter-Departmental meetings/consultations with P&DB on the draft ADP concluded | P&DB |
| 28th April | Submission of Final Draft of ADP to P&DB by line departments on SMDP portal (based on approved PC-Is) | Line Departments |
| 16th May | Briefing sessions/consultations on the proposed ADP with relevant forums concluded by P&DB | P&DB |
| 31st May | Submission of draft ADP to Finance Department | Line Departments |
| June | Approval of ADP by the Cabinet and Provincial Assembly | P&DB |
| 31st August | Annual Reports on the ADP prepared and submitted by line departments. | Line Departments |

Table 2: Steps and tentative timelines for ADP formulation

Project Life Cycle Framework & PC Proformas

The Project Lifecycle defines the phases from the beginning to the end of the project; and breaks up the management of a particular project across 5 distinct stages, each of which entails its own distinct set of tasks, responsible agencies, and project cycle instruments for planning and reporting purposes. The five distinct stages are It has five distinct stages: Project Identification and Formulation; Appraisal and Approval; Implementation and Monitoring; Closure; and Evaluation. It is important to note that these instruments are prescribed by the Planning Commission and are standardized in use across all provinces. The stages of PLC along with corresponding proformas are given below²¹:

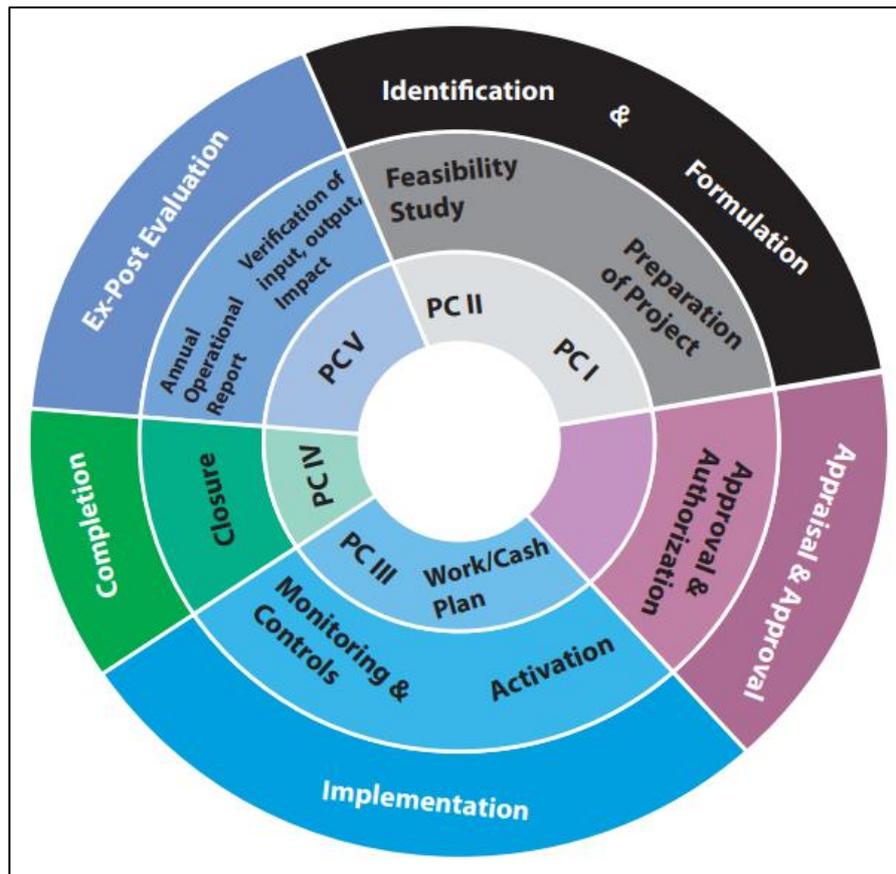


Figure 2: Project Lifecycle Stages and Project Proformas²²

- 1. Project Identification and Formulation (PC-I & PC-II).** At this first stage, the project is identified as a solution to a particular problem, supported by an evidence-based needs assessment. The key project cycle instrument at this stage is the PC-II proforma which is essentially a proposal for conducting a feasibility study. If the conduct of the PC-II study assesses the project to be feasible, a detailed project plan is formulated on the PC-I proforma. Developing the PC-I and PC-II is the responsibility of the line department proposing the scheme.
- 2. Project Appraisal and Approval.** Both the PC-II and PC-I undergo multidimensional appraisal led by the P&DB and approved by competent I for financing and implementation.

²¹ The PC-I to PC-V proforma templates and other useful information are available in Appendix B and at: <https://www.pc.gov.pk/web/downloads>

²² Manual for development projects 2021, Govt. of Pakistan.

3. **Project Implementation and Monitoring (PC-III).** Following necessary approvals, projects are implemented according to the PC-I plans with regular reports on physical and financial progress provided on the PC-III instrument.
4. **Project Closure (PC-IV).** Once the project is complete, the preparation and submission of the PC-IV report marks the formal closure of the project and the conclusion of all technical, financial, and administrative actions associated with the scheme.
5. **Evaluation (PC-V).** Following project closure, an ex-post evaluation is conducted using the PC-I as a baseline to assess project impacts on an annual basis for 5 years after project completion. The results are documented as a PC-V report submitted on the 31st of July, each fiscal year.

The process flow for development projects in Punjab is hereunder:

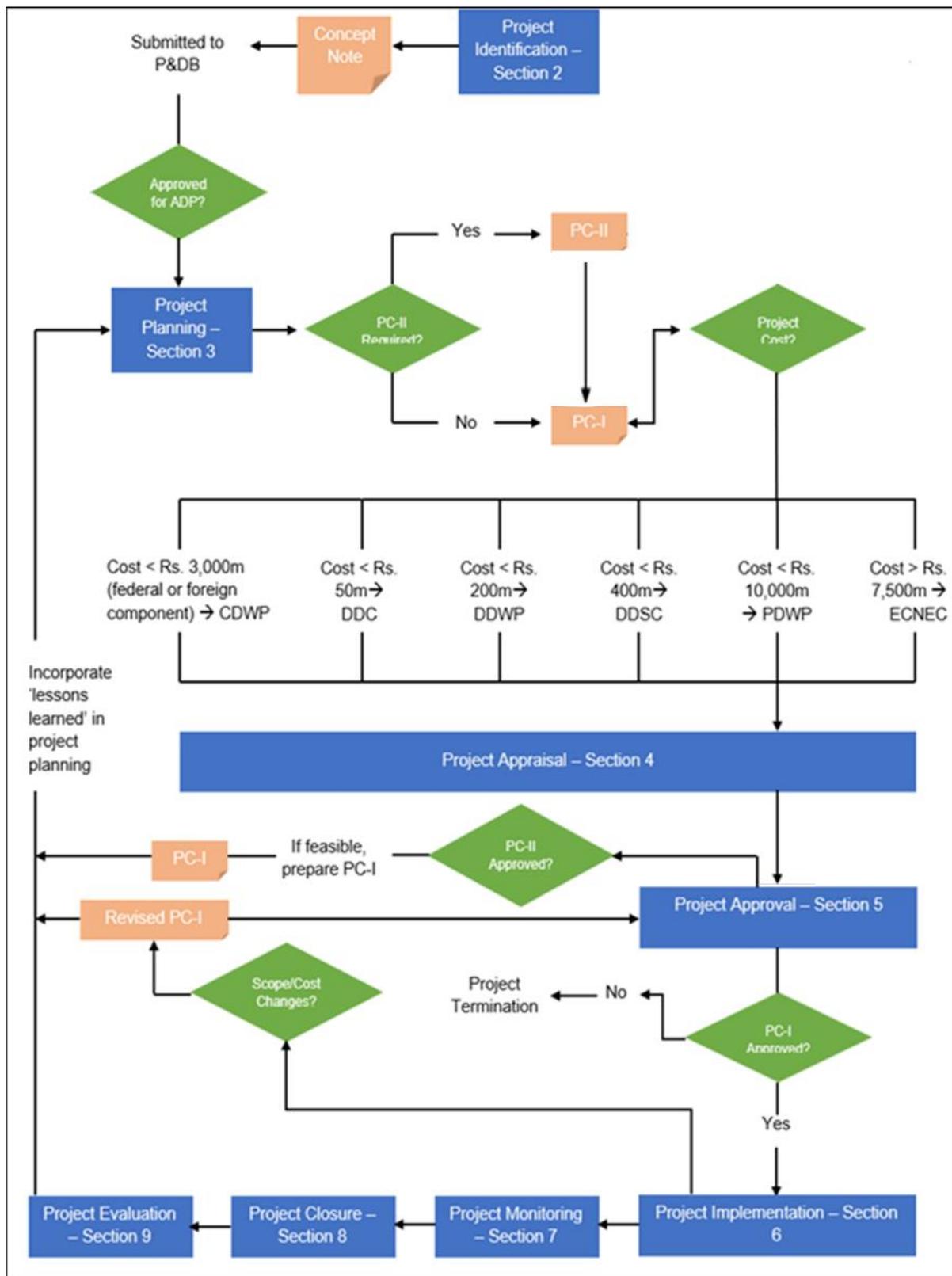


Figure 3: Process Flow for Development Projects in Punjab

NOTE: In case of PPP projects, the Punjab Public Private Partnership Authority shall process the case for approval of PWDP. Also, if foreign assistance or federal component is involved, or project related to water sector, the PDWP shall consider and recommend the project to the federal govt. for placement before CDWP.

1.6. Digital transformation of Development Projects

Smart Monitoring of Development Projects (SMDP)

The Smart Monitoring of Development Projects (SMDP) is an online data management solution designed to digitize and automate document submission, processing, and reporting for the Project Life Cycle. The portal went live in 2016 and was first used to prepare the ADP for FY 2018. The SMDP initiative emerged with a vision to revolutionize the management of development projects within the Punjab Government, introducing transparency, efficiency, and heightened visibility across all associated business processes. This comprehensive project aimed to create a web-based tool tailored for the Planning & Development (P&D) Board, Finance Department, various Administrative Departments, and other key stakeholders involved in overseeing the development portfolio.

The pivotal objective of SMDP was to streamline and enhance the entire lifecycle of development projects. Through its successful implementation, the project achieved remarkable milestones by bringing about end-to-end process automation for crucial components such as Annual Development Plan (ADP) formulation, Project Concept Papers (PC-I & II) across all forums, fund releases, Monthly Progress Reports (MPR), Project Completion Reports (PC-IV), and Project Evaluation Reports (PC-V). It processes requests for fund releases received from executing agencies and is integrated with the SAP system. A database of completed schemes is also maintained.

One of the key accomplishments of SMDP lies in its profound impact on financial efficiency. The initiative automated previously manual processes, eliminating bottlenecks and significantly reducing turnaround times. The establishment of a digitized information bank has played a pivotal role in centralizing project-related data, enabling stakeholders to access accurate and up-to-date information effortlessly.

The successful deployment of SMDP marks a paradigm shift in the budgeting and planning processes for the Government of the Punjab. By embracing digital transformation, the government has ushered in an era of agility and responsiveness in project management. Stakeholders now benefit from real-time insights, fostering informed decision-making and strategic planning. In essence, SMDP stands as a testament to the power of technology in elevating governance, ensuring that the Punjab Government is well-equipped to navigate the complexities of its development portfolio with unprecedented coherence and efficiency.

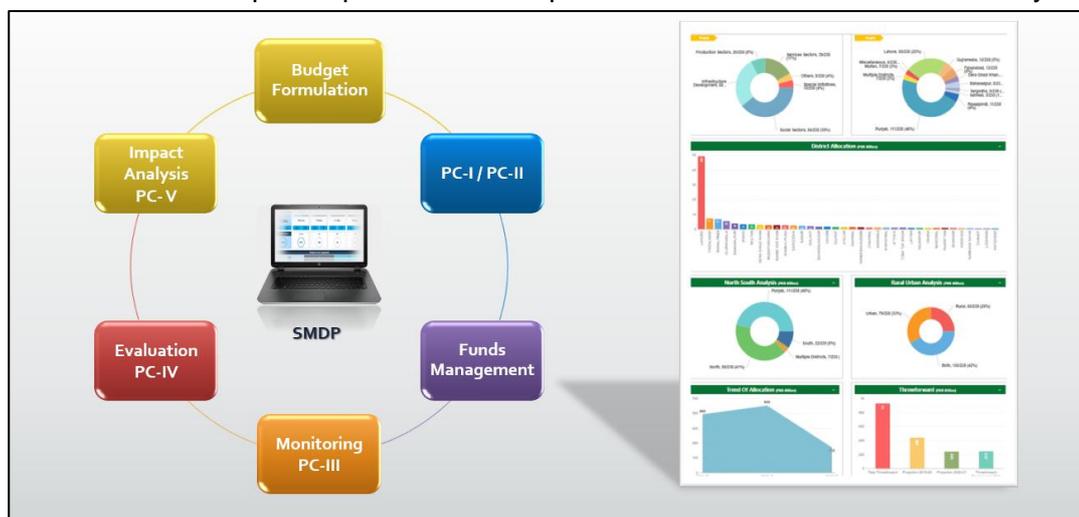


Figure 4: Process flow & interface of SMDP

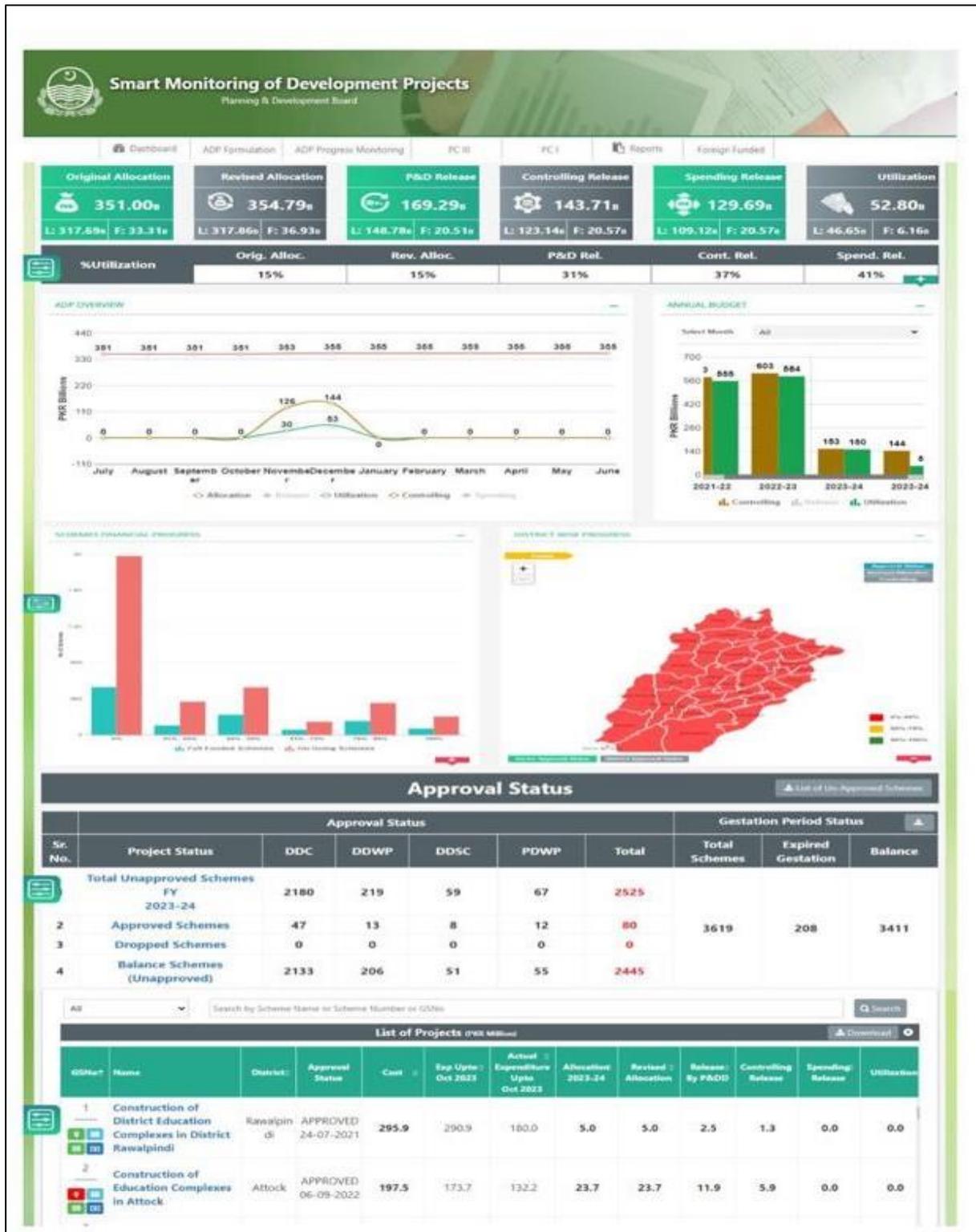


Figure 5: Interface of Smart Monitoring of Development Projects (SMDP) portal

Flowchart of SMDP:

1. Creating Concept Paper for New Projects as per specified format:
 - Appraisal of the Concept Paper with/by the concerned Section of P&D Board
 - Discussion on the Concept Paper with the Secretary P&D Board by concerned section.
 - Discussion and Approval on the Concept Paper with/by Chairman P&DB

- Inclusion of new projects in the draft ADP
 - Approval of the ADP by CM/Cabinet
2. Formulation of ADP
 - Reporting /Printing
 3. PC-I/PC-II Preparation on SMDP
 - PC-I/PC-II uploading by the Line Departments
 - Objectives/Descriptions
 - Components details
 - Cost Estimates details
 - Year Wise Breakup
 - Cash Plans
 - Work Plans
 - Maps/Drawings/layouts/
 - Pre PDWP/DDWP Meeting with concerned Chief
 - Appraisal of the PC-I/PC-II
 - Observations rise by the concerned section on SMDP.
 - Reply by the line Department.
 - Correction of the PC-I/PC-II as per decisions in the Pre-PDWP/DDWP meeting
 4. Generation of Working Paper for PDWP/DDWP
 - Preparation of Working paper on SMDP by the Chief of Section.
 - Circulation of working paper to all members of PDWP in hard (the members of PDWP can also download or review working paper through SMDP)
 - Presentation of project on PowerPoint by the Chief of Section to the forum
 - Approval of the Project
 - Issuance of the Minutes of meeting of PDWP/DDWP
 - Uploading of the Approved minutes on SMDP by line department
 - Issuance of Administrative Approval by the line Department
 - Uploading of the Administrative Approvals on SMDP by line department
 - Issuance of Technical Sanction by the executing Agency
 - Attachment of the TS on SMDP.
 5. Submission of PC-III (a) & PC-III (b) of the Projects
 6. Connected with PIFRA for expenditure/Utilization
 7. PC-IV Preparation
 8. PC-V Preparation

Asset Management Inventory

Punjab Public Financial Management Act 2022 obligates and mandates P&DB to take a key role in maintaining stock of public investments in non-financial assets. According to Section (29) of the Act:

The P&DB must maintain stock of public investments made by the Government in non-financial assets in the form of an electronic Asset Register which will record the maintenance of the following information:

- 1. Acquisition of non-financial assets;*
 - 2. Disposal of non-financial assets;*
 - 3. Consumption of fixed capital in respect of non-financial assets;*
 - 4. Net investment in non-financial assets.*
-

An asset management inventory or register is an asset management tool that allows government departments to maintain a record of all fixed assets owned by the Government. Auditor General of Pakistan issues (and amends from time to time) accounting policies and procedures manual which obligates all government departments/entities to maintain a 'Fixed Assets Register' for the categories of assets for which they are responsible.

Chapter 2: Project Identification & Formulation

Key Concepts

Project Identification

Project identification is the process of conceiving a development scheme that can (under reasonable assumptions) be expected to address a specific problem affecting a particular group of people, within an estimable timeframe and budget, without significant adverse climate and/or environmental impacts.

Key and non-key stakeholders

Project stakeholders are those who have a 'stake' (investment, involvement, concern, interest) in the success of the project. They are citizens or organizations 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. Key stakeholders are those individuals or groups whose interest in the project must be recognized if the project is to be successful – particularly 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.

Stakeholder classification

Stakeholder classification categorizes project stakeholders according to the nature of their link with the project i.e., the way that their decisions can affect the project and the way that the project results (outputs and outcomes) can affect their interests. Classifying stakeholders helps users predict

their likely attitude toward the project at different stages and develop strategies to manage their expectations to ensure that the project achieves its intended objectives.

Problem definition

A problem definition is a short statement that describes the problem, its causes, effects, and affectees. This is often narrated in a short problem statement that constitutes the starting point of a project proposal.

Logic Model

A logic model for a project focuses on a particular variable of interest that the project seeks to change. Depending on the project sector, this may be net enrolment, infectious disease morbidity, vehicular carbon emissions, among others. The logic model describes the present state (the current value of this variable of interest), a desired future state (increase or decrease in this value) and the method by which the gap between the two will be bridged (the project interventions), noting relevant assumptions and risks that will affect results.

Stakeholder engagement

Stakeholder engagement is the process of identifying key stakeholders, analyzing 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.

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. In Pakistan major sources of project identification are:

- National Economic Council.
- Government agencies preparing national, regional or sectoral development plan;
- Planning Documents (Annual/Medium Term Plan), Vision, Policy, Strategy.
- Line Ministries/ Public Sector Corporations at federal level and Line Departments/Autonomous Bodies at provincial level- Based upon their sectoral strategies/Plans.
- Public Representatives who are the voice of their constituents;
- Bilateral or multilateral aid agencies conducting country's economic/sector studies or ex-post evaluation of completed projects;
- Public or private-sector entities in the country or donor countries, local governments, non-governmental organizations (NGOs), academia, communities and civil society.
- Policy Debates

Defining the problem

This is the most critical aspect of the project identification process. The following basic questions must be considered:

- a) What is the problem? Ideally this question should be addressed in objective – preferably quantitative terms. For instance, 45% of the secondary-school age population is out of school.
- b) Who does it affect? The affected community must be described, noting any specific group within the overall affected population whose needs are different from the rest. For instance: 4,000 adolescents, (including 3,400 girls) are out of school, which affects 400 households.
- c) Where do they live/work/shop/play/study/commute? Fixed assets are immovable, which makes their location an important variable regardless of the affected population, which may change with time. Where regional balancing is an important consideration disparity between regions, districts and/or Tehsil may become important. Geographic location will also be important for determining current service coverage. For instance, if there is already an abundance of secondary schools within the particular district, the

problem may be the absence of paved roads which restrict access to facilities, rather than lack of schools. Alternatively, difficult living conditions in a remote location can discourage recruitment/retention of teaching staff which would require management solutions rather than development solutions.

- d) What are the root causes of the problem? Manmade or natural disasters, demographic shifts such as rural-to-urban migration or other factors may distort statistics to reflect problems that are temporary and will course-correct in due course of time. Even where government intervention is required, a development scheme may not be part of the solution, as discussed in the next point. Problem-tree analysis is a useful tool to analyze and understand the underlying causes and direct/indirect effects of a problem. An example is provided in Appendix B.
- e) Are there alternatives solutions to the problem that may be considered aside from a development scheme? For instance, low school enrolment may be addressed through education vouchers delivered to households participating in social security programs.
- f) Is there evidence available for responding to the above questions with reasonable accuracy? Evidence for problem definition can either come from stakeholder consultations (discussed in Chapter 2) or from data gathered by government and non-government agencies (discussed in Chapter 3). Without up-to-date data from reliable sources, problems cannot be defined.

Conceiving the project & Results Framework

If a development scheme emerges as the solution most likely to resolve the root causes of the problem or mitigate its most harmful impacts, the next step would be to begin conceiving this project. This entails developing a results framework like logic-model for the project.

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 RBM framework is explained comprehensively in Appendix B.

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 crisper and clearer.

NOTE: Indicators for 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.

Assessing Strategic Alignment

A project may be based on a sound logic model intended to resolve a well-defined problem, but its strategic relevance will still need to be established against the goals and priorities of the provincial government. Equally important are the recent laws and rules promulgated by the GoPb and instructions notified by competent authorities that affect the policy and institutional environment within which public investment takes place. Certain key laws and policies are listed and discussed below. However, this does not represent an exhaustive or unchanging list and users must scan the policy environment whenever they are identifying and formulating projects to ensure they remain abreast of recent changes.

Finding the best execution modality

Instead of executing projects in ‘ADP’ mode, where projects are sponsored and executed solely by the GoPb, users may opt for partnership with private firms through Public Private Partnership (Chapter 10) or Engineering, Procurement and Construction (Chapter 12), to bridge the supply gap. Please see relevant sections to access guidance on screening projects for these alternative execution modalities.

Costing the project

Preliminary cost estimates will be required for inputs that will feed project interventions that are part of the proposed logic model. Users will review allocations for similar projects that have been recently completed as benchmarks, while considering inflation. If the project in question is not readily comparable with past projects in the sector, detailed market surveys may become necessary. These should be undertaken as part of a pre-feasibility study, as described below.

Conducting a pre-feasibility study

A pre-feasibility study should be undertaken at the project identification and formulation stage under conditions of extreme data scarcity. As such, the decision to undertake a pre-feasibility study may be taken to inform problem definition, project conception, determining execution modality (e.g., to assess viability for execution as PPP) or for costing. Pre-feasibility studies are discussed in greater detail below.

The project identification process draws principally on:

1. Stakeholder engagement and consultation;
2. Strategic plans and policies of the federal, provincial, and local governments.

2.2. Responsibility for project identification

Projects will be identified by the following entities:

1. Administrative or line departments of the GoPb as well as attached departments or units.
2. Autonomous/semi-autonomous bodies (including Authorities, Corporations and Boards) and public sector companies.

3. International development partners, including International Financial Institutions, multilateral and bilateral aid agencies.
4. Private organizations in due consultation with relevant GoPb departments and/or agencies.
5. Citizens and their elected representatives.

2.3. Stakeholder classification and engagement

Project success depends in part on maintaining the commitment and confidence of those providing resources; gaining the agreement of those who will utilize 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. This is why stakeholder management becomes crucial to project success.

Stakeholder classification enables effective stakeholder management. 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 of the immediately obvious stakeholders and gain a wider picture of the project's impact.

Stakeholder classification and analysis tools are discussed in Appendix B. The roles of all stakeholders should be fully understood, and their concerns should be highlighted. A project proposal will pre-emptively address concerns of all stakeholder groups and have mitigating strategies integrated into the proposal to manage any risks. Such an approach would avoid later delay issues or objections during the appraisal and approval process.

In particular, the special concerns of women among the local population must be given special consideration. The following checklist developed by UNWOMEN provides useful guidance in this regard.²³

| 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) |

²³ Gender Responsive Planning and Budgeting, UNWOMEN and Labor and Human Resources Department, Government of Punjab, 2020.

Source: <https://asiapacific.unwomen.org/sites/default/files/Field%20Office%20ESEAsia/Docs/Publications/2021/01/Final%20-%20GRPB%20Guidelines%20Punjab.pdf>

| | | |
|------------------------------|---|---|
| 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) |
| Output Accountability | Who is responsible for project success? | Project Developer/Financer (Secretary Energy) |

Table 3: Stakeholders group classification matrix

Gender-mainstreaming checklist for project identification²⁴

- Is Gender part of Context Analysis?
- Does it include arguments for gender mainstreaming and gender equality?
- What specific Gender-related policy provisions are reflected in the objectives of the project?
- Is the data sex-disaggregated?
- Is the information on household economic arrangements (such as roles; sex/ age/ time of labour; land ownership/ control; sources/ types/ control of incomes) adequate for the planning and evaluation of project?
- Have the different needs and concerns of men and women, girls and boys been identified?
- Have women and women's groups been consulted on the proposed plans or schemes?
- Is women's situation analysed and gender issues identified during the needs assessment of the plan/ scheme?
- Are women's needs in the sector the same as those of men?
- Will the project help reduce gender disparity, contribute to the empowerment of women and girls and promote social inclusion?
- Do the project targets specifically include women, girls and other marginalized groups?
- What social, economic, and political effects will the project have on women and on men in the short term? In the longer term?
- Is the project likely to have the same (positive and negative) effects on women and on men? What opportunities exist for increasing women's access to and control of resources and/ or benefits?
- What needs and opportunities exist for increasing women's productivity and/ or production?

2.4. Alignment with Strategic Policies

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.

²⁴ No.1(46)PO(Coord-II)/P&D/2022-23 Dated: 23rd Nov 2022.

Users of this manual must also consider recent laws or rules promulgated by the federal and provincial governments that affect development planning in Punjab. Other than these documents, the users should also look at global development imperatives such as the Sustainable Development Goals (SDGs) as well as country assistance and partnership strategies of development partners to identify intervention area.

The following sections introduce the current national and provincial frameworks. However, it is important that at the time of project identification, the user consults the most recent policy documents. Moreover, gender-mainstreaming must begin at the project identification stage.

Sustainable Development Goals (SDGs)

The National Assembly formally adopted the SDGs as the Pakistan Development Goals in February 2015. In line with this resolution, the Ministry of Planning, Development and Special Initiatives with support from the United Nations Development Programme (UNDP) launched a National Initiative for SDGs to help track and achieve progress toward these goals at the national and provincial levels. As in other provinces, an SDGs Support Unit was set up at the P&DB in Punjab which supports provincial and local government departments and agencies with mainstreaming SDG targets across policies, plans and budgets²⁵.

In 2019, the SDGs Advisory Council approved the Punjab SDGs Framework organized the Goals (along with relevant targets) into short-term, medium term and long-term prioritized SDGs in line with the provincial context, as illustrated below.

²⁵ Source: <https://sdg9.pitb.gov.pk/system/files/Punjab%20SDGs%20Framework%20Metrics%202020.pdf>

SUMMARY OF PRIORITIZED SDGs AND TARGETS FOR PUNJAB

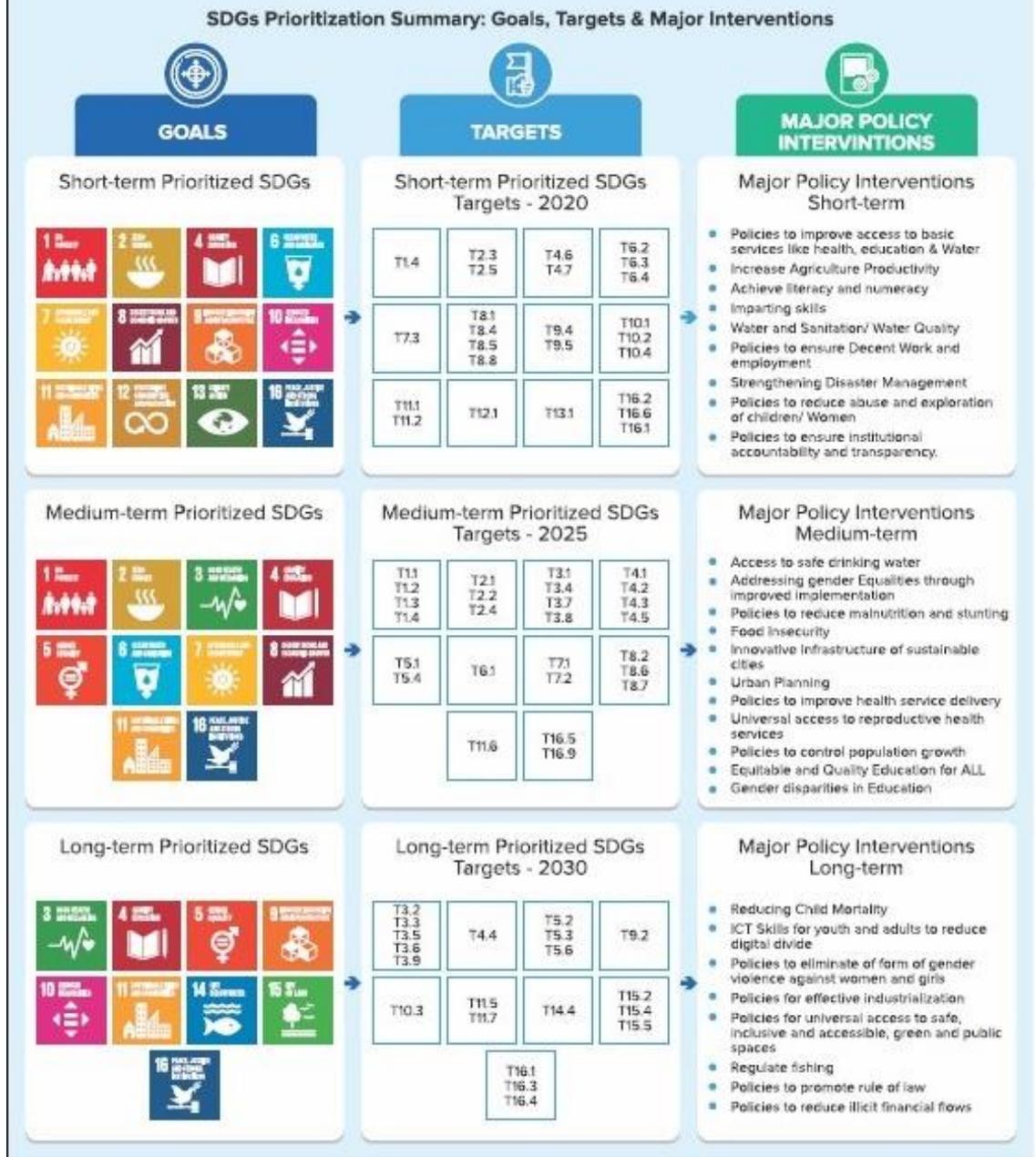


Figure 6: Summary of Prioritized SDGs and Targets for Punjab.

The following concrete steps have already been taken toward embedding SDGs in development planning²⁶:

²⁶ Source: [https://www.sdg-pakistan.pk/uploads/pub/FINAL_ANNUAL_REPORT_2019_\(14-10-2020\).pdf](https://www.sdg-pakistan.pk/uploads/pub/FINAL_ANNUAL_REPORT_2019_(14-10-2020).pdf)

1. The SMDP links documentation for each development scheme with its respective SDGs, targets, and indicators to track public investment across SDGs.
2. An SDG Alignment Proforma must be filled out and submitted along with concept notes for each development scheme proposed for inclusion in the ADP.
3. ADP Guidelines issued since 2020/21 have included specific instructions for provincial departments on how development planning can be further aligned with relevant SDGs and targets.

NOTE: The Provincial SDGs Coordination Committee was constituted in 2022 to ensure effective implementation of the SDGs and to hold quarterly review meetings. The composition of this committee was notified by competent authority (and may be amended from time to time) as below:

| | | |
|--------|--|------------------|
| i. | Chief Minister | Chairman |
| ii. | Minister for Finance | Member |
| iii. | Minster for Health | Member |
| iv. | Minister for School Education | Member |
| v. | Minister for Industries, Commerce, Investment and Skills Development | Member |
| vi. | Minister for Agriculture | Member |
| vii. | Chairman, P&D Board | Member |
| viii. | Secretary Agriculture Department | Member |
| ix. | Secretary Irrigation Department | Member |
| x. | Secretary, Primary & Secondary Healthcare Department | Member |
| xi. | Secretary, School Education Department | Member |
| xii. | Secretary, Women Development Department | Member |
| xiii. | Secretary, Local Government & Community Development Department | Member |
| xiv. | Secretary, Industries, Commerce, Investment and Skills Development | Member |
| xv. | Secretary, Environment Protection Department | Member |
| xvi. | Secretary, Housing Urban Development & Public Health and Engineering Department | Member |
| xvii. | Secretary, Planning & Development Department | Member/Secretary |
| xviii. | Any other member(s) to be co-opted by the Committee. | |

Punjab Growth Strategy

The Punjab Growth Strategy sets a 5-year province-wide development agenda which should be reflected in public investment priorities²⁷. Departments are required to align their development programs with the new priority areas highlighted in each sector of the Growth Strategy document, and particularly highlight contributions made to targets regarding annual growth, job creation, poverty reduction, and other strategic goals prioritized by the GoPb for the subsequent 5-year planning period. P&DB has previously issued guidelines requesting administrative departments to evaluate sectoral strategies, interventions and strategic goals given in the Provincial Growth Strategy and ensure alignment with their respective Annual Development Programmes.²⁸ The current Punjab Growth Strategy has reached its terminal

²⁷ Source: https://pnd.punjab.gov.pk/system/files/PGS_2023%2019-21-145.pdf

²⁸ Notification No. JCE-14/1/P&D/2018 issued by P&DB dated October 10, 2019

year i.e., 2023. A new Strategy will now be framed to guide future development planning in Punjab as obligated by PFM Act 2022 under Chapter V, Sections 27 & 28²⁹.

Punjab Spatial Strategy, 2047

In 2019 the provincial cabinet approved the Punjab Spatial Strategy 2047 which provides a framework for spatial planning across industry, agriculture, connectivity, tourism, urban and social sectors. All projects included in the ADP must be aligned with the Spatial Strategy, particularly those related to infrastructure development and industrial estates. As per P&DB guidelines, 80% of the total value of all infrastructure projects as well as Industrial Estates PC-Is are required to be consistent with the Punjab Spatial Strategy. To check alignment of the ADP/MTDF with PSS 2047, provision of location of the scheme i.e., latitude/longitude is a pre-requisite.³⁰

Green Financing Strategy

In the wake of multifaceted climate change-induced challenges facing the province of Punjab and their wide-ranging fiscal risks, there is a need to focus public-sector spending on climate-relevant interventions and identify and tap alternate sources of financing to meet the associated fiscal needs at the same time. It is in this context that Finance Department, in consultation with all the relevant stakeholders, has developed a comprehensive strategy entitled Punjab Green Financing Strategy (PGFS) designed to prioritize the environmental and climatic outcomes of government investments. Central to the approach in PGFS are four pillars:

- Targeted Green Investments in sectors like Renewable Energy and Sustainable Transport.
- Enhancement of SME Finance for green projects.
- Integration of Green PPPs; and
- Significant reforms in environmental laws and policies.

PGFS fundamentally presents avenues for the government of Punjab to finance green activities for sustainability purposes. The four pillars of the strategy target key priority sectors, including green buildings, renewable energy, energy efficiency, sustainable transport, sustainable agriculture, urban development, sustainable forestry, and industry, as ripe for green investments in Punjab. It encompasses a well-structured action plan to be implemented over a medium-to-long-term to shape a sustainable, climate-resilient Punjab. Therefore, the implementation of PGFS and its meticulous monitoring are pivotal to realizing the desired climate related goals.

Sectoral priorities

Each year the P&DB issues ADP Guidelines which provide specific problem areas that should be prioritized by line departments when identifying projects in specific sectors including, Nutrition, Population, Human Capital, Health, Education, WASH, Agriculture, Livestock, Forestry, Infrastructure (Roads & Irrigation), Industrial Competitiveness & CPEC, Tourism, Youth, Culture, Environment Protection, Urban Development, Transport and Energy. The PFM Act calls for sectoral/departmental plans for public investments (as part of the Growth

²⁹ Punjab PFM Act 2022.

³⁰ Notification No.12(24)PO(COORD-II)P&D/PSS/2019 issued by P&DB dated December 2019.

Strategy, Sections 27d and 28a). The Growth Strategy would similarly carry medium-term goals pertaining to sectoral prioritization.

Recent relevant legislation

The Punjab Local Government Act (PLGA), 2022

The Punjab Local Government Act has undergone frequent amendments since 2013 and new laws have been promulgated to present multiple iterations of the local government system. The most recent iteration i.e., the PLGA 2022 contains numerous provisions regarding local development. These and other relevant provisions of the PLGA should be considered by Departments during identification of projects and formulation of the ADP.

Public Finance Management (PFM) Act, 2022³¹

The PFM Act 2022 contemplates a range of new provisions regarding public investment management for Punjab, specifically covering: medium-term planning for public investments (Section 27), approval and monitoring of public investment projects (Section 28), management of public investment stock (non-financial asset management) (Section 29); and a framework for the overall management of public investments (Section 30). Section 28(2) of the Act necessitates P&D Board to prepare and notify a Planning Manual containing the criteria and process for appraisal, approval and monitoring of public investment projects and programs for inclusion in Annual Development Plan.

Punjab Water Act, 2019

The Punjab Water Act was promulgated in December 2019 to manage and regulate water resources in Punjab in the interest of conservation and sustainability. The Act sets up two bodies with major significance for development planning in the water and sanitation sector³²:

- A Punjab Water Resources Commission headed by the Chief Minister and co-chaired by the Minister for Irrigation. This Commission is responsible for conserving water resources, allocating water for different purposes (agriculture, industry, domestic use, among others), and ensuring proper water use in the province. The Commission will also protect wildlife and fisheries from water bodies that are used for water consumption.
- Punjab Water Services Regulatory Authority, headed by the Chief Secretary, Punjab. The Authority is empowered to ensure that water and sewerage service providers perform their functions properly and that these services are adequately financed. Specifically, the Authority will ensure that service providers work efficiently and charge consumers indiscriminately. The Authority will protect consumer interests, especially vulnerable groups (including disabled, sick, elderly, low-income and rural groups) The Authority will also regulate water abstraction.

Punjab Human Rights Policy 2018

Punjab Human Rights Policy primarily focuses on protection and promotion of human rights through reviewing legislation, policies, and practices in compliance with the fundamental rights. The policy envisages protection of rights of individuals and vulnerable groups (section 3), Civil and political rights (section 4), social, economic, and cultural rights (section 5), and a framework for the overall implementation of policy in Punjab.

³¹ PFM Act 2022 notified vide No.SO(CAB-III)1-13/2022(SCCLB)(Vol.II).dated 04th October 2022.

³² Source: <http://punjablaws.gov.pk/laws/2743.html>

Sectoral 'yardsticks'

Sectoral yardsticks or quantitative standards for screening, comparing and/or selecting competing projects that are duly notified by relevant departments will be used at the identification and formulation stage of project development.³³

Determining project modality

Public investment includes projects that may be executed in various modes with special methods and approaches that differ from mainstream project life cycle management. The way these special projects are planned, financed, appraised, and executed (especially procurement and contracting) requires specialized guidance which is manifestly provided in PPP Act 2019³⁴. For instance, projects may be executed under PPP modality, EPC modality, umbrella scheme modality, or may be financed through external capital assistance. But the choice of modality should be made at this early stage of project identification and formulation.

2.5. Conducting 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, and economically/financially viable.

Pre-feasibility studies

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.

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).
- Suitability for execution in PPP mode (as discussed in Section 10).

³³ There are a range of yardsticks of quantitative standards that were prescribed in previous Manuals (both 1996 & 2015 editions) to serve as selection criteria for projects in each sector. However, it is clear that these are outdated and no longer widely recognized/used. It is proposed that line departments should review/update them and notify revised/approved versions as per applicable rules.

³⁴ The Punjab Public Private Partnership Act 2019.

PC-II: Essential information

- Purpose, rationale, and scope of the study
- Review of existing literature/data/information on the subject
- Timelines for initiation and conclusion of the study
- Itemized, annualized breakup of cost estimates (duly dated, with foreign exchange and local currency mentioned separately)
- Basis for cost estimates
- Funding sources
- Management structure and human resource requirements (with TORs)
- Contracting arrangements for the consultants (with TORs)
- Quantitative results sought by the study.
- Indication of whether a project will be subsequently prepared.
- Disaster Risk Reduction Checklist notified by the Planning Commission (Please see Section 3.1.3)

The checklist for PC-II is given as follows:

| S. No. | Checklist items for PC-II | Tick as appropriate | | |
|--------|---|---------------------|-----|----|
| 1 | A general description of the aims, objectives and coverage of the survey / feasibility study is given. | N/A | Yes | No |
| 2 | Justification for undertaking the survey/ feasibility study is provided. | N/A | Yes | No |
| 3 | Details of previous studies in the field. | N/A | Yes | No |
| 4 | Duration of the study and proposed months of the study are indicated. | N/A | Yes | No |
| 5 | Item-wise/year-wise capital cost estimate of the study with detailed breakup. | N/A | Yes | No |
| 6 | Date on which cost estimates were prepared is indicated. | N/A | Yes | No |
| 7 | Basis of cost estimates are justified. | N/A | Yes | No |
| 8 | Sources of financing the capital cost are provided. | N/A | Yes | No |
| 9 | Requirements for local and foreign personnel i.e. professional, technical, administrative, clerical, skilled, unskilled, others along with their terms of reference are provided. | N/A | Yes | No |
| 10 | Period of contract of both the local and foreign consultants along with qualifications, experience and the terms of their appointment are given. | N/A | Yes | No |
| 11 | Expected outcome of the survey/feasibility study is given in quantifiable terms. | N/A | Yes | No |
| 12 | Indicate whether any project will be prepared after the survey | N/A | Yes | No |

Table 4: Checklist for PC-II

Feasibility Studies

A feasibility study is undertaken to avoid the difficulties and challenges in implementation of the complex projects/schemes, especially of large projects. A feasibility study is therefore a pre-requisite for complex and large projects before preparation of a PC-1 for development project on sound basis. As notified by P&DB³⁵, a feasibility study is defined as an “in depth three-in-one study of a project which gives the technical, financial and economic viability of the project and arrives at a definitive conclusion on all the basic issues of the project after consideration of various alternatives”. In this way, feasibility study is a detailed analysis of whether a project can be successfully completed while taking into consideration the economic, financial, legal, social, and other factors affecting the project.

A Feasibility study can be costly and time consuming, therefore a brief need assessment (pre-feasibility study) may be conducted to determine whether or not the project justifies a full feasibility study. Departments may process approval of those projects costing even more than Rs.500 million where scope of project is repetitive and concerned executing agency has been undertaking similar work. Therefore, departments may dispense away with requirements of proper feasibility study for such projects, but not doing away with the requirement of proper need assessment through in-house feasibility study. PDWP will ascertain the requirement for conducting detailed feasibility through PC-II for the projects costing more than Rs.500 million, while looking to the scope, design and complexity of the projects. There will be instances of technically complex projects below the threshold of Rs. 500 million whereby a detailed technical, financial and economic analysis is required before consideration of such projects. In these cases, it will be imperative for the concerned department and executing agency to prepare the detailed feasibility study before submitting the PC-I for such projects. PC-II is mandatory for infrastructure projects costing Rs.500 million & above or projects that have infrastructure component greater 30% of total cost. An experienced and professional consultant should be engaged for conducting proper feasibility study. Whereas in-house feasibility study should be conducted for all the projects costing less than Rs. 500.00 million. Depending upon the nature and complexity of the project, the exercise of preparing the feasibility of the projects may be undertaken.

For projects, programs and schemes, submission and approval of PC- II form is required to acquire the financing through the development budget for feasibility studies. PC-IIs are the proformas required to provide the information about the needs for a feasibility study for a proposed project. Pre-feasibility studies are funded through the current budget. PC-II is to be prepared before a PC-I on the prescribed format Appendix B. However, not all projects require a PC-II. The overall responsibility for preparing a PC-II/feasibility study is with the line department. For smaller projects, the line department can utilize its own technical resources to prepare a feasibility study. To ensure quality of works and optimal use of resources, P&DB has made it mandatory for line departments to hire market-based consultants with relevant technical expertise and experience to prepare the feasibility in case of mega projects. Often the line departments hire consultants and specialists in a particular area to prepare the required feasibility (guidance on hiring of consultants for feasibility studies and other assignments is provided in table below)

³⁵ letter no. 21(19) DA/PC/89 dated 16th April 1989

The PC-II approved by the relevant competent forum is required for the conduct of feasibility study, including technical investigations, market surveys and other studies. To ensure quality of works and optimal use of resources, P&DB has made it mandatory to engage services of consultants for PC-II feasibility studies, as per the following framework³⁶:

| Sr. No. | Sector | Cost (Rs. in Million) | |
|---------|---|---------------------------|---|
| 1 | Water supply and Sanitation | 750 and above | |
| 2 | Bridges | 1500 and above | |
| 3 | Roads | 2500 and above | |
| 4 | Buildings | 750 and above | |
| 5 | Irrigation | Dams | All new dams' projects irrespective of their cost |
| | | Other Irrigation Projects | 1500 and above |
| 6 | Energy (Power Plan, Hydro Power, Solar, Wind, Thermal Projects & Biomass) | 1000 and above | |
| 7 | Information Technology | 500 and above | |
| 8 | Education, Literacy, Social Welfare & Production etc. (Projects without civil work component) | 500 and above | |

Table 5: Framework for PC-II feasibility study

For works components of public sector schemes costing below the proposed threshold limits, executing agencies, or sponsoring departments can engage consultancy services on need basis with the approval of the relevant competent forum.

The feasibility should be proper and based on the current data. Any study older than three years is not accepted³⁷. For more complex projects, technical assistance may be requested for a feasibility study from one of the development partners. Moreover, appropriate provision for funding the feasibility study must be included in the ADP, and the sponsoring agency is required to appoint a Project Director at the initial stage of project preparation.³⁸

PC-II: Common omissions and errors

- It is not specified whether a detailed project proposal will be prepared once the study is concluded.
- Financial analysis has been conflated or confused with economic analysis or vice versa, in terms of defining concepts, choosing methodologies, and drawing conclusions based on results.
- Study is conducted in-house when required expertise is unavailable, leading to weak analysis.
- One or more key lines of enquiry (please see Section 2.6.4 below) are missing from the analysis, most commonly environmental and climate change analysis.
- Distinct project options or alternatives have not been framed or considered, including the 'no project' or status quo option.

³⁶ Notification No.4(24-A)PO(CONS) P&D/2023 issued by P&DB dated 8th May, 2023

³⁷ Notification No. 24(4)PIA-I/PC/2016 issued by the Planning Commission dated 28th June 2016

³⁸ Planning Commission, 'Preparation of Proper Feasibility Study/PC-II by the Sponsors for Development Projects', Notification No.24(4) PIA-I/ PC/2016, Islamabad, dated 28 June 2016

- Specific criteria have not been defined for evaluating project options e.g., minimum rates of IRR below which the project will be considered infeasible.

Provision for engaging consultants

Need for consultants

In the case of projects, the need for consultants will 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 will be prepared on a person-month or person-days basis. For development projects the user should use a PC-II or PC-I to secure the necessary funds for consultancy work. For non-development work users 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 2014³⁹. In the said rules Chapter VII has specifically been added for procurement of consultancy services.

ToRs for consultants engaged to conduct feasibility studies may include⁴⁰:

- Possibility of prospective project financing and implementation through different modes, that is, private sector, PPP, etc.
- Environmental impact assessment, including Clean Development Mechanism (CDM) assessment and Disaster Risk
- Financial and economic analysis (FIRR / EIRR, NPV and BCR)
- Risk and sensitivity analyses and proposed mitigation measures
- Expected output and deliverables of the proposed feasibility study/survey
- Objectives and goals of the project
- Terms of transfer of know-how and/or training requirements (where applicable)
- List of necessary services and surveys
- A time schedule and phasing of the assignment
- Qualifications of expected key professionals for the assignment, clearly indicating minimum experience, academic degrees, additional qualifications, etc.
- Respective roles and responsibilities of the client and consulting firm

Feasibility Studies: Essential lines of Enquiry⁴¹

³⁹ Amended as of 31-12-2021. Source: <https://ppra.punjab.gov.pk/system/files/PPRA%20Rules%20%28Amended%2031-12-2021%29.pdf>

⁴⁰ As per the PC-II Proforma.

⁴¹ This draws on 'Essentials of a Feasibility Study', Federal Planning Manual, 2021 as well as Instructions for Techno-Economic Feasibility Studies, Planning Commission, 2022.

Feasibility studies will adopt the following lines of enquiry to establish project feasibility from multiple perspectives.

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 organization.

Technical aspects

At the feasibility stage, technical aspects of the proposed project are also examined critically. Especially critical are:

1. Needs assessment i.e., the definition and estimation of social, economic, or commercial demand for the intervention being proposed

2. Evaluation of alternatives: 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.

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 (lifecycle costs including both capital and operating costs) are compared with the financial benefits (revenue sources and drivers) expected to be generated during the life of the project. The financial feasibility is determined in present value terms i.e., benefit–cost ratio (BCR), net present value (NPV) and internal rate of return (IRR). In addition, the financial analysis should include a PPP Option Analysis, including:

- Development of a financially viable and bankable transaction structure
- Project support (financial and non-financial) by the Government
- Allocation of risks, roles & responsibilities among the public and private sector

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 provincial GDP. The financial and economic analyses of projects are discussed in detail in the next chapter.

Operational aspects

Operational aspects are examined to ascertain the viability of a project on a legal, organizational, 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.

Legal aspects

This should ideally cover:

- Complete legal due diligence of the project
- Application and implication thereof of every single law relevant to the project
- List of permits, licenses, and NOCs required to implement and execute the project.
- Potential legal hurdles for project implementation

Environmental/ climate change aspects

Environmental and climate risks should be identified, their likelihood and impact assessed, and preliminary mitigation strategies may also be explored. In 2022, the Government of Pakistan developed the Climate Gender Action Plan with support from IUCN Pakistan to ensure the inclusion of women in climate action. The Plan focuses on 6 priority sectors that hold key significance for building resilience, especially where women are likely to be most severely affected:

- Disaster risk reduction
- Agriculture and food security
- Forests and biodiversity
- Integrated coastal management
- Water and sanitation
- Energy and transport

Social aspects

A social impact assessment e.g., likelihood of displacement of local households should be included. Vulnerabilities of women and other socially excluded groups require special attention.

Stakeholder Analysis

This includes the classification of stakeholders, as discussed in Section Stakeholder classification and engagement

For further reading, please see Instructions for Techno-Economic Feasibility Studies issued by the Planning Commission in 2022.⁴²

Project Initiation, Appraisal, and Approval on SMDP

Annual Development Programme (ADP)

The Administrative Department must digitally submit the draft of the Annual Development Plan (ADP) on SMDP, adhering to the guidelines provided by the Planning and Development Board

⁴²https://www.pc.gov.pk/uploads/report/INSTRUCTIONS_FOR_TECHNO-ECONOMIC_FEASIBILITY_STUDIES.pdf

(P&DB). The project concept page should distinctly outline the project proponent information, objectives, expected outcomes and budgeting of all General Ledger (GL) Heads, aligning with the provisions in the approved PC-I. Upon submission of the draft to the Planning and Development Board (P&DB), the concerned section will conduct a detailed examination. Should any observations arise during this review, the draft will be transmitted to the concerned department until the final version is prepared.

PC-II:

The Executing Agency is required to digitally prepare the PC-II on SMDP using the specified format, ensuring all sections are adequately filled with necessary information, and avoiding the inclusion of attachments. Subsequently, the draft PC-II will be presented by the Executing Agency to the Administrative Department through SMDP for further consideration in approving forums, such as DDC, DDWP, DDSC, and PDWP. PC-II submitted other than SMDP or in hardcopy will not be considered. The appraisal of PC-II will take place digitally on SMDP, and any feedback or observations will be communicated through SMDP to the AD/EA.

2.6. Preparing Project Concept Notes

The Project Concept Note is the product of the project identification phase, where preliminary information regarding certain core parameters has become available and an initial assessment regarding the project may be made, especially in comparison to competing potential projects. Approval of the Project Concept Note is the first key milestone in project development.

Project Concept Notes: Essential information

2. Problem Statement and justification for the project (with links to strategic plans and policies including PGS, sectoral plan and SDGs)
3. Project objectives and target beneficiaries (especially vulnerable groups), based on consultations.
4. Brief description of intervention that will achieve desired objectives.
5. Alternative plans for financing this intervention.
6. Project relevance in terms of alignment with strategic plans for economic growth, social development, sectoral policies, and plans governing land use (e.g., master plans and spatial strategies)
7. Well-reasoned choice of executing agency, including assessment of scope for PPP.
8. Project cost (including cost of alternatives) and duration.
9. Project's economic, financial, environmental (including climate impacts) and social sustainability.
10. Results framework (LFA) with KPIs and risks

Project Concept Notes often suffer from missing or erroneous information. Some common examples are noted below.

Project Concept Note: Common omissions and errors

- GPS coordinates of the proposed scheme are missing or erroneously entered.
- Delay in responding to comments from P&DB on Concept Notes
- All relevant stakeholders have not been consulted.
- Schemes are disconnected or misaligned with strategic policies and plans.

- Cost estimation is not based on market data or expectation for cost escalation is not realistic.
- Project ID information i.e., nomenclature, cost, location, or object code are wrongly entered.
- Projects have been clustered together into umbrella schemes without a clear rationale.
- SMDP checklist is not met i.e., documents, proformas or attachments are missing.

Chapter 3: Project Planning

Key Concepts

Climate change classification

Climate mitigation means reducing or preventing emissions of greenhouse gases into the atmosphere. Climate mitigation efforts would include, for instance, the introduction of emissions testing for motor vehicles. In contrast, **climate adaptation** means anticipating and minimizing the damage potentially caused by climate change. In terms of public investment, efforts to enhance the climate resilience of public infrastructure would be categorized as climate adaptation. For instance, roads may need to be rebuilt to withstand higher temperatures, or bridges may need to be strengthened for greater flood volumes.

Projects with and without major civil works component

Projects with an infrastructure component constituting over 30% of total project cost entail a major civil works component. The preparatory tasks for project preparation are different than those without a major civil works component i.e., those with infrastructure costs that are less than 30% of total project cost.

Disaster risk reduction

As defined by the United Nations International Strategy for Disaster Reduction (UNISDR), 2009: *“The concept and practice of reducing disaster risks through systematic efforts to analyse and manage the causal factors of disasters, including through reduced exposure to hazards, lessened vulnerability of people and property, wise*

management of land and the environment, and improved preparedness for adverse events.”

Clean Development Mechanism (CDM)

According to the United Nations Framework Convention on Climate Change (UNFCCC): “The Clean Development Mechanism (CDM), defined in Article 12 of the Protocol, allows a country with an emission-reduction or emission-limitation commitment under the Kyoto Protocol to implement an emission-reduction project”. Pakistan signed the Kyoto protocol in 1997 and began implementation in 2005. A CDM project must provide emission reductions that are additional to what would otherwise have occurred and must qualify through a rigorous and public registration and issuance process before it is approved by a National Designated Authority.

Asset life cycle

Asset life cycle is the time period between the acquisition and disposal of an asset.

Life cycle cost

The life cycle cost includes the capital cost for creating or acquiring an asset as well as the O&M costs incurred during its operational life till it is disposed of when it becomes unserviceable, cost ineffective or to generate revenue. Budgeting for O&M costs will be based on the Level of Service that a particular asset is intended to deliver over its operational life. This is the quality of service which may be measured against particular KPIs tailored to particular sectors.

3.1. Preparing Project Proposals using PC-I Proforma

Once the viability of a project is determined based on pre-feasibility or feasibility study, its detailed planning is initiated. Sponsoring agencies / executing agencies are responsible for carrying out various activities 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.

Project preparation is a year-round activity that does not only begin or end with the budget-making process. The aim is not simply to develop new schemes for inclusion in the ADP for a particular year, but to have a pipeline of potentially viable proposals ready for appraisal.

Community based organizations and civil society organizations may perform project governance or implementation responsibilities for certain projects. For instance, the Local Government Act 2022 allows community-based organizations to partially sponsor and execute projects implemented by local governments.

Preparatory tasks for projects with civil works as major component

Technical investigations

For big projects, technical investigations in the form of research, surveys and tests will be conducted 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 will be acquired under the Land Acquisition Act 1894. Sponsoring agency may prepare separate PC-I for land acquisition to avoid delay in execution and cost overrun⁴³.

Site layout

For projects where construction work is involved, a site plan will be drawn. Such a plan shows spatial arrangements of various facilities. This site plan provides 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 work normally includes roads, water supply and drainage, power supply, housing facilities for employees, etc. Such work will also be planned in detail at the time of project formulation. The auxiliary works, in fact, are the key elements, which will be properly identified and provided in a project to ensure its smooth and successful operation.

Preparatory tasks for projects without substantial civil works

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 will apply.
- For other works, e.g., extension, research, training, education, health coverage, etc., the implementation schedule will 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 will be highlighted for subsequent M&E. For performance evaluation the benchmark survey will precede project implementation.

⁴³ Sundry Decisions Taken by the CDWP on 19-10-2017, as per Notification No. 12(24)PO(COORD)P&D/2017 issued by P&DB dated 18th December, 2017.

PC-I: Essential information⁴⁴

1. Name – The project title should be clear, self-explanatory, and confirmed prior to submission. Change in nomenclature necessitates a fresh approval process once it is included in the ADP.
2. Location (place, district, and GPS coordinates) – Project location information should comprehensively respond to the following questions:
 - a. What are the major economic, environmental, and social characteristics of the area?
 - b. What is the income, age, gender, and other relevant demographic attributes of the beneficiary population?
 - c. Are land and other physical inputs (e.g., roads, energy, water) required for the project available?
 - d. Should a separate PC-I be prepared for acquiring land, in case of mega projects or water schemes?
 - e. Does the project entail any social or environmental (including climate) impacts to the immediate surroundings?
3. Authorities responsible for sponsoring, execution, operation, and maintenance
4. Plan provision (reference to the MDTF)
5. Project objectives and relationship with sector objectives – The project objectives should include the entire results chain (as per RBM methodology, please see Section 9.4) including inputs, activities, outputs, and outcomes. These should be linked with priorities laid out in strategic policies and plans (as discussed in Section 2.1.3). Quantifiable project outcomes should be clearly spelled out in the context of other completed and ongoing schemes in the same sector.
6. Project description, justification, technical parameters, and technology transfer aspects – This section should technical information on:
 - a. Hard and soft project features
 - b. Justification and rationale in the context of strategic policies and plans backed by the results of feasibility study (if conducted)
 - c. Technology (machinery/equipment) to be adopted for the project. Proposals for the procurement of new technological inputs must be justified by a complete inventory of the existing pool of similar machinery or equipment currently owned by the sponsoring agency (on both the development and recurring side) along with their date of purchase.
 - d. Contribution of project outputs toward import substitution, export promotion and/or meeting increase in domestic demand.
7. Capital cost estimates (See Section Project Costing)
8. Annual operating and maintenance cost after completion of project (See Section Project Costing)
9. Demand and supply analysis – The sponsoring agency must clearly mention the scope of project intervention including the demand for outputs produced by activities, the existing supply of this output and the specific gap that the project aims to bridge.
10. Financial plan and mode of financing

⁴⁴ Based on PC-I formats available on the Planning Commission's website.

11. Project benefits and analysis (financial, economic, social, direct, and indirect employment generation, environmental impact, and impact of delay on cost and viability)
12. Implementation schedule – The project schedule should be worked out with the aid of tools such as Gantt Charts, Project Evaluation and Review Techniques (PERT), or the Critical Path Method (CPM)⁴⁵. This should determine the financial phasing of the project. Both the physical and financial phasing should be synchronized, keeping in mind the total implementation period and the budget utilization capacity of the executing agency (obtainable from past experience on similar projects). The total implementation period should be determined on the basis of:
 - a. Allocation in the MTFD
 - b. Expected yearly allocations in the ADP
 - c. Duration of inception phase (detailed design, procurement of inputs, etc.)
 - d. Time taken for acquiring land
 - e. Access to required human resources
 - f. Access to materials, supplies and equipment
 - g. Potential risks which could result in project delay
13. Management structure and manpower requirements including specialized skills required during construction and operational phases.
14. Additional projects/decisions required to maximize socioeconomic benefits of the project.
15. The Intelligence Project Automation System (IPAS) portal link would also be required for concept clearance of foreign-funded projects.
16. Certification that during preparation of physical/financial phasing due consideration has been assigned for timely completion and right appointment of Project Director.⁴⁶
17. Project PC-1 must be submitted/uploaded on SMDP.

PC-I Proforma and Attachments

The Planning Commission proforma I (generally called PC-I) is the primary project document, and its preparation is a key step in project preparation and processing. The sponsoring agency is expected to spend adequate time and resources in preparing this document to avoid complications during project implementation resulting in delays in project completion and cost overruns. The PC-I is used both for new projects and revision of ongoing projects.

International and national best practices related to public investment or lessons learned documented in M&E reports from past projects in the sector should also be reviewed and this review should inform project preparation.

There are 3 proformas for PC-Is⁴⁷ notified by the Planning Commission which are adopted for project preparation in all provinces. The three parts are:

- i. **Part A** is the Project Digest, which requires basic project information, that is, project title, location, sponsoring and executing agencies, project description, justification and technical parameters, project cost and completion period, physical and financial

⁴⁵ Please refer to Appendix B

⁴⁶ Sundry Decisions Taken by the CDWP on 19-10-2017, as per Notification No. 12(24)PO(COORD)P&D/2017 issued by P&DB dated 18th December 2017.

⁴⁷ PC-1 Proforma available at Appendix B.

phasing, the status of a feasibility study, and project objectives, plan, and sector strategy linkages.

- ii. **Part B** is Project Requirement, which includes project scope, employment generation, management structure and manpower requirements, the status of surveying and mapping and land acquisition activities, and responsibility of operation and maintenance of project assets after project completion.
- iii. **Part C** is Appraisal and Analysis, which needs information on project quantifiable benefits (financial, economic, social), revenue or income generation after project completion, financial and economic analysis and results, sensitivity and risk analysis, stakeholder consultation analysis, environmental and social impact assessment (including climate change and Clean Development Mechanism (CDM) assessment), and disaster reduction analysis. Only the Project Digest (with additional information) is required to be submitted for the revised projects.

While the fields remain the same, the content will differ according to the specific sector to which the project pertains. This is covered in detailed instructions included in Proformas.

| Social sectors | Production Sectors | Infrastructure Sectors |
|--|--|---|
| <ul style="list-style-type: none"> • Education, Training and Manpower • Health, Nutrition, Family Planning & Social Welfare • Science & Technology • Water Supply & Sewerage • Culture, Sports, Tourism & Youth • Mass Media • Governance • Research | <ul style="list-style-type: none"> • Agriculture Production • Agriculture Extension • Industries, Commerce and Minerals | <ul style="list-style-type: none"> • Transport & Communication • Telecommunication • Information Technology • Energy (Fuel & Power) • Housing, • Government Buildings & Town Planning • Irrigation, Drainage & Flood Control |

Table 6: Sectoral categorization

The following attachments must accompany all PC-Is as Appendix B:

1. Checklist for Disaster Risk Reduction notified by the Planning Commission.⁴⁸ The checklist is designed to help sponsoring agencies give due consideration to vulnerability from natural and human induced disasters and incorporate measures of disaster risk reduction at the project design, planning, and implementation stages. The Checklist covers 8 questions, including:
 - a) Types of earthquakes considered as unavoidable for the project
 - b) Brief history of identified hazards in the area to be included in the PC-I
 - c) Preparation of project based on Building Codes of Pakistan 2007
 - d) Preparation of project based on prevailing building bye-laws
 - e) Incorporation of prevailing territorial planning regulations
 - f) Project components and activities designed to resist impacts of potential hazards and reduce vulnerability

⁴⁸ Circulated vide circular No.5(7) Misc./PP&I/PD/IO dated 23rd November 2010.

<https://pnd.punjab.gov.pk/system/files/Planning%20Commission%20Circular%20of%20Check%20list%20and%20Guidelines%20of%20Disaster%20Risk%20Reduction.pdf>

- g) Rescue and relief facilities available in the area
 - h) Project arrangements for firefighting
 - i) Funds for reduction of vulnerability of the project to identified hazards;
 - j) Budget and cash flow allowing coverage of structural risk management activities;
 - k) Budgetary provisions for responding to emergencies;
 - l) Provision for campaign for awareness raising, training and understanding to risk management for project stakeholders;
 - m) Budget and cash flow provisions covering non-structural risk management activities;
 - n) Risk management provisions for service, transfer, concession and reclamation contracts
2. Questionnaire to assess potential for Clean Development Mechanism (CDM) for public sector projects
 3. CDM eligibility test for assessment and identification of a project in the public sector
 4. Environmental Impact Assessment. These assessments typically cover:
 - a) Analysis of project alternatives (including the No Project Option)
 - b) Survey of the Policy, Legal and Administrative Framework
 - c) Description of the Project
 - d) Description of the Baseline Environment
 - e) Assessment of anticipated environmental impacts and mitigation measures
 - f) Environmental Management Plan (EMP)
 - g) Details of public and stakeholder consultations held to inform the EIA report
 - h) Conclusions and recommendations
 5. For greenfield projects (new or nascent projects, not involving rehabilitation or upgradation of existing projects), Environmental Impact Statement should be appended with the proposal and EIA should have clearance or approval from the Environment Department prior to commencement on-ground.
 6. Certificate regarding the conduct of feasibility study (where conducted) including technical design, financial documentation, etc.
 7. The following projects do not have any significant environmental impact or fall in Schedule I and II of the Regulations and therefore do not require environmental approval from the Environmental Protection Agency, in terms of Section 12 of the Punjab Environmental Protection Act, 1997⁴⁹:
 - a) Warehouses for storage of non-hazardous materials and having no temperature control system or facility;
 - b) Multistoried buildings except residential apartments, educational institutions, restaurants and hotels with a height of upto 70 feet and area upto four Kanals;
 - c) Residential apartments with a height of upto 40 feet and area upto four Kanals;
 - d) Educational institutions with area up to four Kanals except Medical Colleges, Universities and Research Institutes;
 - e) Restaurant and hotels below Three Star category;
 - f) Marriage halls and event centers;

⁴⁹ Notification No. Dir (EIA)/01/2017 issued by the Environmental Protection Agency, Government of Punjab, dated 29.05.2017.

- g) Small bakeries, sweet manufacturing units and other similar concerns with total area up to two Kanals, without boiler and project cost of less than Rs.10 million excluding the cost of land;
- h) Bus and wagon stands of category C with area upto 8 Kanals;
- i) Cement block manufacturing factories with area upto two kanals and project cost of less than Rs.10 million excluding cost of land; and
- j) Cottage industry units of various types with project cost of less than Rs. 10 million unless otherwise specified by the Agency.
- k) For projects entailing the construction of buildings, architectural plans prepared by licensed professionals (engineers or architects) should also be attached.

PC-I: Common Errors and Omissions

1. Arguments unsupported by accurate and up-to-date data from reliable sources
2. Availability of resources (including inputs such as land, human resources, funds, among others) is vaguely defined or inaccurately assumed
3. Costs and benefits are overestimated or underestimated (often) because:
 - Data is outdated or extracted from unreliable sources or irrelevant.
 - Methods adopted to compute costs and benefits are flawed.
 - Sensitivity analysis and scenario analysis is missing, flawed, or based on poor risk forecasting.

This makes appraisal of PC-I's related to energy, water, and communication schemes particularly difficult.

4. Mismatch between projection of physical progress and financial progress over the duration of the project and its constituent phases
5. Implementation schedule is based on unrealistic assumptions or has not been properly worked out
6. Inter-agency coordination is lacking at the formulation and stage and further coordination necessary – for instance, for securing required clearances from competent authorities – has not been clearly indicated⁵⁰.
 - to obtain all necessary data for project design and planning
 - to secure necessary clearances from competent authorities

7. Response to P&DB observations is delayed for modification of the PC-I.
8. PC-I or PC-II does not indicate why the project cannot be undertaken in PPP mode.
9. Employ e-governance tools and technologies wherever appropriate to save time and resources.
10. The following components/attachments of the PC-I are of critical significance but are commonly either missing or weak in submitted proposals⁵¹:
 - a) Implementation Plan (including Year-wise Financial and Physical Phasing)
 - b) Human Resource Plan
 - c) Procurement Plan

⁵⁰ As decided by the NEC in its meeting held on the 4th of July 1988, Federal Planning Manual, 2021

⁵¹ Points a-f are based on P&DB notified Guidelines for Preparation of PC-I of Development Projects/Schemes issued on 6th December 2017. Similar guidelines issued vide notification No.35(231)PO(COORD)/P&D/2015 by P&DB dated 26th March, 2015

- d) Cash Flow Plan
- e) M&E Plan
- f) Economic and financial analysis
- g) RBM Framework
- h) Risk Mitigation Plan
- i) Social Impact Assessment
- j) Environmental Impact Assessment and
- k) Log Framework
- l) Gantt Chart
- m) Evidence-based demand and supply analysis

Submission of the PC-I

The PC-I is prepared and uploaded on the SMDP portal as discussed hereunder:

- **Digital Preparation of PC-I on SMDP:** The Executing Agency is responsible for digitally preparing the PC-I (Project Concept-I/II) using a specified format. All sections of the document must be adequately filled with necessary information. Attachments are to be avoided.
- **Submission through SMDP:** The draft PC-I is submitted through the SMDP (possibly a digital platform) for further consideration.
- **Approval Forums:** The Executing Agency presents the draft PC-I/II to the Administrative Department for approval through various forums, including DDC (District Development Committee), DDWP (District Development Working Party), DDSC (District Development Steering Committee), and PDWP (Provincial Development Working Party).
- **Submission Guidelines:** PC-I/II submitted in a format other than SMDP or in hardcopy will not be considered.
- **Digital Appraisal on SMDP:** The appraisal of the PC-I/II takes place digitally on the SMDP platform.
- **Communication of Feedback:** Any feedback or observations resulting from the appraisal will be communicated through SMDP to the Administrative Department/Executing Agency.

The Portal carries a checklist of key variables that provide a first check on the quality of PC-I's being submitted by line Departments⁵².

| S. No. | Checklist items for PC-I | Tick as appropriate | | |
|--------|---|---------------------|-----|-----|
| 1 | Signature of Administrative Secretary | N/A | N/A | N/A |
| 2 | Signature of the Chief Engineer for RCE | N/A | N/A | N/A |
| 3 | Location map | N/A | N/A | N/A |
| 4 | Two hard copies of the PC-I / PC-II | N/A | N/A | N/A |
| 5 | Soft copy of the PC-I/PC-II | N/A | N/A | N/A |
| 6 | Paging | N/A | N/A | N/A |
| 7 | Legible / binding copies | N/A | N/A | N/A |
| 8 | Implementation Schedule (Gantt chart or Line Chart) | N/A | N/A | N/A |

⁵² Notification No.12(24)PO(COORD)P&D/2016 issued by P&DB dated 16th June 2016.

| | | | | |
|-----------|---|-----|-----|-----|
| | Procurement Plan HR Management Plan Implementation Plan M&E Plan Risk Mitigation Plan | | | |
| 9 | Year Wise Financial Phasing | N/A | N/A | N/A |
| 10 | Year Wise Physical Phasing | N/A | N/A | N/A |
| 11 | Environmental Impact Analysis | N/A | N/A | N/A |
| 12 | Economic Analysis / Financial Analysis | N/A | N/A | N/A |

Table 7: PC-I Checklist

According to directions issued by the Planning Commission, in case of building construction under a development project, map along with design with elevation of buildings by a professional architect firm must be attached with the PC-Is before submission for approval by the competent forum (PDWP, DDWP, CDWP).⁵³

Additional proformas for preparing project summary for the ECNEC and working paper for the CDWP, for both new and revised projects are discussed in Chapter 5.

Special Responsibilities of Administrative Secretaries⁵⁴

Administrative Secretaries must:

1. Ensure that PC-I has been properly prepared on the prescribed format designed by the Planning Commission and that all the columns i.e., economic appraisal, financial appraisal, environmental analysis, socioeconomic analysis, benefit cost analysis, implementation plan / Gantt chart, etc. have been properly incorporated in the PC-I and the project proposal fulfill the criteria / parameters prescribed by the government.
2. Scrutinize the scheme in detail and ensure that the PC-I is in line with the Growth Strategy and Sectoral Plan.
3. Ensure that the PC-I/PC-II is duly signed by him/her.
4. Personally attend the PDWP meeting and also ensure representation at appropriate level in the pre-PDWP.
5. Hold monthly meetings to review physical and financial progress of departmental ADP and submit monthly progress report to the P&DB by 7th of every month.
6. Personally monitor implementation of major projects / Chief Minister's special initiatives
7. Reconcile ADP funds with Finance and P&DB
8. Ensure that for all infrastructure development projects like roads, buildings, water supply, sewerage, irrigation, etc., proper site survey, soil investigation and technical design is complete and has been made part of PC-I
9. Expeditiously resolve land/site related issues by following up with concerned authorities at district/provincial/BOR level

Project Costing⁵⁵

Costing for capital and operating costs of development projects must include:

⁵³ Notification No.24(1-81)PIA-I/PC/2014 issued by Planning Commission dated 12th February, 2015. Forwarded by P&DB on the 23rd of February 2015.

⁵⁴ Notification No. 12(24)PO(COORD-II)/P&D/2015-16 issued by P&DB dated 11th January, 2016.

⁵⁵ Manual for Development Projects, Planning Commission, 2021.

- Total project cost with breakup of local and Foreign Exchange Component (FEC) component (whether loan or grant) in foreign aided projects.
- Item-wise and component-wise breakup of the total cost (Millions of Rupees) of the project, as per the table below.

| Item | Year 1 | | | Year 2 | | | Year 3 | | |
|------|--------|-------|-----|--------|-------|-----|--------|-------|-----|
| | Total | Local | FEC | Total | Local | FEC | Total | Local | FEC |
| | | | | | | | | | |
| | | | | | | | | | |

Table 8: Project Cost breakup for Local & Foreign Exchange Component

- Unit cost for inputs (including specifications). A comparison of unit costs (with the same specifications) for inputs procured by similar ongoing or recently completed projects in the same sector and location should also be provided to validate estimates. In case there is significant variation between project and comparator costs, detailed reasoning should be provided based on the latest Market Rate System.
- Cost estimates will be dated so that appraisers can assess their validity.
- Imported items will be costed in local currency – not FEC – so that in case of cost escalation, exchange rate effects can be distinguished from domestic price effects (cost-push, demand-pull or monetary effects driving price inflation) for project inputs.
- Annual Operating and Maintenance (O&M) costs after completion of the project must be computed and entered at the PC-I stage. The project costing paradigm should shift completely from capital/operating costs to lifecycle cost for assets created or acquired by the GoPb. As a first step, **O&M costs will be calculated and factored into PC-I proposals as the original project costs for a period of at least 1.5 years from the date that a project begins its operational life. For water sector projects, O&M costs should be provided for at least 2 years of the asset's operational life.** It is recommended that line departments propose minimum periods for O&M budgeting for development schemes based on a review of experience.

Planning for project financing

The federal Manual for Development Projects notified by the Planning Commission in 2021 provides the following template for sponsoring agencies to define funding sources for proposed projects as part of the PC-I.

| Type of funding | Description of source and other details |
|-----------------|---|
| Equity | Amount of equity sourced from: <ul style="list-style-type: none"> • Sponsoring agency • Federal government • Provincial government • PPP • General public • Foreign equity (specific agency to be named) • NGOs/beneficiaries In the case of foreign equity, the date and decision of the Concept Clearance Committee should also be attached. |
| Debt | Local and/or foreign loan |
| Grants | Attach the Economic Affairs Confirmation in case of foreign grant. |

Table 9: Template for Sponsoring Agencies

The sponsoring agency will also calculate the Weighted Average Cost of Capital (in case the project draws on multiple sources of funding with differing conditionalities), and include this in the PC-I.

The Checklist below includes questions for screening project proposals against gender-mainstreaming criteria. It includes elements from templates developed by UNWOMEN⁵⁶ and Sub National Governance-II project.

Gender-Mainstreaming Checklist for Project Planning

- Does the project design include strategies to facilitate active involvement of women's diverse groups in the project?
- Do the project/ scheme concept notes and PC Proformas have inputs, outputs, and outcomes indicators with gender-disaggregation?
- Are the objectives clearly defined in terms of outputs and deliverables?
- Are the Project Objectives clearly related to practical and strategic gender needs?
- Does the project results framework have gender-sensitive indicators to track results for women and girls?
- What measurable product(s) or output(s) will be produced?
- Are there regulatory policies that will affect what can or cannot be done in the project and/or how it must be done?
- Is there budgetary allocation for all design features, strategies, and mechanisms in the project?
- Is it possible to track funds for women and men separately - from allocation to delivery - with a fair degree of accuracy?
- Does the organization, institution, or task group responsible for doing the project (the implementing agency) have the capacity and authority to deliver benefits to women or to involve women?
- Has the department tagged proposed schemes/ plans appropriately using gender marker before uploading?

3.2. Joint Priorities Committee/ Single Budgetary Ceiling

The P&DB plays a supportive role by guiding the process of project identification. A Joint Priorities Committee (JPC) has been established for joint assessment by FD and P&DB of budget proposals and to issue unified budgetary ceilings for development and non-development budgets. The aim is to improve coordination and reduce the need for supplementary appropriations. Budget proposals from these departments will be assessed by the JPC in March and April before inclusion in the budget.

JPC Composition

The JPC was notified by the Finance Department (and may amend from time to time) with the following composition⁵⁷:

- | | |
|----------------------|----------|
| 1. Finance Secretary | Convener |
|----------------------|----------|

⁵⁶ Gender Responsive Planning and Budgeting, UNWOMEN and Labor and Human Resources Department, Government of Punjab, 2020. Source:

<https://asiapacific.unwomen.org/sites/default/files/Field%20Office%20ESEAsia/Docs/Publications/2021/01/Final%20-%20GRPB%20Guidelines%20Punjab.pdf>

⁵⁷ Currently applicable Notification is: No.SO(TAX)1-113/2020 (Vol.II) dated January 13, 2023 issued by the Finance Department, Government of the Punjab

| | |
|--|------------------|
| 2. Secretary, Planning and Development Department | Member |
| 3. Special Secretary Finance (Budget and Resources) | Member |
| 4. Senior Chief (Coordination), P&D Board | Member |
| 5. Additional Finance Secretary (Budget), Finance Department | Member |
| 6. Deputy Secretary (Budget), Finance Department | Member/Secretary |
| 7. Deputy Secretary (Policy Initiative), Finance Department (Co-opted Member) | Member |
| 8. Head Public Financial Management Unit | Member |

JPC Terms of Reference

The Terms of Reference of the JPC include:

1. The committee will examine the new initiatives and departmental priorities of the administrative department;
2. The committee will evaluate the expenditure trend against the budget allocation;
3. The committee will finalize Single Line Ceiling for both Current and Development for conveying the same to the concerned Administrative Departments; and
4. A single line Budget Ceiling to be finalized in light of Medium-Term Fiscal Framework.

NOTE: a comprehensive framework for evaluation of budgetary proposals by JPC is explained in Appendix B.

Data sources

For accurate estimates, the users will use credible sources of data only and will 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>); (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/>)
- Punjab Urban Unit
- Punjab Information Technology Board (PITB)
- Punjab Economic Research Institute (PERI)
- Knowledge Management Center of P&DB (<https://pnd.punjab.gov.pk/kmc>)

Climate Budget Tagging for classification of ADP schemes

Climate budget tagging has been adopted by GoPb, to provide decision support for climate finance. P&DB is the focal agency for this purpose. Punjab has specific allocations for

mitigation and adaptation in response to climate-induced events. This ensures that a fiscal contingency fund is maintained to divert resources during any emergencies⁵⁸.

3.3. Project Revision

Change in Scope

The executing agency cannot alter project scope once it is approved by the competent forum⁵⁹. If the project cannot be implemented as designed and requires revision of scope, physical components, or financial cost, then a revised PC-I has to be prepared and submitted to the competent forum.

Revision of Cost⁶⁰

- A PC-1 will be revised in case the scope of the project changes or the cost increases by more than 15%⁶¹ of the originally estimated cost (does not apply to revised cost). Preparation of the revised scheme will begin at the first indication that the scheme will exceed this 15% cost overrun margin. If and when financial progress exceeds physical progress by more than 15% in quarterly progress reports (PC-III) then it is a clear indication that the scheme will exceed cost. Revision should begin immediately.
- If the project has been revised for the first time either due to an increase in the total cost by more than 15% or due to revision in its scope, it will be treated as a new scheme for obtaining sanction of the competent authority. Any further increase thereafter is not allowed.
- Proposals for revised PC-Is must clearly explain the reasons for revisions and should highlight how these reasons were anticipated as part of the Risk Mitigation Plan.
- Fresh approval⁶² from competent authority will also be required if higher than expected bids are received which would push total cost to beyond 15% of approved limit. If this limit is reached by the time contract is being awarded the PC-I will be revised immediately and submitted for approval of relevant forum.
- For foreign aided projects, If the PC-I allows more than 15% cost escalation over the approved cost, then the above condition would not apply⁶³

In addition, in order to ensure financial discipline at the implementation stage⁶⁴:

- In such cases where additional work is recommended / required it will not be added to the existing project which will be completed as per its original approved scope and cost. The sponsoring agency will prepare a separate PC-I for undertaking additional scope of work as separate scheme.
- The revision of the project will be considered, only in cases where overall cost of the project increases beyond 15% of the original approved cost owing to the following reasons:
 - Unforeseen expenditure.
 - Revised MRS; and

⁵⁸ <https://finance.punjab.gov.pk/system/files/Budget%20Strategy%20Paper%20-%20FY22-25.pdf>

⁵⁹ No.35(231)PO(COORD)P&D/2016 dated 04.07.2016 & No.6-118/AC(M)P&D/2022-23 dated 04.07.2022. & No.6-118/AC(M)P&D/2022-23 dated 04.08.2022.

⁶⁰ Planning and Development Division, 'Submission of Revised Schemes when Cost Exceeds beyond 15 percent Permissible Limit for Original Approved Schemes', Notification No. 20(40) PIA/PC/2005, Islamabad, dated 26 May 2007.

⁶¹ No.5/Sr.Chief(Coord)/P&D/2020 dated 21st November,2022

⁶² No.7(78)/PO(PB)P&D/2021 dated 17.12.2021 & No.7(78)/PO(PB)P&D/2021 dated 12.01.2022.

⁶³ Planning & Development Division's letter dated 15.04.1989.

⁶⁴ Notification No.35(231)PO(COORD)P&D/2016 issued by P&DB dated 4th July 2016

- Significant variation in the nature or scope of the project has been made, irrespective of whether or not it involves an increased outlay with proper justification.

This upward revision up to 15% is applicable for original approved cost of the project not for the revised cost of the project.

- Where the revision of a project is crucial to incorporate any work which has been missed during the planning process, revised PC-I will be prepared with proper reasons for revision. Moreover, the responsibility for such lapses / omission will also be fixed before submitting the revised project to the approving fora.
- While submitting the project for revision, the department will clearly indicate provision of funds from its allocated portfolio by mentioning the schemes from where the funds would be diverted.

Extension in period of gestation

As notified by P&DB (and maybe amended from time to time), Administrative Secretaries may grant two (02) time extensions in the gestation period of an approved development project (PC-I / PC-II) for one year each, when no changes in cost and scope of work are involved⁶⁵. Where change in cost or scope of work is required, revised proposal will be presented to the concerned approving for consideration and revised approval. The amended Administrative Approval (as notified and maybe amended from time to time) clearly indicating gestation period of the project will be forwarded to P&DB and the Finance Department for further processing.⁶⁶

Framework for Review of Engineering / System Design

To ensure quality of works and optimal use of resources it is mandatory to engage services of consultants for Design Review as per threshold costs levels of the project in the respective categories indicated below⁶⁷:

| Sr. No. | Sector | Cost (Rs. in Million) | |
|---------|---|---------------------------|---|
| 1 | Water supply and Sanitation | 750 and above | |
| 2 | Bridges | 1500 and above | |
| 3 | Roads | 2500 and above | |
| 4 | Buildings | 750 and above | |
| 5 | Irrigation | Dams | All new dams' projects irrespective of cost |
| | | Other Irrigation Projects | 1500 and above |
| 6 | Energy (Power Plan, Hydro Power, Solar, Wind, Thermal Projects & Biomass) | 500 and above | |
| 7 | Information Technology | 400 and above | |

Table 10: Sectoral Threshold Cost-Levels

3.4. SMDP Requirements

To streamline the preparation and processing of PC-Is P&DB has developed a system for online submission and review of the PC-I for development projects (as described above in

⁶⁵ Currently applicable notification is: No.35(231)PO(COORD-II)P&D/2021 issued by the P&DB dated 09th July 2021.

⁶⁶ Currently applicable notification is: No.25(231)PO(COORD-II)P&D/2019 issued by the P&DB dated 21st March 2019.

⁶⁷ As per P&DB notification No: 4(24-A)PO(CONS) P&D/2023 dated 8th May, 2023

Section **Smart Monitoring of Development Projects (SMDP)**). All departments will submit PC-I for development projects for consideration by PDWP on the SMDP Portal. Cell has been established in P&DB to facilitate line departments and executing agencies for preparation and online submission of PC-Is under the supervision of Senior Chief (Coordination).⁶⁸

All departments are to notify an internal team/focal person not less than BS-17 to lead the PC-I submission process. Where Strategic Policy Units are operational, they should be made part of such teams.

In addition to online submission, two hard copies of the PC-I, duly signed by Administrative Secretaries, must also be submitted to Coordination-II Section, P&DB.⁶⁹

Cross-cutting themes

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

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.

Inclusive growth

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

- Does the project aim to reduce absolute poverty⁸ 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?

⁶⁸ Notification No. 12(24)PO(Coord-II)P&D/2018 issued by P&DB dated 14th November, 2018

⁶⁹ Notification No. 12(24)PO(Coord-II)P&D/2018 issued by P&DB dated 21st of June, 2019

- 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?

Chapter 4: Project Appraisal

Key Concepts

Project Appraisal

A project appraisal broadly 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.

Technical appraisal

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.

Social Appraisal

Social appraisal reviews the project design and the process for project identification, monitoring, and implementation from a social perspective, specifically with regard to the concerns of women and socially excluded groups.

Environmental appraisal

Environmental appraisal assesses the environmental risks that are posed by project activities, specifically in terms of water and air pollution, biodiversity conservation and natural resource sustainability, and climate impacts.

Financial appraisal

Financial appraisal estimates actual monetary costs from the perspective of individual parties responsible for projects, not the entire society, and accordingly calculates financial profitability to ascertain projects' feasibility. Transfer payments like taxes and interest should be included in the financial feasibility analysis. Financial feasibility analysis uses the discount rate in consideration of market interest rates, project risks, etc.

Economic Appraisal

Economic appraisal measures public projects' costs and benefits from the perspective of the entire nation (society) and accordingly it must calculate product prices, exchange rates, wages, etc. as shadow prices, in principle. Transfer

payments like taxes and interest should be excluded from economic feasibility analysis.

Net Present Value (NPV)

NPV is the difference between the present value of cash inflows and the present value of cash outflows over a period of time.

Internal Rate of Return (IRR)

IRR is a discount rate that makes the net present value (NPV) of all cash flows equal to zero in a discounted cash flow analysis. Simply put, IRR is the rate of return for a particular project.

Sensitivity Analysis

This is essentially a risk assessment tool used to identify parameters of the project that are more sensitive to change as compared with others. It is a standard part of the project analysis to check the results of a project, if certain crucial variables were to differ from those assumed at the time of project formulation.

Cost Effectiveness Analysis

Cost Effectiveness Analysis is an analytical study designed to assist decision makers in identifying a preferred choice among possible alternatives. Such analysis involves comparison of alternative courses of action in terms of their costs & their effectiveness in obtaining some specific objectives. It tries to show how a given level of benefits can be achieved at a minimum cost or how the maximum benefits can be achieved at some given level of costs.

Resettlement

Means all measures taken to mitigate any and all adverse impacts, resulting due to execution of a Project, on the livelihood of the project affected persons, their property, and includes compensation, relocation, and rehabilitation.

Involuntary resettlement

It is defined as any resettlement, which does not involve willingness of the persons being adversely affected but are forced through an instrument of law.⁷⁰

⁷⁰ https://prmp.punjab.gov.pk/system/files/Land_Acquisition_and_Resettlement_Guidelines_By_PRMP.pdf

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 the 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.

4.1. Appraisal Process: Steps, responsibilities, and timelines

The following chart summarizes the process for submission and processing of PC-Is at P&DB.

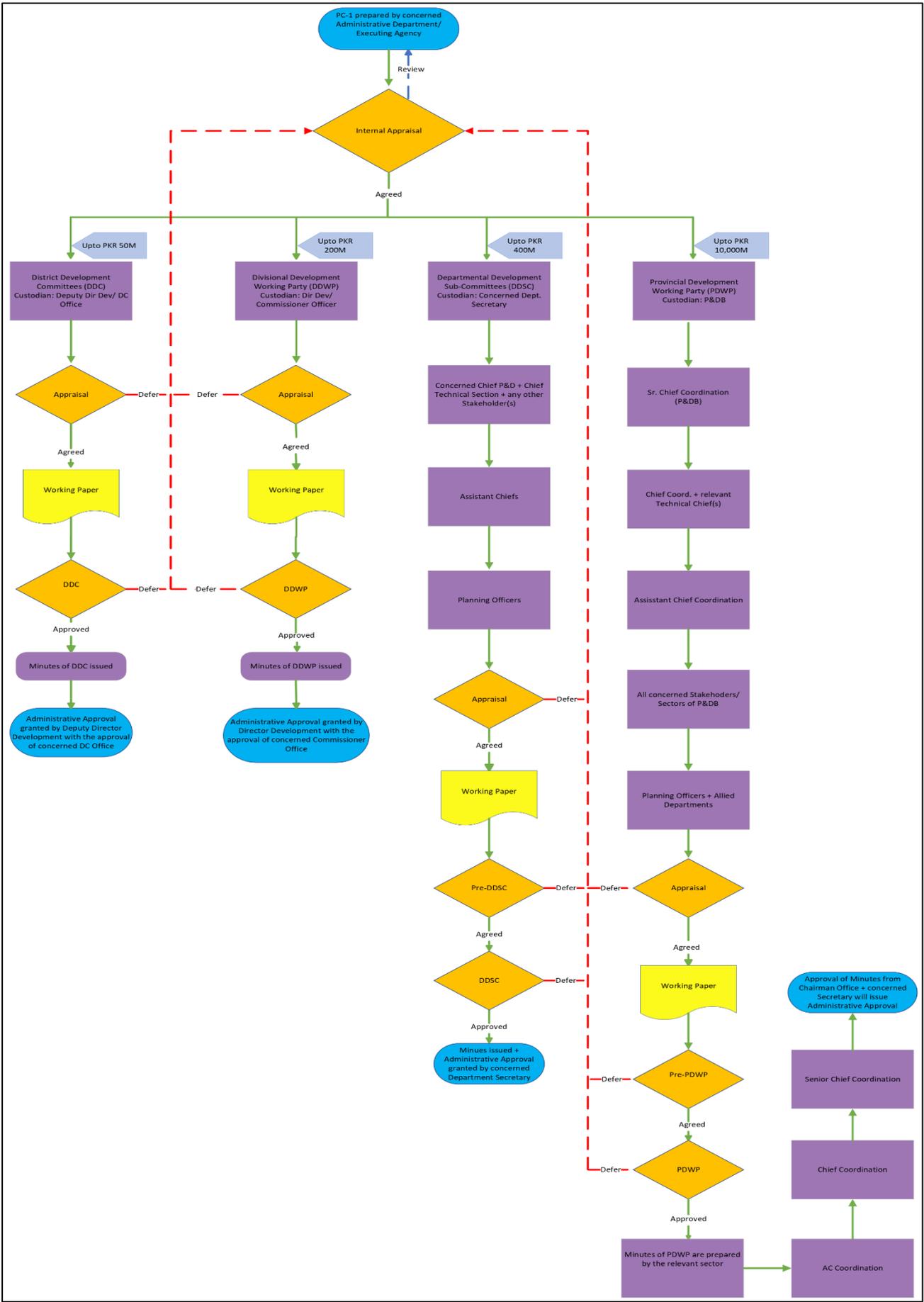


Figure 7: Project Appraisal Process in Punjab

Sponsoring agencies will submit digitally prepared PC-I or PC-II duly signed by PAOs to the P&DB. The Coordination Section will circulate these documents to relevant section(s) of the P&DB. The section(s) will then prepare a working paper for the PDWP, in consultation with the sponsoring agency and Finance Department. This process will be completed in a total of 35 days, including:

- 21 days for preliminary appraisal (including technical and financial appraisal)
- 7 days for administrative departments to respond to P&DB queries.
- 7 days for organizing pre-PDWP meeting to resolve outstanding (especially technical and financial) issues.

Best Practices and Common Mistakes in an Appraisal

A list of best practices and related common mistakes are tabulated hereunder:

| Best Practice | Common Mistake(s) |
|--|--|
| Value for money may be ensured by conducting an analysis to evaluate projects. A development project yields value for money if it results in a net positive gain to society. | <ul style="list-style-type: none"> • Poor feasibility reports and a lack of authentic data may affect the quality of appraisals. • A project's rate of return, or social benefit may not be given due importance. • New projects may be prioritized while focus may shift from maintenance or rehabilitation of previous projects. • Projects are not aligned with overall sectoral and public policy objectives and have insufficient information at the time of appraisal. |
| Satisfactory arrangements should be made for procurement (works, goods, and services) and financial management. | Procurement process is not aligned with the applicable procurement rules as governed by PPRA and its rules, and the Procurement of Consultancy Services Regulation, 2010. |
| All the appropriate social and environmental safeguards should be in place. | Negative environmental effects of a project are not given due consideration. |
| The sources and magnitude of project risks should be assessed, and risk mitigation frameworks should be in place. | No proper assessment of risks and inactivation of risk management framework may lead to cost overruns and time delays. |
| Job descriptions of all project posts should be developed to execute recruitment for smooth functioning of the project. | Vague and unclear job description of the project steering committee and project implementation unit may lead to confusion and undue interference. |
| Validate and confirm the project financing arrangements. | Lack of clarity of financing by development partners or the private sector in the case of a jointly funded project. |

Table 11: Best Practices and Common Mistakes in an Appraisal

4.2. 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.
- **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.
- **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 human health by air, water and noise pollution gives examples of intangible 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.
- **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, appreciation in value of real estate due to infrastructural development, etc.

4.3. Types of Appraisals

The method of conducting each type of appraisal is discussed below, including worked out examples for financial and economic appraisal and checklists for other types of appraisals. These methods will be applied by relevant section(s) within P&DB for appraising proposals submitted by administrative departments.

Technical Appraisal (Section 6 of PC-I)

The following elements will 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.

In certain cases, sectoral characteristics are unique and standard technical appraisal approaches are inadequate. The road sector for instance represents a large share of public investment in Punjab. P&DB has developed the Road Scorecard: A Framework for Road Sector Development, in collaboration with the Punjab Economic Research Institute (PERI). This may serve as an important appraisal tool, especially to compare competing road projects. This will be used to appraise project proposals for roads.

Introduction to the Road Scorecard: A Framework for Road Sector Development

The Road Scorecard presents an evidence-based framework for prioritization and selection of potential road projects. It covers arterial, collector and local roads and the projects are categorized as rehabilitation of a road, widening and new road projects. These roads project types combine to form nine different scorecards with their own respective variables and weights. Methodologically, the Scorecard adopts the Multi Criteria Analysis approach weighing considering six indices Economic Index, Road Condition Index, Road Safety Index, Road Utilization Index, PSE (Political, Social, Environmental) Index and the Development Index. This approach balances efficiency & equity considerations in the appraisal of competing road projects, ensuring that public investment delivers maximum value-for-money. These indices in turn draw on the collective experience of relevant authorities, engineers, and policymakers.

Social Appraisal (Section 11(iii) of PC-1)

This analysis is a process that aims to identify social dimensions of projects, different stakeholders, and their perspectives and priorities. It considers social aspects such as involuntary resettlement, indigenous peoples, physical cultural resources, human health and safety and gender. It examines aspects like poverty reduction, income distribution and employment creation and impacts on special groups such as minorities, and less developed areas. Another aspect of a social analysis is how the project is contributing to the attainment of relevant SDGs.

Social appraisal primarily reviews the project design and the process for project identification, monitoring, and implementation from a social perspective. Specifically with regard to the concerns of women and socially excluded groups, the appraisal will probe the following questions:

- 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?
- 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?

- Have the provisions of the ‘Guidelines for Land Acquisition and Resettlement for PPP Infrastructure Projects’ issued by the P&DB been adopted in case of involuntary resettlement caused by land acquisition?
- Does the project entail any voluntary or involuntary resettlement of local inhabitants of the area in which the project will be implemented? If so, is there a Resettlement Action Plan in place which meets applicable legal and policy requirements and safeguards the right of affected households?

In addition to the components and attachments listed above, the Planning Focus on Marginalization PC-I Review Template is a useful tool for assessing the degree to which the concerns of socially excluded segments are integrated with the design and M&E arrangements of the project and the extent to which they were involved in its planning and conception. This will be used by relevant section(s) to appraise project proposals submitted by administrative departments.

Where projects entail a significant land acquisition component – especially where foreign funding is involved, project proposals must include a detailed plan for the resettlement of any indigenous population that would be displaced. A Checklist is provided below. Appraisers will use this checklist to assess the comprehensiveness of the resettlement action plan.

Checklist for Resettlement Action Plan⁷¹

1. Project description based on the PC-I
2. Scope of land acquisition and resettlement
3. Socioeconomic information and profile
4. Consultation, public participation, and grievance redress mechanisms
5. Policy and legal framework
6. Entitlements, assistance, and benefits
7. Relocation planning
8. Income and livelihood restoration
9. Resettlement budget and financing plan
10. Institutional arrangements for the Action Plan
11. Implementation Schedule for the Action Plan
12. Monitoring and Evaluation plan

Environmental Appraisal (Section 11(v)(a) of PC-I)

The environmental analysis evaluates a project’s potential environmental risks and impacts in its area of influence. The environmental analysis considers the natural environment (air, water, and land) and transboundary and global environmental aspects, with a special focus on climate change (both mitigation and adaptation aspects).

The main objective of this analysis is to identify the ways and means to prevent, minimize, mitigate, or compensate for adverse environmental impacts of a project and to enhance its positive impacts. This includes consideration of project alternatives as well as measures to improve project selection, citing, planning, design, and implementation. Wherever feasible, the preventive measures are preferable to mitigatory or compensatory measures.

⁷¹ https://prmp.punjab.gov.pk/system/files/Land_Acquisition_and_Resettlement_Guidelines_By_PRMP.pdf

This analysis should take full cognizance of the national environmental action plans, legislation and regulations, and obligations of the country under the relevant international environmental treaties and agreements. As with the social analysis, the environmental analysis should show how the project is contributing to the SDGs.

Environmental appraisal should therefore 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 going to threaten biodiversity conservation and natural resource sustainability?
- Has the Disaster Risk Reduction checklist notified by the Planning Commission been duly filled by the sponsoring agency for submitted PC-I/PC-II? (See Section PC-I Proforma and Attachments for details).
- Have the provisions of the Punjab Environmental Protection (Review of Initial Environmental Examination and environmental Impact Assessment) Regulations, 2022 been duly observed? (See Section PC-I Proforma and Attachments for details).

Financial Appraisal

Financial appraisal is a systematic process of evaluating a project to determine its potential financial feasibility. It primarily involves assessing financial metrics including costs, revenue, cash flows, risk factors, and potential returns, to assess whether the investment is worth pursuing.

For financial appraisal, the financial soundness of the project must be assessed. This includes the financial benefits and costs of 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 consider 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 consider 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. Commonly used discounted techniques including NPV and IRR are discussed hereunder.

Net Present Value (NPV) Method

Net present value (NPV) is a financial appraisal tool used to evaluate the profitability of an investment or project. It considers the time value of money by discounting future cash flows to their present value.

A positive NPV ($NPV > 0$) indicates that the investment is expected to generate a positive return, while a negative NPV ($NPV < 0$) indicates that the investment is expected to generate a negative return. An NPV of zero ($NPV = 0$) indicates that the investment is expected to only break even i.e., there is no loss but also no benefit in the investment.

NPV is calculated as:

$$NPV = \sum_0^T \frac{Cash\ flow_t}{(1+r)^t}$$

Where:

- NPV is the net present value
- C_{Ft} is the cash flow at time t
- r is the discount rate
- t is the time period

Discount rate⁷²: The discount rate is the interest rate used to calculate the present value of future cash flows. It 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 notified discount rate is 11.20%⁷³ (and may amend from time to time), though users must adopt whatever prevailing rate has been notified by the competent authorities.

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 |

Table 12: Net Present Value computation example

*PKR in billions; discount rate 11%

⁷² 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) Cost-Benefit Analysis for Development – A Practical Guide; Asian Development Bank.

⁷³ No.F.8(2)GS-I/2018-833 dated 17th November,2022

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.

Key rules for NPV are:

- i. Development projects should have a positive NPV when discounted by a discount rate equal to the opportunity cost of funds.
- ii. It is preferable to choose a project with the highest NPV among the various projects or scenarios of projects.
- iii. If the investment is subject to a budget constraint, then the package of projects that maximizes the NPV of the fixed budget should be chosen.

Internal Rate of Return (IRR)

The IRR is the discount rate¹² that, when applied to cash inflows of a project, sets them equal to the initial investment (i.e., discount rate that sets NPV = 0). The preferred option is the one with the highest IRR when compared with the opportunity cost (prevailing discount rate). An IRR of 10% means that with a discount rate of 10%, the project shall breakeven.

IRR is calculated as:

$$\frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \dots + \frac{CF_n}{(1+r)^n} = \text{Initial Investment}$$

Where:

- r is the internal rate of return.
- CF_n is the net cash flow in period n .

A few limitations of IRR to be aware of:

1. **Multiple IRR solutions:** IRR can have multiple solutions in some cases, especially when there are initial outflows followed by inflows and then outflows again. This ambiguity can make it difficult to interpret the true profitability of the investment.
2. **Ignores risk:** IRR is a risk-neutral measure, meaning it doesn't consider the level of risk associated with the cash flows. A high IRR could be tempting, but it might come with significant uncertainty or volatility.
3. **Timing sensitivity:** IRR is highly sensitive to the timing of cash flows. Small changes in the timing of even minor cash flows can significantly impact the IRR, making comparisons across projects with different cash flow patterns difficult.
4. **Ignores project size:** IRR doesn't consider the absolute size of the investment, or the total return generated. A smaller project with a high IRR might not be as attractive as a larger project with a lower IRR but a bigger overall return.

An example of Computation of IRR of Lahore–Sialkot Motorway (hypothetical figures) is:

| Year | Capital | O&M | Total | Gross | Increment | PV of Incr. | PV of Incr. |
|-------|---------|------|-------|---------|-----------|-------------|-------------|
| | Cost | Cost | Cost | Benefit | al Net | Net Ben. | Net Ben. |
| | | | | | Benefit | @ Disc Rate | @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) |

Table 13: Internal Rate of Return computation example

*PKR in billions; discount rate 11%⁷⁴

IRR = 27%

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.

It is important to note that choosing between NPV and IRR for evaluating investments depends on the specific circumstances and your priorities. Here's a breakdown of when each might be preferable:

Prefer IRR when:

- **Initial screening and comparison:** IRR's ease of interpretation and focus on internal rate of return makes it useful for quickly comparing projects with similar cash flow patterns and evaluating their relative attractiveness in the initial stages.
- **Focus on reinvestment rate:** If you have specific reinvestment opportunities in mind for future cash flows, IRR can be a helpful tool for assessing the potential return on reinvested earnings.
- **Simple cash flow patterns:** Projects with straightforward, predictable cash flows benefit from IRR's ease of calculation and understanding.
- **Limited resources for complex analysis:** If you lack resources for extensive analysis, IRR's simplicity can be advantageous, especially for smaller projects.

Prefer NPV when:

- **Project size matters:** NPV considers the absolute value of cash flows, so it's better for comparing projects of different sizes. A smaller project with a high IRR might not be as attractive as a larger project with a lower IRR but a bigger overall return.

⁷⁴ Interest rate used for discounting future cash flows to compute present value of those cash flows.

- **Risk is a concern:** NPV is not biased towards projects with earlier cash flows like IRR. It considers the timing of all cash flows, making it more suitable for riskier projects where later returns are uncertain.
- **Inflation matters:** NPV can be easily adjusted for inflation, giving a more realistic picture of the project's true profitability, especially in long-term projects.
- **Project has intangible benefits:** NPV can be used to incorporate non-monetary benefits by assigning them a monetary value, making it more comprehensive for evaluating projects with broader impacts.
- **Consistency with financial standards:** Many financial institutions and regulations rely on NPV for project appraisal, making it the preferred choice for compliance.

It is therefore important to distinctly remember:

- **Don't rely solely on NPV or IRR.** Use both in conjunction with other metrics like payback period and sensitivity analysis for a comprehensive picture.
- **Consider the limitations of both methods,** like NPV's sensitivity to discount rate and IRR's risk neutrality.
- **Adapt your choice** to the specific context and goals of the public investment project under consideration.

Benefit Cost Ratio (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 |

Table 14: Benefit Cost ratio computation example

*PKR in billion; discount rate 11%

$$BCR = \frac{PV \text{ of benefits}}{PV \text{ of costs}} = \frac{106.41}{65.17} = 1.63$$

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 show that the project in question is feasible on the basis of the BCR.

Rule of Thumb:

- i. If the ratio is less than 1, the project is not feasible.
- ii. If the ratio is greater than 1, the project is feasible.
- iii. If the ration is equal to 1, the project will breakeven.

The Government will notify a minimum IRR for relevant projects where applicable, as per Punjab PFM Act, 2022.

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)

Project Cost Sensitivity Analysis

| Project Cost | NPV | BCR |
|--------------|-------|------|
| 5% | 51.94 | 1.75 |
| 6% | 46.35 | 1.69 |
| 7% | 41.23 | 1.63 |
| 8% | 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 |

Table 15: Sensitivity analysis with respect to escalating Project Cost

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 |
| <i>*PKR in billions; discount rate 10%</i> | | | |
| NPV | | PKR 90.90 billion | |
| BCR | | 2.36 | |
| IRR | | 40% | |

Table 16: Best-Case Scenario

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 11% | | | |

Table 17: Middle-Case Scenario

| | | |
|------------|--------------------------|--|
| 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 11% | | | |
| NPV | | PKR (29.56) billion | |
| BCR | | 0.59 | |
| IRR | | 1% | |

Table 18: Worst Case Scenario

SCENARIO 3: PROJECT FINANCIALLY INFEASIBLE BY ALL THREE METHODS

Payback period

The payback period calculates the number of years of project duration that will expire before a project has repaid its initial investment i.e., when the investor (in this case the GoPb) has recovered the capital invested. The formula is:

$$\text{Payback Period} = \frac{\text{Initial Investment}}{\text{Net Annual ash flow}}$$

Economic Appraisal

Economic appraisal, also known as social cost-benefit analysis (SCBA), is a systematic process for evaluating the economic impacts of a policy, project, or program. It involves assessing the costs and benefits (including all positive and negative externalities) of the intervention, both to society as a whole and to specific groups or individuals. The goal of economic appraisal is to provide decision-makers with insights to make informed choices that maximize social welfare and economic efficiency.

This analysis aims to ensure that scarce resources are allocated efficiently, and the project investment brings net benefits to the country while contributing to the welfare of its citizenry. Not only should the proposed project investment contribute to the developmental goals of the province, but also be large enough to justify the use of scarce resources such as capital, skilled labour, managerial talents, etc., which are needed to implement and operate the project. All resource inputs used by a project have an opportunity cost because, without the project, they could create value elsewhere in the economy.

It is important to note how the economic appraisal contrasts with financial appraisal:

| Feature | Financial Appraisal | Economic Appraisal |
|-----------------------|---|---|
| Focus | Financial viability for the investor or organization. | Broader economic impact on society. |
| Metrics | Monetary metrics, such as NPV, IRR, and payback period. | Monetary and non-monetary metrics, such as economic growth, job creation, and social welfare. |
| Analytical techniques | Discounted cash flow (DCF) analysis, NPV, IRR, payback period, benefit-cost ratio (BCR), etc. | Cost-benefit analysis (CBA), cost-effectiveness analysis (CEA), etc. |
| Objective | To determine whether the project is financially viable for the investor. | To determine whether the project is economically desirable for society as a whole. |

Table 19: Difference between financial and 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 a whole-of-society 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 externalities⁷⁵.

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

⁷⁵ 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.

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.

The 'with and without' project analysis differs from a 'before and after' comparison by taking into account changes in the variable of interest that would occur without project intervention. This is why it is useful to isolate costs and benefits that occur 'with' the proposed project and to then compare them with a no-intervention, status-quo or counter-factual alternative where no project exists.

For projects not appropriate for cost-benefit analysis, the basis for the performance of the project should be clearly specified. For example, the project's Cost Effectiveness Ratio 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.

Cost Benefit Analysis (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 project 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 considered. Cash values, based on prices, are placed on all costs and benefits and the time at which these costs/benefits occur is identified. Market distortions result in market prices being different from the value of a product/service unit to the economy. A private entrepreneur does not take such deviations and market distortions into account, but the government must. Thus, the government must estimate a set of prices that reflect both opportunity costs as well as societal objectives and apply these to the projects' inputs and outputs, i.e., costs and benefits. These prices are called shadow prices or accounting prices. It is important to identify and compute these '**shadow prices**' to monetize the value of a particular good or service so that CBA can be effectively conducted. This is especially appropriate for abstract or intangible goods/services that are not usually bought and sold in the market. For instance, when attaching a rupee value to a service like education, it is important to account for the social value created in the provision of this service for the beneficiary. Economists often use shadow rates of return to investment in education by measuring earning increments for people with increasing levels of education attainment over their professional lives.⁷⁶

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.

⁷⁶ Source: <https://www.mdpi.com/2076-3387/9/4/81>

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.

Detailed Cost Benefit Analysis will be conducted for the following sectors⁷⁷:

| S. No. | Sector |
|--------|--|
| 1 | Water Supply and Sanitation |
| 2 | Roads and Bridges |
| 3 | Irrigation |
| 4 | Urban Development |
| 5 | Agriculture |
| 6 | Transport |
| 7 | Energy |
| 8 | Local Government and Community Development |
| 9 | Livestock and Dairy Development |
| 10 | Industries, Commerce & Investment |
| 11 | Information Technology |
| 12 | Forestry |
| 13 | Food |
| 14 | Youth Affairs, Sports and Tourism |
| 15 | Mines and Minerals |

Table 20: Sectors for CBA

Pricing of Project Inputs and Outputs

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

- i. Most of the inputs in the economic analysis are valued at opportunity cost or on the principle of willingness to pay. It is assumed that all inputs to the project are diverted away from alternative uses and each input generally has value in alternative use. Every input to the project is valued at this opportunity cost, that is, the value of the input in its best alternative use.
- ii. For some final goods and services, usually non-traded ones, the concept of opportunity cost is not applicable because it is a consumption value that sets the economic value. This criterion is called 'willingness to pay' or 'value in use'.
- iii. The analysis is done at present, i.e., constant prices. This is due to the reason that the current price analysis entails the prediction of the inflation rate, which is difficult and unreliable.
- iv. Identification of project costs and benefits

Cost Effectiveness Analysis (CEA)

In circumstances where the project outputs are not measurable monetarily and must be expressed in physical units appropriate to the projects, this technique proves to be a worthwhile

⁷⁷ Notification No.CE/RA/P&D/111/2018 issued by P&DB dated 21st June, 2018

guide in the decision-making process. CEA will be conducted for projects in social sectors, as listed below⁷⁸.

| Sr. No. | Sector |
|---------|--|
| 1 | Education, Higher Education, Special Education |
| 2 | Labour & Human Resource |
| 3 | Health |
| 4 | Public Building |
| 5 | Literacy |

Table 21: Sectors for CEA

Broadly defined, Cost Effectiveness Analysis is an analytical study designed to assist decision makers in identifying a preferred choice among possible alternatives. Such analysis involves a comparison of alternative courses of action in terms of their costs and their effectiveness in obtaining some specific objectives. It tries to show how the given level of benefits can be achieved at a minimum cost or how the maximum benefits can be achieved at some given level of costs. The keynote of both of these problems is that it is not necessary to attach explicit money value to benefits.

A criterion is a rule or standard is first established by which alternatives are ranked in order of desirability for choosing the most promising one. It provides a means for weighing costs against effectiveness. The two general approaches followed under such analysis are as given below.

Minimizing the Cost Approach

The idea of minimizing the costs suggests that more than one way might be available to achieve the given objectives. This is also sometimes called the least cost analysis. So, this form of cost effectiveness can be summarized by means of the following steps:

- Decide aims/goals/targets to be achieved; quantify, if possible.
- Decide means of achieving them, these form the mutually exclusive alternatives.
- Undertake detailed cost analysis of each alternative and set out the costs (alone) in the cash flow.
- Discount the costs at the correct discount rate, and obtain the present worth of costs for each alternative.
- Choose the alternative with the lowest present worth of costs. This assumes that the benefits of each alternative are identical.

Maximizing the benefits approach

There is an alternative approach for cost-effectiveness analysis. This involves, for a given set of costs or inputs, maximising the benefits. In this case the steps are:

- Decide the aims/goals to be achieved; quantify if possible.
- Determine the means of achieving them.
- Measure the costs.
- See which alternative, within the cost constraint, maximises the quantity of benefits.
- Choose the alternative with maximum benefits.

⁷⁸ Notification No.CE/RA/P&D/111/2018 issued by P&DD, dated: June 21, 2018

Regardless of the approach adopted, it is often useful to compute a Cost Effectiveness Ratio. This is achieved by costing alternative options, quantifying outputs, and then calculating a unit cost for those outputs to work out overall value for money derived from each alternative so that they can be compared.

For instance, if the choice is between establishing a school in Location A versus a school in Location B, the Cost Effectiveness Ratio can be worked out as follows:

| | School in Location A | School in Location B |
|--|----------------------|----------------------|
| Cost of establishing and running a school for 1 year | Rs. 1,000,000 | Rs. 1,500,000 |
| Number of new children enrolled | 35 | 50 |
| Cost per child | Rs. 28,571 | Rs. 30,000 |

Table 22: Sample Cost-effectiveness ratio

In the above example, it is clear that even though Location B allows enrollment of 15 additional children, in terms of cost per child, Location A offers greater value for money.

Gender-mainstreaming⁷⁹ checklist for project appraisal⁸⁰

- Will the proposed scheme/ plan help in overcoming gender gaps if it is not women-specific?
- Does the PC-I highlight gender issues, needs, and provide relevant gender-disaggregated indicators?
- Has the project proposal addressed gender considerations to ensure balanced participation by women?
- What are the intended and unintended impacts on various social groups, including women, girls, and other vulnerable groups?
- 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?

In certain sectors, neither CBA nor CEA is required. Specific benefits such as positive cultural impacts, reduced air pollution or restoration of historical work should be identified and explained, in this case. This applies to the following sectors⁸¹:

| Sr. No. | Sector |
|---------|-------------------------|
| 1 | Information and Culture |
| 2 | Environment |
| 3 | Archeology |

Table 23: Sectors that don't require CBA or CEA

⁷⁹ No.1(46)PO(Coord-II)/P&D/2022-23 Dated: 23rd November 2022.

⁸⁰ Gender Responsive Planning and Budgeting, UNWOMEN and Labor and Human Resources Department, Government of Punjab, 2020.

Source: <https://asiapacific.unwomen.org/sites/default/files/Field%20Office%20ESEAsia/Docs/Publications/2021/01/Final%20-%20GRPB%20Guidelines%20Punjab.pdf>

⁸¹ Notification No.CE/RA/P&D/111/2018 issued by P&DB dated 21st June 2018.

Management Appraisal (Section 13 for PC-I)

An essential part of any appraisal is to carefully review the project organizational and management aspects to assess implementation capacity, specifically, the adequacy of appraisal will assess:

- Accountability and reporting relationships in the proposed project governance structure
- Institutional linkages between proposed project entity and parent organization, regulators, and financiers
- Legal and regulatory validity of the project organization
- Staffing requirements
- Training arrangements to sustain project operation beyond construction phase
- M&E arrangements (as per the checklist below)

Checklist for Management Appraisal

- 1) M&E Framework & evaluation plan developed and attached (i.e., LFA/Result Chain tools etc.):
 - a) What is to be monitored and evaluated?
 - b) Who is responsible for monitoring and evaluation activities?
 - c) When monitoring and evaluation activities are planned (timing)?
 - d) How are monitoring and evaluation carried out (methods)?
 - e) What resources are required and where they are committed?
 - f) What are relevant risks and assumptions in carrying out planned monitoring and evaluation activities?
- 2) The objectives developed are SMART (Specific, Measurable, Attainable, Realistic & Time bound)
- 3) The indicators (Qualitative & Quantitative) developed are CREAM (Clear, Relevant, Economic, Adequate & Monitorable)
- 4) Program/project have clear gender-disaggregated targets and specifically include women, girls, and other marginalized groups.
- 5) Detailed program/project work plan developed and attached (Gantt Chart etc)
- 6) Pilot project learning incorporated (if required)
- 7) Monitoring, review & evaluation findings/learnings learning incorporated (if required)
- 8) The monitoring, review & evaluation reports are disseminated [electronically or physically] (if required)
- 9) Sufficient budget is allocated for M&E

Legal Appraisal

Legal appraisal identifies laws, rules, regulations (notifications, circulars, and instructions) issued by competent authorities including federal, provincial, and local government departments/agencies that affect the project and assess the degree to which the proposed project design is in compliance with the prevailing legal and regulatory regime.

Project appraisal: Common omission and errors

- Identification and quantification of costs and benefits may be deprioritized.
- Adverse environmental impacts may be ignored.
- Risk forecasting and mitigation may not be given due consideration.

- TORs of project steering committee and PMU may be left vague.
- Funding streams may remain unclear in the case of projects co-funded by development partners.

Risk Assessment

Appraisers will verify that a comprehensive survey of reasonable risks has been conducted by project planners, their likelihood and potential impact been estimated, and cogent strategies developed to avoid them or mitigate their impact. Moreover, mechanisms for regular reassessment should also be present to allow risks profiles to be updated based on the changing operational context of the project. In particular, risks that affect core assumptions underpinning economic and financial analysis should be forecasted through sensitivity and scenario analyses as described earlier.

NOTE: Template for risk matrix is given in Appendix B.

The following checklist will be used for this appraisal:

- 1) **Risk survey:** Have all applicable risks been taken into account? What methods and data sources have been used?
- 2) **Risk mitigation plan:** Have probabilities and impacts of risks been clearly unpacked? Have sound strategies been developed for their mitigation?
- 3) **Risk assignment:** Has the project determined individuals or entities that are responsible for dealing with particular risks? Are these the best choices for allowing risks to be forecasted and mitigated with maximum efficiency?
- 4) **Risk forecasting and mitigation:** Is a risk register in place with clear responsibilities for conducting regular updates and making appropriate reports? Is the risk register tied to project management decision making processes that would alert the project leadership to risks in a timely manner and provide ample opportunities for mitigation?

Chapter 5: Project Approval

Key concepts

Greenfield Projects

Greenfield projects involve development and construction on land that has not yet been developed or utilized for any human purpose. Brownfield projects involve development on sites that have been previously built on. Brownfield sites may be occupied by disused factories, outmoded office buildings or any location that was once a work site.

This sanction is distinct from the sanction for incurring expenditure on the scheme, which is to be issued on yearly basis subject to the budget provision.

Technical Sanction

Technical Sanction is the sanction of the competent authority to a properly detailed estimate of the cost of a work of construction, or repair⁸².

Administrative Approval

Administrative approval is a general sanction of the scheme in which the total cost, foreign exchange component, and any other conditions imposed by the approving body are incorporated.

Re-appropriation of funds

'Re-appropriation' means the transfer of savings, in the appropriations of one or more objects, to meet excess expenditure anticipated under another such object.

For project approvals, various bodies are involved in granting approvals for execution of projects, 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.

5.1. Approval Forums and Sanctioning Powers⁸³

Delegation of Financial Powers Rules provide a regulatory framework for the management of expenditure by the Provincial Government Officers. The approval forums and sanctioning powers are notified (and maybe amended from time to time) in the Punjab Delegation of financial power rules by the government of Punjab.

5.2. Approval process

General Guidelines for approval of PC-I⁸⁴

- No approval 'in principle or conditional' is allowable to avoid implementation delay. No ex post facto approval will be processed for any forum.
- If implementation has not been initiated beyond 12 months of approval, the project will be reconsidered by the competent forum.
- Project approval will not be sought in parts or phases. Once a PC-IV has been submitted, a fresh PC-I would be required for submission/approval for a new project.
- Steering Committee, under any project, will not be authorized to approve subprojects or alter the scope of the project. For such changes, approval of a competent forum would be required.

⁸² Punjab Budget Manual, 2008.

⁸³ As per the latest Punjab Delegation of Financial Powers Rules, 2016.

Source: https://pnd.punjab.gov.pk/system/files/Punjab_Delegation_Financial_Powers_Rules_new.pdf

⁸⁴ As per the Federal Planning Manual, 2021 notified by the Planning Commission.

- While approving projects the respective forum will also investigate the yearly financial phasing and if necessary, seek assurance from the sponsors.

Project approval at federal level (ECNEC, CDWP)

Guidelines for Submission of PC-I at Planning Commission

PC-Is submitted to the Planning Commission for approval of federal forums, must:

1. Be signed by the Chairman, P&DB
2. Include Land provided free-of-cost by provincial government, where they seek full or partial federal financing (i.e., PSDP)
3. Be approved by the PDWP.
4. Be submitted for approval if they entail water distribution issues or certification from IRSA, even where they are wholly funded by the province and do not utilize federal assets.
5. Include:
 - a) Objectives and outcomes (with RBM indicators, preferably in quantitative terms and linked with strategic policies/plans)
 - b) Detailed design of civil work (including BoQ and location map)
 - c) Itemized costs that are realistic and reflective of current market realities, including O&M costs
 - d) Scientifically conducted location analysis
 - e) PMU structure with well-defined roles and TORs
 - f) Implementation plan with yearly physical and financial phasic
- 6) Provide comparison (quantities and costs) and reasoning in case of revised projects (with inquiry report by head of sponsoring agency, in case of second revision)
- 7) Not entail escalation charges beyond 6.5% per annum of base cost from Year-2 of the project
- 8) Not entail contingency charges beyond 3% of base cost

Projects presented to the CDWP and ECNEC for approval must be submitted with Working Papers and Summaries (respectively), as shown in the table below⁸⁵:

| CDWP Working Paper: Main Contents | ECNEC Summary: Main Contents |
|--|---|
| <ul style="list-style-type: none"> • Project profile, which includes title, location, sponsoring and executing agency, O&M agency, sources of financing, cost, timelines, brief description, link to strategic policies, impacts and outcomes (with KPIs), Lessons learned and incorporated in design, breakdown of capital cost, physical and financial scheduling, sustainability of the project, among other fields of information. • Technical Appraisal • Economic/Financial Appraisal | <ul style="list-style-type: none"> • Basic information (title, location, sponsoring and executing agency, O&M agency, sources of financing, cost) • Timelines i.e., dates of consideration in CDWP and completion • Link to PSDP and sector strategies and issues • Impacts and outcomes (with KPIs), • Major financial / economic and environmental indicators (BCR, FIRR, EIRR, EIA) • CDWP observations and responsive actions |

⁸⁵ Notification No.24(1)PIA-I/PC/2009 issued by the Planning Commission dated 13th April, 2015 forwarded by the P&DB on the 21st April 2015.

| | |
|--|---|
| <ul style="list-style-type: none"> • Environmental and Social Safeguard Appraisal • Risks and mitigation measures • Conclusions and recommendations | <ul style="list-style-type: none"> • Physical progress (if under implementation) • Conclusion |
|--|---|

Table 24: Main Contents CDWP Working Paper & ECNEC Summary

Anticipatory Approval

The Chairman ECNEC has powers to allow execution of a scheme in anticipation of its formal approval by the ECNEC. The request for anticipatory approval has to be submitted to the Cabinet Division for consideration by the Chairman ECNEC on the respective prescribed proforma for new and ongoing projects. The request for an anticipatory approval should be signed by the Chairman P&D board.

Project approval at provincial level (PDWP, DDSC)

Approval at PDWP level⁸⁶

- The Administrative Department / Sponsoring Agencies will furnish two (2) copies of the scheme on PC-I form along with a softcopy on SMDP to the P&DB; the concerned administrative Secretary will personally scrutinize the scheme in detail. It must be ensured that the schemes sent to PDWP are in line with the objective of the Growth Strategy / Sectoral Plans. He will ensure that economic/financial analysis of the proposed project and its implementation plan has been made a part of the scheme and PC-I/PC-II scheme has been duly signed by him at the appropriate column. Any PC-I/PC-II not signed by the administrative secretary will not be accepted by the P&DB for further processing.
- All those schemes where construction of buildings is to be done by the Buildings Department must be vetted by the Chief Engineer Punjab, Buildings Department.
- The Coordination Section will provide soft copies of the PC-I to the concerned Sector Chief / Member including Technical Wing for technical scrutiny of the project and one soft copy would be provided to the Finance Department for their comments.
- Before referring the case to PDWP the concerned sector Chief in P&D will examine the scheme thoroughly. The concerned Member will convene a Pre-PDWP meeting to scrutinize the PC-I. The composition of the Pre-PDWP will be as follows:
 - Member concerned (Convener)
 - Chief of Section of P&D Department.
 - Representative of Finance Department⁸⁷ (not below rank of Deputy Secretary)
 - Representative of the Technical section of P&DD (in case of building component)
 - Representative of PERI for economic and financial appraisal
 - Co-opted member from private sector, academia, and an expert from the relevant field for mega / special / complex projects⁸⁸
- The pre-PDWP will make a comprehensive appraisal of the project to assess whether the project is technically sound, and financially & economically viable. The technical appraisal involves a careful review of the basic data, assumptions and methodology used in project

⁸⁶ Notification No.12(24)PO(COOR-II)/P&D/2016-16 dated 11th January, 2016 issued by the P&DB

⁸⁷ Representative of Finance Department will give his/her input/ clearance on all the issues particularly creation of posts during the pre-PDWP meeting.

⁸⁸ The concerned Member / Sector Chiefs will maintain and update a panel of experts from private sector and academia for their participation in pre-PDWP.

preparation, an in-depth review of the workplan, its technical design, review of cost estimates and funding arrangements, an assessment of project's organization, human resource and management aspects, validity of the financial, economic, and social benefits expected from the project.

- The pre-PDWP will also ensure that the EIA of the project under the environment law has been carried out (where applicable). Furthermore, the viability / feasibility of the project under PPP mode has been explored.
- In order to ensure departmental coordination, all the stakeholders must be involved at pre-PDWP stage in project appraisal. On the same token, where more than one agency is involved in the execution / operationalization and maintenance of a project, concerned sector Chief would ensure their participation at the pre-PDWP level.
- Pre-PDWP meeting should try to thrash and resolve all issues before placing a project before PDWP for approval.
- The concerned Sector Chief will prepare a working-paper in the light of recommendations of the pre-PDWP and present the case before the PDWP on the prescribed format for approval / consideration. Concerned member will give his/ her specific comments / recommendations before the PDWP.
- The concerned administrative Secretary must attend the PDWP meeting personally to plead the project. No scheme will be considered by the PDWP, unless the Department concerned is represented at the level of administrative Secretary except in special cases where presence of administrative Secretary is exempted by the Chairman, P&D Board.
- The representative of the Finance Department (not below the rank of Special Secretary / Additional Secretary) will give his/ her input particularly regarding human resource component of the PC-I/PC-II as well as O&M expenditure after completion of the project. The finance department will examine the approval of the project with a view to its subsequent transfer to the current budget.
- Concerned Sector Chief will record minutes of the meeting (MoM) and submit concise/brief draft within three (03) working days to the concerned Member who will then forward the MoM⁸⁹ to Chairman P&DB for approval. The approved MoM will be forwarded within three (03) days to the Coordination wing for circulation.
- An approved copy of the PC-I would be retained by the Sector Chief for recording purposes and would forward one copy of the same duly signed (each page) to the administrative department concerned for record / implementation of the project.
- All projects where approval of CDWP/ECNEC is required, the administrative department would submit one (01) copy each of the PC-I/PC-II, and 35 copies of the Concept Paper duly signed by the Chairman, P&D Board to the Coordination Wing, P&D Department for onward submission to the federal Government. The administrative departments will also depute a responsible official who will receive the forwarded letter from the coordination section and personally hand over the scheme to Planning Commission, Islamabad.
- After issuance of the minutes / approval of the scheme⁹⁰, administrative approval of the scheme will be issued by the concerned administrative department under intimation to P&DB and Finance Department as well as to A.G. office.

⁸⁹ Format for minute taking is notified by P&DB vide Notification No.12(24)PO(COORD-II)/P&D/2023 dated 24th Oct. 2023.

⁹⁰ No.12(24)PO(COORD-II)/P&D/2018 dated 10.07.2018. & No.12(24)PO(COORD-II)/P&D/2019 dated 25.10.2019.

- If the project does not start functioning within one year of its approval, a new PC-I/PC-II with updated cost or scope will be required for resubmission to competent forum for fresh approval.

Approval at DDSC

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.

- 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 Boards.
- The scheme finally sanctioned by DDSC will be sent to the P&D Board and Finance Department for their records.
- Notice of the meeting will be sent simultaneously to the P&D Board and Finance Department at least three (03) days before the scheduled date of the meeting.
- The committee is not competent to approve any scheme based on a subsidy/ foreign aid. All development schemes with a subsidy element are sent to PDWP for approval irrespective of their costs.
- Two (02) 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 Board at least 10 days earlier than the scheduled date of the meeting for internal distribution in the P&D Board.
- The minutes of this sub-committee's meeting will be approved and issued by the concerned department and be simultaneously furnished to the Finance Department and other members of the DDSC.
- Administrative approval of the approved scheme will issued by the administrative Secretary of the department concerned.
- On receipt of the schemes by the Concerned Section(s), copies of PC-I are supplied to the technical, appraisal, and concerned chief of section. The views/comments of these sections are separately Appendix B with the working paper.
- PITB must participate in appraisal and approval of all IT related projects at the DDSC forum, given that it is the prime IT organization of the Government of Punjab. PITB representative must be part of DDSC meeting when any IT-related project is discussed/presented before the DDSC for consideration.⁹¹
- The HUD&PHD Department will invite representative of LG&CD Department and concerned local government in its DDSC meeting while considering water supply and sanitation / sewerage schemes which are subsequently handed over to concerned local government for operation and maintenance⁹².

In addition, the following guidelines will apply⁹³:

- The powers of the DDSC will only be exercised for approved plan of projects included in the ADP. No expenditure will be incurred on projects which are not included in the development budget for the year.

⁹¹ Notification No.12(24)PO(COORD-II)P&D/2016-17 issued by P&&DB dated 9th February 2017.

⁹² DDSC reconstituted as per Notification No.35(231)PO(COORD-II)P&D/2015-16 issued by P&DB dated 26th July 2016.

⁹³ Notification No. 35(231)PO(COORD-II)P&D/2015-16 issued by P&DB dated 11th January 2016.

- The project finally sanctioned by the DDSC will be sent to the P&DB and Finance Department for their records.
- Where there is a difference of opinion, the scheme will be referred to the PDWP. In case of dissent by representative of P&DB, development scheme will be referred to PDWP for consideration/decision.
- The Committee will not be competent to approve PC-II and any projects based on subsidy. All development projects with subsidy element shall be brought to the PDWP for approval irrespective of cost.

Project approval at local level (DDWP, DDC)

Approval at DDWP

- The administrative approval of the schemes approved by the DDWP will be issued by the sponsoring department.
- 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 and Technical Educational & Vocational Training Authority (TEVTA), fall outside the purview of the DDWP.
- 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.
- Development schemes having a subsidy / foreign aid element shall be brought to the PDWP for approval.

Approval at DDC

The DDCs were established in October 1998 to approve the schemes costing up to PKR 20 million. Later on, these powers were enhanced to approve development schemes up to PKR 50 million. The DDC cannot consider the schemes involving subsidy, foreign aid, creation of posts, purchase of vehicles, etc.

Technical Sanction

After the administrative approval is issued, the executing agency will prepare detailed cost estimates of the civil works. These will be based on the input requirements determined by all these items of work included in a scheme. The expenditure will then be calculated on the basis of rates at which different items of work will be completed. This approval is called the technical sanction. No work can be started until the technical sanction has been accorded by the competent authority. The institutions and officials authorized to issue technical sanctions and the extent of their financial powers are described in detail in the Punjab Delegation of Financial Powers Rules, 2016.

Administrative approval

The administrative approval is issued by the concerned Administrative Department on behalf of the governor of the province and its copies are sent to the P&D Board, Finance Department, Accountant General's Office, and the executing agencies.

Administrative Department refers to competent levels in the Administrative Departments, Authorities / Agencies, Divisions (Commissioners), Districts (Deputy Commissioners) vested with authorization to issue Administrative Approval after obtaining approval of projects from respective forums of approval⁹⁴.

The administrative approval contains details regarding the total cost of a scheme, its gestation period, 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 project does not start functioning within one year of its approval, a new PC-I/PC-II with updated cost or scope would be required for resubmission to the competent forum for fresh approval⁹⁵.

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 15%.

The Administrative Secretary is authorized to increase the gestation period of a development project (02) two times for one year each provided there is no increase in cost and scope of a project (as notified by P&DB, subject to amendments time to time)⁹⁶. Any further cases of extension will be referred to P&D Board for consideration.

Guidelines for projects involving component of provincial and federal entities like railway crossing

Competent forums for approval of development projects / schemes in Punjab (i.e., PDWP, DDSC, DDWP and DDC) shall not consider / approve any project before seeking prior clearance from concerned entity e.g., Pakistan railway through a reference⁹⁷.

⁹⁴ Currently applicable notification is: No.7(78)PO(P.B)/P&D/2021 issued by the P&DB dated 12th January, 2022

⁹⁵ Currently applicable notification is: No.35(231)PO(COORD-II)P&D/2015-16 issued by P&DB dated 11th January, 2016

⁹⁶ Currently applicable notification is: No.35(231)PO(COORD-II)P&D/2021 issued by the P&DB dated 09th July 2021.

⁹⁷ Currently applicable notification is: No.4/926 PO(ROAD)P&D/2017 issued by P&DB dated 31st of March 2017.

Chapter 6: Project Implementation

Key concepts

Sponsoring vs. executing agency

The sponsoring agency finances projects from their development budget and chooses an executing or implementing agency.

Executing agency

This executing agency performs the bulk of development work, but the sponsoring agency remains the 'owner' of the project. Specifically, executing agencies:

- Complete all preparatory studies.
- Develop detailed engineering designs.

- Perform surveys, tests, etc.
- Prepare cost estimates.
- Secure permits, easement rights, acquire land and prepare the site.
- Procure goods and services.
- Manage the project and all attendant risks.

Project Management / Project Implementation Unit

- PIU is established at the executing agency/department level while PMU is set up at one level higher i.e., at the coordinating department level.

6.1. Project Inception

The achievement of project objectives and actualization of benefits depends on effective project implementation according to the approved scope, cost, and time of the project. This crucial stage of implementation in the project lifecycle consists of a set of actions in parallel or sequence, whereby the project concept and design are implemented on ground. For the achievement of the stipulated targets and tangible returns, it is imperative to entrust the management of the project with staff who are competent and reliable with relevant qualifications and experience.

The inception phase of the project can last between 3 to 6 months from the commencement date of the project (the date on which the Administrative Approval was signed), depending upon the nature of the project. Project authorities may appoint a Project Director supported by skeletal staff at the concept stage to lead the detailed design of the project, consult stakeholders and prepare the PC-I.

This inception team should be able to initiate key functions following the approval of the PC-I:

- Initiate recruitments for other team members to fill all positions identified in the project management structure proposed in the PC-I;
- Initiate banking processes and streamline financial processes.
- Initiate baseline studies, such as baseline development and data collection processes.

The Aasan account must be opened with an office of the State Bank of Pakistan or with a branch of other Bank acting as its agent, according to the convenience of the officer opening the account. Where there is no office or agent, an account may be opened with the prior approval of the Finance Department, with any commercial bank with at least "A" plus rating.⁹⁸

It is important to note that common mistakes at the implementation level are:

1. **Insufficient allocation** of resources in the ADP.

⁹⁸ Amendment in Punjab Subsidiary Treasure Rules, vide notification No. SO(TT)12-2/2014.Pt-I(B) dated 1st February 2022 by the Finance Department, Government of Punjab

2. **Inaccurate cost estimations** due to a large gap between feasibility study and project implementation, leading to cost overruns.
3. **Frequent transfers** of senior officials and PDs creating work disruptions which lead to delays.
4. **Understaffed** and additional charge-based staff result in delays in project implementation.
5. **Challenges in land acquisition** such as litigation, right of way, and relocation of utilities.
6. **Frequent changes in taxation** and provincial tax laws create hurdles and increase the total cost of projects.
7. **Litigation issues** in staffing and procurements.
8. Projects often **lack a sense of ownership** which is needed from the government or project management staff.
9. **Problems identified by the Project Monitoring Team** during the M&E phase are often overlooked.
10. **PC-IV & PC-V are submitted infrequently** to the concerned authorities specifically for mega projects.

6.2. Project Governance

Project Steering Committee

It should be headed by a senior level official such as Minister, Administrative Secretary or Commissioner. The committee oversees project implementation and is restricted by TORs duly approved by approval forum (mainly PDWP). For projects approved at the level of DDWP, the practice of such institutional arrangement will not be adopted unless extremely important due to the nature of the project.

The PD will ensure that the PSC meets regularly and will circulate minutes accordingly among all stakeholders.

Project Coordination Committee

According to P&DB guidelines, for all Project Steering Committees where the Chairman, P&DB is the Chair of the Committee, **Project Coordination Committees** will be notified to monitor progress of the projects under the Chairmanship of Member concerned. The Project Coordination Committee will meet at least once in a month and submit its recommendation to the Chairman, P&DB⁹⁹.

Procurement Committee

This is an overarching committee and shall have ultimate responsibility and authority to approve recommendations of other sub-committees. Normally the Project Director will head this committee. However, PD may assign someone under them to head this body. Membership may include representatives of administrative departments, though this remains purely optional. One or more sub-committees may be notified e.g., Technical Specification Committee, Tender Committee, Bid Opening Committee, etc.

⁹⁹ Notification No.12(24)PO(COORD)P&D/2016 issued by P&DB dated 27th of January, 2016.

Project Director (PD)

Appointment

- The PMU/PIU is headed by a Project Director/Project Head
- Appointment of an independent project director through a competitive process is mandatory for projects costing PKR 3,000 million and above¹⁰⁰. The provision for this post will be included in the PC-I and no additional charge for posts in projects of this size will be allowed for officers of administrative departments. However, if an independent project director is required to be appointed for projects costing below PKR 1,000 million, such cases must be submitted for approval of the PDWP by providing proper justification. In this case, an additional charge of project posts may be allowed to officer(s) of administrative departments on a case-to-case basis and the proposed set up should be included in the PC-I.
- The Selection and Appointment Committee for the PD will include:
 - Secretary/PAO of sponsoring agency (head)
 - Representative of P&DB (Chief or Head of Section concerned)
 - Representative of the Finance Department

In case of project jointly financed by federal and provincial governments on 50:50 basis, the Chairman, P&D Board will chair the committee.

- Qualifications and experience for a PD will include¹⁰¹:
 - The educational qualification of the Project Director will be broad-based, that is, degree in Project Management, B.Sc. Engineering or MBA /MPA, MBBS/MPH, Master, or BS (4 years) degree in economics or other relevant field from HEC recognized institutions, depending upon the nature of the project.
 - Minimum five years' experience in project management or implementation, with sound knowledge of project management fundamentals, particularly the government of Pakistan's project planning and management processes and procedures
 - Maximum age of 63 years on the date of appointment
- If an independent PD cannot be appointed by the sponsoring or executing agency, an appointment from in-house officers may be made. However, the case for transferring the services of officers for this purpose must be presented and approved by a committee including¹⁰²:
 - Secretary/PAO of the sponsoring agency (head)
 - Member, P&DB
 - Representative of the executing agency (not below rank of Additional Secretary)
 - Representative of the Finance Department (not below rank of Additional Secretary)
- A full-time PD is also a mandatory hire in case of foreign-aided projects and this PD will not be transferred without informing the PDWP/CDWP, as the case may be.

¹⁰⁰ Planning Commission, 'Guidelines for Appointment of Independent Project Director in Development Projects', Notification No.20(3) PIA-I/ PC/2012, Islamabad, dated 11 March 2016.

¹⁰¹ Mirroring guidelines provided in the federal Planning Manual, 2021, Planning Commission

¹⁰² Ibid

Terms of Service

- PD will be employed through a 2-year contract, extendable based on positive performance reviews. Civil servants can compete for PD positions as long as they apply for 3-year leave upon appointment.¹⁰³
- The PD's performance will be monitored by the sponsoring agency and corrective actions may be taken in case of deviation from PC-I milestones/targets.
- Once appointed, the PD will be assigned financial and administrative powers by the PAO, as proposed in the PC-I.
- The PD's expenses will be met from the project account and once hired the PD will not be transferred during the duration of the project.

Terms of Reference of the Project Director

The PD's TORs will include the following responsibilities *inter alia*:

- Monitor inputs, processes, and outputs, and minimize time and cost overruns.
- Adopt and enforce procedures for monitoring, reporting and evaluation.
- Maintain and regularly update risk register along with mitigation measures.
- Engage and manage project stakeholders.
- Maintain custody of project documentation and records and regularly submit project status and completion reports (PC III/IV).

Project Management Unit

- PMU is headed by the PD.
- A separate unit of 3-5 officials fully trained in the provincial revenue board may be established to manage land acquisition and resettlement, in infrastructure related projects.
- The Finance Department will clear the posts separately of the schemes approved by DDSC, whereas there will be no need for clearance of posts separately from the Finance department for the scheme approved by PDWP and ECNEC. The latter schemes will be deemed to be approved by all Departments, provided that the case has been examined by the Finance Department properly and a certificate to this effect given in PDWP by the Finance Department. All relevant Departments will give input/comments on post and eligibility criteria at the relevant forum.¹⁰⁴

Pay packages of project staff

- Standard pay packages for ADP funded project posts of departments / organizations working in the GoPb will apply, as notified by P&DB from time to time. These pay packages will be followed for the appointments from private sector, hired through open competition including Project Directors, Advisors, Specialists, Experts, Consultants, etc. in the ADP funded development projects as reflected in the PC-I and PC-II duly approved by the competent forum. The cost estimates for HR components in the PC-1/PC-II shall be based on the above-mentioned pay scales.

¹⁰³ As per the ECNEC meeting that took place on 1st October 2020

¹⁰⁴ Notification No.SO(P&D)2-39/2019 issued by P&DB dated 9th October, 2019 read with Notification No.SO(EBR)6-2/2014/Contract/S&GAD issued by S&GAD dated 12th June, 2018

- Eligibility criteria for the project posts including the academic/professional qualification and experience shall be meticulously outlined by the concerned Administrative Department and discussed at the PDWP forum.
- The Administrative Department shall propose, whereas the PDWP shall finally decide the PPS against the project positions considering the expertise and job descriptions of the post.
- The number of project employees shall also be decided by the approved forums. Being project employees on lump-sum market salaries, they will have no right to the regularization of services.
- Project posts shifted to the non-development side after project completion will not be entitled for the said pay packages from the date of such transfer.
- The officers granted additional charge of the project posts in addition to their own duties will be entitled to draw additional charge allowance @ 20% of the basic pay, in addition to their own pay / allowances of their regular posts to maximum of Rs. 20,000 per month¹⁰⁵, as revised from time to time.
- The above lump-sum project pay scales shall not in any way be less than the minimum rates of wages as revised from time to time.
- Pay of the project staff shall generally be started from the median stage of the respective pay range and thereafter an annual increment shall be admissible at the percentages mentioned above. However, in exceptional cases the Administrative Department / Appointing Authority may hire the Project Director or specialists / experts at a higher stage for the reasons to be recorded in writing.
- The project employees will be appointed on a contract basis in projects for an initial period not exceeding two years, which can be further extended on a yearly basis until the completion of the project. Such extensions shall however be made only after the evaluation of employees' performance against measurable targets.

In-service regular government servants so appointed / posted in projects or programs will be entitled to grant of Incentive Allowance in addition to their admissible salary (substantive pay + admissible allowances) under respective pay scales at rates to be notified by the Finance Department from time to time.

Cases of grant of incentive allowance of in-service regular Government Servants so appointed / posted in development projects / programs (projects, programs, policy units / policy cells etc.) shall be considered and recommended by the PDWP.¹⁰⁶

The Incentive Allowance shall be admissible subject to the following conditions¹⁰⁷:

- It will be reviewed annually by the Selection board in light of Orders of Finance Department bearing No.FD.SR-II/1-12/2009, dated 22.10.2019.
- In case, Executive Allowance or any cadre specific allowance is admissible on a post, then there will be an option to choose either of one.

¹⁰⁵ Notification No.FD.SR-IV/5-90/2023 issued by the Finance Department, dated 3rd November,2023

¹⁰⁶ Notification No.FD.SR-II/9-131/2020 issued by the Finance Department, dated 20th of October 2022

¹⁰⁷ No.FD.SR-II/9-131/2020 issued by the Finance Department dated 5th October 2022.

In addition, P&DB has issued the following guidelines for appraisal of proposals before they are considered by the PDWP:¹⁰⁸

- All such cases must be discussed and recommended by the pre-PDWP under the Chairmanship of concerned Member in-person.
- Participation of Finance Department (Regulations Wing), Coordination Section P&D Board and Administrative Department not below the rank of Deputy Secretary will be ensured.
- Minutes of pre-PDWP will be added with the working paper for the PDWP.
- Only regular Government Servants posted against project posts by the competent authority after due process will be eligible for grant of Incentive Allowance
- Pre-PDWP will examine suitability of the official for the post vis a vis his/her qualification and experience relevant to the project post.
- Pre-PDWP will recommend the amount of incentive allowance for the proposed position / official for approval by the PDWP.
- Grant of Incentive Allowance will be linked and evaluated with the performance of the official on completion of one year.

6.3. Framework for Resident Supervision of Projects

To ensure quality of works and optimal use of resources it is mandatory to engage services of consultants for Resident Supervision as per threshold costs levels of the project in the respective categories indicated below¹⁰⁹:

| Sr. No. | Sector | Cost (Rs. in Million) | |
|---------|---|---------------------------|---------------|
| 1 | Water supply and Sanitation | 300 and above | |
| 2 | Bridges | 1500 and above | |
| 3 | Roads | 750 and above | |
| 4 | Buildings | 300 and above | |
| 5 | Irrigation | Dams | 450 and above |
| | | Other Irrigation Projects | 450 and above |
| 6 | Energy (Power Plan, Hydro Power, Solar, Wind, Thermal Projects & Biomass) | 1000 and above | |
| 7 | Information Technology | 500 and above | |

Table 25: per threshold cost levels of the project

Resident supervision arrangements through consultants will not absolve the department concerned of their responsibility for proper utilization of public funds and ensuring qualitative/quantitative execution of the work.

Financial Arrangements

Funds for new projects require proper setting up of financial accounts. Two types of accounts can be set up.

¹⁰⁸ Notification No.12(24)PO(COORD-II)P&D/2022 issued by the P&DB dated 23rd December 2022.

¹⁰⁹ As per P&DB notification No: 4(24-A)PO(CONS) P&D/2023 dated 8th May 2023.

Assan Assignment Account

Assignment Account circumvents the pre-audit system of the Accountant General. These funds are part of the Consolidated Fund, and the end-year unspent funds need fresh authorization to be spent in the next fiscal year. Collection/recording of receipts cannot be done with this account. According to Subsidiary Treasury Rules issued under the Treasury Rules (Punjab)¹¹⁰:

- An administrative department in prior consultation with the Finance Department may sanction the execution of funds by operating an assignment account (local currency) allocated for particular scheme under sub-detailed function or detailed object under a grant in currency budget estimates or for an ADP scheme or project under sub-detailed function within development budget grant of a financial year.
- The main branch of the National Bank of Pakistan at a district headquarters shall be the designated branch for the purpose of operation of the assignment account whereas the National Bank of Pakistan Main Branch the Mall Lahore shall also coordinate the operation of assignment or sub-assignment account in Punjab.
- The administrative department shall issue a letter of assignment of funds in the prescribed form for the particular scheme which shall include the grant number, sub-sub-detailed function, detailed object, cost centre, financial year, project code and work breakdown structure element number in case of development. The letter issued to the National Bank of Pakistan shall also specify:
 - Ceiling with maximum amount up to which the authorized officer shall have the authority to withdraw through a single or multiple cheques on the account for each object.
 - Head of account to which the expenditures to be debited.
 - Section of account (provincial) within which assignment account is to be operated.
- The funds assigned to the assignment account (local currency) shall be in normal release mode within the Provincial Consolidated Fund. The unutilized funds, if not surrendered in time, shall lapse at the close of the financial year and balance funds if any shall not be available for expenditure during the next financial year.
- The assignment account maintained by the National Bank of Pakistan branches shall be within the provincial government account and the withdrawals shall be adjusted against cash balance of Provincial Account Number-1 non-food (NF) with State Bank of Pakistan.
- The designated branch of the National Bank of Pakistan on receipt of the letter of assignment shall open the jointly operated assignment account (local currency) in favor of the authorized officer of the government department or a local body or an autonomous body or a company to pay, on the prior endorsement of District Accounts Officer or Treasury Officer, the cheques presented by the authorized officer within limits specified in the letter of assignment.
- No money shall be withdrawn from the assignment account (local currency) unless it is required for immediate disbursement, and it shall not be permissible to withdraw the whole amount authorized or part thereof and to place it in a separate account in a commercial bank.

¹¹⁰ Notification No.SO(TT)12-2/2014/Pt-I dated 16th March 2021 issued by the Finance Department, Government of the Punjab

- The advice to assign funds in an assignment account (local currency), the withdrawal and the balance there against shall be reconciled every month by the authorized officer operating the account.

Revolving Fund Account (RFA)

Revolving Fund Account is another type of account for development projects to receive funds. This also bypasses the pre-audit system, but it is only opened for foreign aided projects (please see Section 11). According to the Revised Accounting Procedure for Revolving Fund Accounts notified by the Finance Division, Government of Pakistan¹¹¹:

- For a foreign donor-assisted project, a Revolving Fund Account in respect of donor financing under loan/credit/grant shall be established at a branch of the National Bank of Pakistan, separately from the account to be established for the government's share of project financing (counterpart funds) if any required. Such accounts shall be in the nature of Assignment Accounts. The Revolving Fund Account shall be part of the Federal Consolidated Fund at Federal Government's level and part of respective Provincial Government's Consolidated Fund at Provincial levels.
- The Finance Division shall approve the opening and change of signatories of the Revolving Fund Accounts. The following pre-conditions shall be completed before forwarding the case to Finance Division for opening and change of signatories of Revolving Fund Account:
 - Approval of administrative Secretary / PAO
 - Administrative approval of the project or loan agreement (in case of programs) duly signed by the EAD. The PD shall be in place and the project should have the cost centre and allocation of budget / rupee cover against the foreign aid/grant.
 - Copies of the following documents are mandatory for submission of request to Finance Division duly attested by an officer not below the rank of BPS-17 or above:
 - Administrative approval/loan or grant agreement
 - Approval of the administrative Secretary / PAO along with names and designation of signatories
 - Budget allocation / rupee cover against the foreign aid reflected in Budget Bos/NISs, copies of relevant portions of Bos/NISs or copies of schedule of supplementary grant or technical supplementary grant
 - Valid CNIC and office card of signatories
 - Specimen signatures of signatories
 - Sanction letters duly signed by the relevant officer for endorsement by the Finance Division
- 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 Pak Rupees at the State Bank of Pakistan's Weighted Average Buying Rate of exchange prevailing on the date of transfer of funds by development partners.
- 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

¹¹¹ Notification No.F.2 (3) BI-I/3033/RFA dated 4th August 2022 issued by the Finance Division, Government of Pakistan

SBP (date of receipt of funds from the donor in SBP). The RFAs at NBP branches shall show debits, credits, and balances in PAK Rupees as the funds available to the Project management would be in PAK Rupees.

- The rate of exchange used for donor reporting purposes by the project authorities would be the rate of exchange applied by SBP for converting foreign currency into PAK Rupees for that tranche at the time of receipt of funds in the SBP from the development partner. In case of more than one tranche, the rate applied for each tranche will be used for donor for reporting purposes and funds received in the first tranche will be utilized first and unutilized 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) and any other foreign currency which may be permitted specifically or generally later on by the Finance Division Budget Wing in consultation with the State Bank of Pakistan (Finance Department), Karachi
- Separate RFAs for each project shall be established by the project management at 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.
- The 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 budgetary allocation in the next financial year.
- In case of receipts on account of projects under the control of Provincial Governments, or Local Governments, Financial and Non-Financial Institutions under the administrative control of the Provincial Governments, the SBP will simultaneously transfer the funds for credit to the concerned Provincial Government Account. The provincial Finance Department shall ensure that the Budget allocations are available in the Provincial Schedule of Authorized Expenditure.
- All payments from the RFAs shall be affected through NBP cheques / authorizations issued by at least 2 persons authorized as signatories.
- The officers of BS-17 or above on payroll or user organization concerned shall be nominated by the Secretary / PAO of the administrative department as signatories. A signatory of current/acting charge of BS-17 or equivalent may operate the account till he/she holds current charge and shall no longer operate the account on the completion of period of current charge.
- Any officer or person attached to a project or unit as honorary officers or board members or on attachment drawing salary from other may become a signatory. However, in cases where a project or unit does not have any other officer or BS-17 or above on its payroll, the Secretary / PAO of the administrative Department may allow signatories from controlling officers or entities' Board of Directors, till such officers are appointed.
- A standby signatory may also be approved by the Secretary / PAO of the administrative department to operate the account during leave or if a signatory is away or on tour
- All payments, except for the authorized petty cash to be notified in writing by the Project Director to the relevant NBP Branch, shall be made directly to the recipients through crossed cheques.

- Cash payments or funds transfers from Assignment Accounts to any DDO account or any other account for the sake of onwards disbursement shall be strictly prohibited.
- Audit of all the RFAs shall be conducted by the Auditor General of Pakistan.
- Payments into the account in respect of donor funds shall be initiated through withdrawal applications signed by such persons as may be nominated by the project management with the approval of the administrative department.
- Each project management shall submit, through its relevant administrative department, its budget for the following year as required for all budgets that will be included in the 'Schedule of Authorized Expenditure.'
- The budgets shall be prepared and submitted along with the information including Grant/Loan No. (Project ID), Project Name/Description, Fund Code, Cost Center, Sub-detailed Function, Detailed Object, consistent with the Government Chart of Accounts and within the Government's budget calendar.
- Each Project Director shall prepare his/her own annual financial statements comprising expenditure from Revolving Fund Account and Direct Payments (showing in 3 separate columns for RF Account, GOP Assignment Account and Third-Party payments) and submit the same to Donor/Lender as well as to external audit as required under the loan/credit/grant agreements.
- Nevertheless, the project accounts, being sub-accounts of receipts and expenditure under the consolidated fund of the government(s) will be subject to certification as part of the consolidated government financial statements by the Auditor General of Pakistan
- After the internal agreements containing provision for the opening of RFAs have been signed, the concerned departments and the project implementing agencies will arrange immediate opening of the Assignment Accounts at a branch of the NBP and special instructions for operation of the Accounts, if any, shall be provided to all parties concerned.
- Withdrawal applications will be prepared and submitted to donors by the project management, requesting the amount of initial deposits/subsequent funding to the RFA through the foreign currency account of SBP Karachi for further simultaneous credit to the RFA (a named sub-account of the Central Account-I) at the concerned branch of the NBP.
- The assigned identification number of the RFA will be indicated on the Withdrawal Applications
- The person authorized to sign Withdrawal Applications and/or operate RFAs shall furnish copies of the Withdrawal Applications, simultaneously, to their respective administrative departments as well as to the EAD, NBP Head Office (Karachi), relevant branch of the NBP, SBP (Finance Department, Karachi) and concerned AG/AGPR office.
- The Finance managers of the respective projects (or the persons responsible for the reconciliation with NBP, reporting of authorized 'direct payments' to the contractors/suppliers through the donors, and financial reporting
- In case of projects which have PIFRA connectivity, the recording of expenditure shall be made in real time through the system instead of submission of schedule to AGPR/DAO for this purpose after approval of the revised procedure arrangement between AGPR and PIFRA on this subject.
- The 'direct payment' shall be noted as a third-party transaction for the purposes of reporting and an equivalent amount shall be entered as a 'contra' receipt from the donor to ensure that the fiscal balances match the monetary balances of the project.

- The project Finance Manger shall be responsible for reporting of third-party payments.
- The project authorities shall make sure that the details of third-party payment has been communicated in writing to EAD/Finance Division and respective AG/AGPR.
- The consultancy charges payable by the donors shall be paid after verification of services rendered by the consultant, by the concerned Project Director or by the Provincial Government. However, in the case of foreign training, prior approval of the concerned Department as per the Government’s Rules/Policy Guidelines will be required.

Management of Throw-forward

The ‘throw-forward’ is a metric of project maturity i.e., it calculates the total cost of the project that still remains unspent at any given point in time. It gives the decision-maker information regarding delay from design timelines and realistic completion time.

Throw-forward will not be allowed to exceed threefold of the current ADP. Sector-wise and project-wise throw-forward will be reviewed during the mid-year ADP review meetings organized by P&DB to ensure that this threshold is not breached.¹¹²

Project Implementation: Common Errors

- Misallocation of funds in the ADP
- Disruption of work caused by high staff turnover, particularly for Project Directors
- Delays incurred due to understaffed project team
- Difficulties in acquiring land, resolving easement and right of way issues over acquired land and securing utility connections
- Abrupt and frequently recurring changes in taxation regimes make expenditure unpredictable and may lead to cost overruns
- Statutory Regulatory Order (SROs) may be misinterpreted causing delays and distortions
- Litigation, most commonly rising from disputes around recruitment and procurement
- Monitoring and Evaluation is rendered ineffective when PC-IV and PC-V proformas are delayed in submission and when issued uncovered by monitoring by the project, sponsoring agency or P&DB remain unaddressed.

In addition, projects will:

- Prepare and maintain the work/cash plan according to the proforma prepared by the Planning Commission to harmonize financial and physical progress reporting.¹¹³
- Reconcile monthly expenditure with AGPR/banks
- Maintain and manage inventory of supplies and assets (including logbook of vehicles)

6.4. Project Operations

Procurement of project inputs

All procurements for goods, services, works or O&M will be made in strict accordance with the Punjab Procurement Regulatory Authority Act, 2009 and Punjab Procurement Rules 2014. PPRA Rules 2014 (amended up to 2021) cover provisions regarding:

- Procurement planning
- Methods of advertisement

¹¹² Mirroring stipulation in federal Planning Manual, 2021 pertaining to the PSDP.

¹¹³ Work/cash plan proforma along with instructions to fill it may be found here: <https://www.pc.gov.pk/web/downloads>

- Prequalification qualification and disqualification
- Methods of procurement
- Opening, Evaluation and Rejection of Bids
- Procurement of consultancy services
- Acceptance of bids and award of contracts
- Redressal of grievances and settlement of disputes

Key steps involved in procurement cycle include²⁴:

- 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.

Executing agencies must not issue tenders / work orders of development projects for which funds have not yet been sanctioned by P&DB and Finance Department. Tendering process must only be initiated and tenders / work orders for only those schemes can be invited where P&DB / finance Department have released funds to avoid any financial indiscipline / litigation at a later stage¹¹⁴.

Funds Release Procedure

Ongoing Schemes

- The allocated funds for ongoing schemes are released upfront by the finance department in consultation with P&D Board in accordance with the printed budgeted heads.
- Where change of codes i.e., Cost Centre, Object Codes, etc. is involved, Technical Supplementary advice will be issued to provide funds under required heads/codes.

New Schemes

- Funds for new ADP schemes are released as soon as the schemes are approved by the concerned competent.
- P&DB issues advice on the demand of concerned Administrative Department
- If change of heads is required, a technical Supplementary advice is required to place funds under required heads.

Unfunded schemes

P&DB has constituted / notified (and may amend from time to time) the following Departmental Scrutiny Committee (DSC) for provision of funds to un-funded schemes falling under the purview of provincial Government¹¹⁵:

| | |
|---|----------|
| 1. Administrative Secretary of the Departments | Chairman |
| 2. Chief Engineer concerned / DG / Head of Attached Department | Member |
| 3. Representative of P&D and Finance Department (not below rank of Section Chief and Deputy Secretary, respectively) | Member |
| 4. Representative of Executive Agency (not below rank of Deputy Secretary) | Member |

¹¹⁴Notification No.1(8)PO(COORD)/P&D/2012-13 issued by P&DB dated 9th April 2018.

¹¹⁵ Notification No.35(231)PO(COORD)P&D/2016 issued by P&DB dated 1st of February 2016.

The Terms of Reference of the Committee would be as under:

1. The DSC will scrutinize the demand for funds of unfunded schemes and will approve its funding plan to complete the scheme / clearance of liabilities, etc.
2. After approval, the Departmental Committee will forward the case to P&D Board for funding along with intra-special re-appropriation proposal.

The fund release process for unfunded scheme is notified by P&DB (and may amend from time to time)¹¹⁶ as follows:

1. It is the prime responsibility of the concerned Administrative Secretary to ensure clearance of liabilities of work done / services rendered etc. for the department.
2. The Administrative Department should ensure the allocation of funds in their Annual Budget for this purpose; and any claim for clearance of liability / provision of funds should be placed before the DSC by the concerned department.
3. Thereafter, the case may be referred to P&DB / FD for release of funds under development / current budget respectively by the concerned Administrative Secretary / PAO.
4. In case of development scheme, P&DB to issue advice for release of funds to FD out of the development budget / ADP through Technical Supplementary Grant.
5. This procedure will be applicable to all claims of the previous years as well.

Funds Release process¹¹⁷

- Administrative Department should ensure provision of accurate details/codes on SMDP at the time of ADP formulation.
- Release requests for new and on-going schemes to P&DB should be initiated by the Administrative Departments after incorporating all desired details including budgetary codes on the prescribed format.
- All Administrative Departments should nominate a focal person to coordinate with FD & P&DB for this purpose.

¹¹⁶ Currently applicable notification: No.1(8)PO(Coord-I)/P&D/2021-22 dated. 04th Oct. 2021.

¹¹⁷ Release of funds under Other Development Programme (ODP) be in accordance with circular no. 1(45)PO(ADPF)P&D/2017-18 dated 12.06.2017.

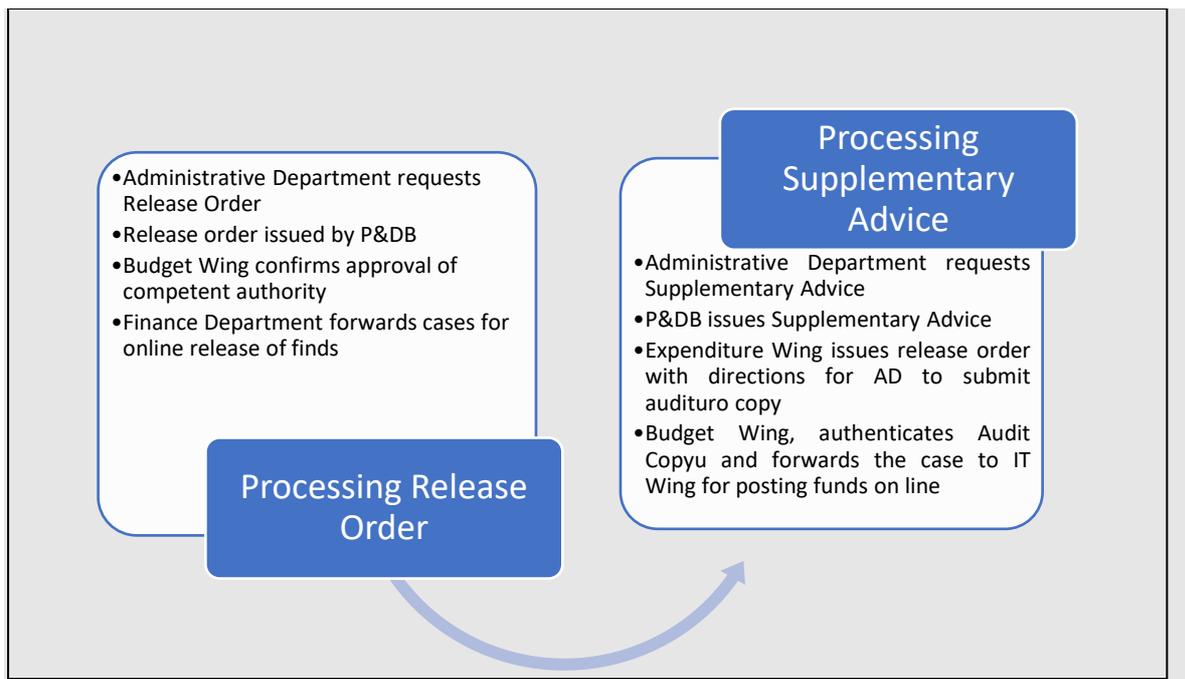


Figure 8: Steps of Funds Release Process

PSC fund release mechanism

- Demand for funds will be submitted to the P&DB immediately with the start of the financial year through the administrative department concerned duly approved by the respective Board of Directors and supported with:
 - Minutes of Meeting
 - Annual Implementation Plan (Physical & Financial)
 - Cash Plan
- Member concerned, P&DB will examine the demand of funds in light of implementation plan and present it before the Chairman, P&DB with his/her recommendation for consideration and approval. Following approval by the Chairman, Coordination Section will release funds accordingly.
- The CEO of the concerned authority /company will submit Monthly Progress Report to the concerned Section Chief in P&DB (latest by 7th of each month). The Section Chief will scrutinize the report and also forward a copy to the Coordination Section, P&DB.
- Concerned Member, P&DB will review the implementation status of the approved action plan on monthly basis and submit his/her recommendation to the Chairman, P&DB regularly on the 10th of each month.
- DG, M&D will be responsible for physical monitoring of the development activities/projects of the Agencies/Companies through field visits and provide necessary input to the Chairman, P&D and Member concerned about compliance and non-compliance of works against agreed implementation plan.
- The DG, M&E will also carry out impact evaluation of the programme / project activities to assess project benefits / outcomes.

6.5. 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 utilized 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 will be based on the following instructions:

- The importance of a scheme to which the diversion of funds is suggested through a re-appropriation proposal will be carefully ascertained.
- The stage of completion will 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 considered. If this scheme is also important and is nearing completion, re-appropriation should normally not be allowed.
- No re-appropriation will be allowed from an unapproved scheme.
- Re-appropriation will also generally not be allowed in cases where it will increase the approved cost of the project beyond 10%.
- Re-appropriation will also not be made if the scope of work of the scheme for which re-appropriation is being made is changed. This will 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.

Supplementary Grants

Proposals for supplementary grants are objectionable in principle and free resort to them indicates, on the one hand, bad estimating, or improvident administration and, on the other hand, impairs the proper management of the provincial finances. It is obvious that an equitable and well considered distribution of the funds available for expenditure in any particular financial year can only be made at the time when the requirements of the Provincial Government are comprehensively considered, i.e. at the time of preparation of the Annual Budget. The justification for applying for supplementary grant should rest only upon circumstances, which are exceptional.

In case the Head of Department (HOD) feels that there is need for additional grant and justification thereof exists, he/she should submit proposals for supplementary grant as explained in Section 15.7(a), (b) of Punjab Budget Manual 2008. The process for issuance of grants is as follows¹¹⁸:

- Additional expenditure on purposes not contemplated in the Schedule of Authorized Expenditure cannot be met entirely by appropriation of savings within the grant.

¹¹⁸ Revised Punjab Budget Manual 2008.

- If sufficient savings are available to meet such expenditure, a token amount should be obtained for the purpose by obtaining supplementary grant and the additional expenditure then met by reappropriation.
- If in respect of any financial year it is found that the amount authorized to be expended for a particular service for the current financial year is insufficient, or that a need has arisen for expenditure upon some new service not included in the Annual Budget Statement for that year the Provincial Government shall have power to authorize expenditure from the Provincial Consolidated Fund, whether the expenditure is charged by the Constitution upon that Fund or not, and shall cause to be laid before the Provincial Assembly a Supplementary Budget Statement.
- When, after consulting FD, it is decided that a supplementary token grant should be obtained, the HOD concerned should submit to the FD through the concerned Administrative Department, if it is not itself the HOD, an application for the supplementary or token grant required, in form B.M. 32 for proposals other than works and in form B.M. 33 for proposals for works.
- Applications for supplementary grants are consolidated by FD in the form of a statement, known as the Supplementary Budget Statement (SBS). The SBS should be in the same form as the Annual Budget Statement and should distinguish expenditure on revenue account from expenditure.
- Before the SBS is laid before the Provincial Assembly, it should be considered and approved by the Cabinet.
- Following consideration by the Provincial Assembly of the SBS in respect of a year, CM will authenticate by signature a Schedule, prepared in the same form as the SBS.
- After the Supplementary Schedule of Authorized Expenditure is authenticated by the CM, FD should send a copy thereof to the AG / Director General, Accounts (Works) for his information and communicate to HODs concerned.

Litigation pertaining development projects¹¹⁹

Court cases pertaining to development projects mostly involve cases of delayed or non-payment of dues to contractors. In all cases where P&DB is a respondent, administrative departments must ensure that any undertakings presented in courts are duly discussed, agreed with, and approved by both P&DB and Finance Department beforehand.

P&DB must also be notified well in time of all legal cases, wherein the Department is a designated party in conjunction with the administrative department concerned so that an appropriate joint response can be formulated.

Chapter 7: Project Monitoring

Key concepts

¹¹⁹ Notification issued by P&DB on 10th May 2018.

Project Monitoring

Monitoring is a process which tracks project progress against pre-determined milestones. These milestones may be based on inputs (expenditure), activities or outputs, defined in the logic model presented as part of the Results Based Management (RBM) framework proposed in the project PC-I.

Fiscal monitoring

Fiscal monitoring is focused on progress around project milestones regarding inputs – primarily financial phasing as defined in the project PC-I. This also includes receipts, release of funds, expenditure/ spending against current, development and capital funds and reconciliation of income and expenditure accounts between the Accountant General and respective departments.

Result Based Management (RBM)

RBM is a management strategy by which all actors, contributing directly or indirectly to achieving a set of results, ensure that their processes, products, and services contribute to the achievement of desired results (outputs, outcomes and higher-level goals or impact).

Third Party Validation

It is the practice of engaging an impartial and external entity to assess and endorse the progress, quality, and outcomes of a construction, infrastructure, or innovation initiative. TPV encompasses verification and validation of progress and processes on activities/ projects by independent/ external firms.

7.1. Overview

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 as discussed above (and in detail in Appendix B) is ‘a broad management strategy aimed at achieving improved performance and demonstrable results’¹²⁰, and has been adopted by many multilateral development organisations, bilateral development agencies and public administrations across Pakistan. Result based management is primarily an ongoing process, encompassing continuous feedback, learning, and improvement. Its feedback mechanism regularly aids plan modifications based on the lessons learned through M&E; future plans also stem from these feedback loops / lessons learnt.

The planning commission proforma relevant to Monitoring of a project is PC-III (the proforma is attached in Appendix B).

PC-III(A)¹²¹: Essential information (Yearly Report) ¹²²

- Approved capital cost
- End of last fiscal year figures for actual and accrued expenditures
- ADP allocations for the project

¹²⁰ Handbook on Planning, Monitoring and Evaluating for Development Results; UNDP.

¹²¹ Source: <https://www.pc.gov.pk/web/downloads>

¹²² To be furnished by July 1st of each year.

- Scope of work (as indicated in the PC-I)
- Actual physical progress vs. planned physical progress at end of last fiscal year
- An annual activity chart/work plan based on ADP allocations
- Physical targets for the year (based on the annual activity chart/ work plan)
- A quarterly work plan based on the annual work plan
- Finances required to achieve quarterly work plan targets

PC-III(B): Essential information (Monthly Report)

- Name of the project
- Financial status against:
 - ADP allocations
 - Current quarter requirements as per cash plan
 - Releases during the month
 - Expenditures during the month
- Physical status (units and quantities achieved against each input item)
- Output indicators
- Problems or bottlenecks in project implementation

The checklist for PC-III is as follows:

| S. No. | Checklist items for PC-III | Tick as appropriate | | |
|--------|---|---------------------|-----|----|
| | | N/A | Yes | No |
| 1 | Approved capital cost by the competent forum is provided. | N/A | Yes | No |
| 2 | The actual and accrued expenditures up to the end of the last fiscal year are provided. | N/A | Yes | No |
| 3 | Allocations for the project as shown in the ADP are provided. | N/A | Yes | No |
| 4 | Scope of work as indicated in the PC-I by major items of work is given. | N/A | Yes | No |
| 5 | Actual physical achievements up to the end of last financial year against the scope of work indicated in PC-I are listed. | N/A | Yes | No |
| 6 | An annual activity chart/work plan is prepared based on ADP allocations. | N/A | Yes | No |
| 7 | Physical targets for the year are determined based on the annual activity chart/ work plan. | N/A | Yes | No |
| 8 | A quarterly work plan is prepared based on the annual work plan. | N/A | Yes | No |
| 9 | Indicate the finances required to achieve the quarterly work plan targets. | N/A | Yes | No |
| 10 | Quantifiable outcome of the projects for the current year is indicated. | N/A | Yes | No |

Table 26: Checklist for PC-III

7.2. Institutional Arrangements

Internal Monitoring by Project Teams

Internal monitoring is required to fulfil the performance objectives of the sponsoring departments and executing agencies. Internal monitoring allows the project management to take immediate steps for rectification of any issue that may slow down the progress of a

project. Monitoring of the project may be carried out on a daily, monthly, or quarterly basis depending upon the nature and needs of project management, the executing agency, and the sponsoring agency.

Regular Monitoring by Sponsoring Agencies (M&E Cells)

Provincial administrative departments are responsible for ongoing monitoring of their projects on a regular basis. For this purpose, their Monitoring system consists of supervisory tiers at different levels. For important projects and initiatives undertaken through public sector companies/autonomous bodies/ authorities/agencies etc., the departmental inspection teams are constituted for checking the progress on the programme/project.

Monitoring by P&D Board

Monitoring Section, P&D Board

The main functions of this section are monitoring sector-wise projects in terms of financial utilization against the allocations in comparison with the envisaged targets. For the purpose of monitoring, SMDP provides live view 24/7 to all concerned stakeholders. It is noteworthy that the financial figures in Form B will be extracted from FABS, the accounting system utilized by the Government of Punjab. The system will then compare the planned values with the actual data on SMDP.

Mid-year Review

The mid-year review of ADP is the most important monitoring exercise of P&DB. 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.

Directorate General Monitoring and Evaluation

DG, M&E is tasked with the responsibility to act as a Secretariat of M&E in Punjab. The Directorate General, M&E, headed by the Director General, is an attached department of the P&D Board to focus on the following core areas¹²³:

- Policy guidelines and standards for Project Management.
- Project Management Services.
- Project Management and Capacity Building.
- Third Party Inspection and Performance Monitoring; and,
- Policy / Programme Project Evaluation & Monitoring

The ongoing monitoring of development projects is an important function being performed by the Directorate General, M&E. In order to suggest course correction based on monitoring report of development projects, a Monitoring & 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

¹²³ Notification No.SO.CAB-I/2-6/82(Vol-I) dated 19th Sept. 2007.

constitution with the sector chiefs prepares a list of ongoing projects every year in the month of July and forwards it to the director general (M&E) for ongoing monitoring. The director general, M&E then constitutes a Monitoring Team for Monitoring and the reports prepared will 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. The concerned Administrative Department/sponsoring agency shall submit completion report on the PC-IV of all completed projects in the month of July each year to DGME¹²⁴ and Finance Departments for record keeping and estimation of recurring/SNE 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.

Monitoring & Evaluation Committee (M&EC)

The Monitoring & Evaluation Committee (as notified by P&D and maybe amended from time to time) is headed by the DG, M&E as its chairperson; with concerned sector chiefs of P&DB, representative of the Finance Department, chief (monitoring), P&D Department; and project director/executing agency as members. The M&EC is constituted / notified by P&DB and maybe amended from time to time.¹²⁵

It must be noted that M&E and TPV are crucial functions performed by the Director General, M&E. The aforementioned M&EC forum in its meeting(s) discusses the M and TPV reports of development projects.

ToRs for Monitoring & Evaluation Committee are:

- Review the physical progress of the ongoing projects inline with baseline work plan.
- Review the financial progress of the project inline with approved budget plan and funds released by the Finance department.
- Spell out the factors responsible for any deviation in the project (if any), either in physical and financial term.
- Highlights impediments of the project (if any) with plausible solution.
- Forward M&E committees' recommendation on monitoring, evaluation and TPV to the concerned administrative department for implementation.
- Ensure compliance of the findings by the concerned administrative departments.
- Recommend to the government for future planning on the basis lessons learnt / feedback from M&E and TPV reports of the project.
- The Directorate General (M&E) will provide secretarial / logistic support to the committee.

7.3. Third-party Validation / Inspection

Third-party validation of development projects refers to the practice of engaging an impartial and external entity to assess and endorse the progress, quality, and outcomes of a construction, infrastructure, or innovation initiative. This validation process adds a layer of credibility and accountability to the project, as it ensures that the project's claims, standards, and achievements are objectively reviewed by experts with no vested interest.

¹²⁴ DGME is delegated to receive PC-IV on behalf of P&DB.

¹²⁵ Currently applicable notification is: No.35(231)PO(Coord-II)PnD/2021 dated 07th October 2021

Third party validation is carried out to gauge the progress of a project with regard to its objectives and intended impact from an independent perspective. It helps to foresee the future of the project. TPV brings to light whether the value of money is being achieved or not. In short, TPV can aim on agency to find operational or executional flaws that are hampering the progress of a project and avoids repetition of such failures. TPV is usually carried out during the gestation period of a project.

Third party inspection primarily encompasses verification and validation of progress and processes on activities/ projects being implemented by provincial and district government departments. The M&E policy requires “verification and validation exercises” to be external, either managed/ conducted by Directorate General Monitoring and Evaluation or through some external firm.

Framework for Third Party Validation (TPV) at various stages

To ensure quality of works and optimal use of resources it is mandatory to engage services of consultants for TPV for projects in Education, Literacy, Social Welfare & Production etc. (Projects without civil works component) that cost Rs. 500 million and above.¹²⁶

However, if in selected cases, the sponsoring department / executing agencies intend to engage consultancy services for TPV they may proceed with the approval of the competent forum. TPV arrangements through consultants would not absolve the department concerned of their responsibility for proper utilization of public funds and ensuring qualitative/quantitative execution of the work.

Role of the DGM&E in Third Party Inspection/Monitoring (TPI/M)

DGM&E, being a third-party supervisor, shall exercise an independent management role by involving directly in project activities, carrying out required operations during the project execution process. It will provide important feedback on project performance by assessing the routine work to ensure activities are proceeding as planned and are on schedule. All information pertaining to monitoring (project activities of establishing indicators of efficiency, effectiveness & impact, work plans of collecting and analyzing the information etc.) will be maintained which shall facilitate accountability of the projects. Using past monitoring results as reference point and best examples, viable alternate solutions to the crucial problems can be efficiently and effectively identified.

For conducting (Third Party Inspection/Monitoring) TPI/M, the team should have competency, impartiality, transparency, and integrity. Consequently, DGM&E shall follow principles for conducting TPI/Monitoring:

| Principles | Description |
|-------------------|---|
| Competency | <p>Existing Competency: All supervisors employed for carrying out monitoring activities must reveal an appropriate level of skills and knowledge.</p> <p>Future Competency: The DGM&E shall provide professional training and provide sources of information, through implementing all other measures to enhance the abilities and skills of Monitoring Wing, in order to meet the requirements of its professional work.</p> |

¹²⁶ As per P&DB notification No: 4(24-A)PO(CONS) P&D/2023 dated 08th May 2023.

| | |
|--------------------------|--|
| | Role of the Consultants: DGM&E may hire consultants on need basis, depending upon type and scale of the project. |
| Impartiality | Monitoring results should not be affected in any way by personal biases or prejudice of the surveyor(s) and must be founded on verifiable findings. |
| Transparency | Methodology used for surveying and drafting the progress report, factual findings, descriptions, and analysis significant to Third Party Inspection/Monitoring must be identified and clearly explained. |
| Knowledge Sharing | All generic information pertaining to conduct monitoring shall be properly documented and recorded. Professional training programs should be organized in due course of time, with a fair participation opportunity being granted to all persons involved in monitoring. |
| Integrity | Monitoring Wing of DGM&E must present procedures, data and results with integrity. All changes made during assessment and reporting that differ from the work plan, shall be recorded along with explanation for the changes. |

Table 27: Principles of TPI/M¹²⁷

Objectives of DGM&E for Performing TPI/M

The government has decided to conduct third party monitoring to focus on the performance of on-going public sectors' mega projects over the cost of Rs. 200 million. It is also a function of DGM&E to inspect the project performance as third-party evaluator. Objectives of DGM&E may be any of the following points:

- To examine the resources involved along with activities undertaking to assess the effectiveness, efficiency and impact of project implementation;
- To generate knowledge and accountability information about development interventions of the project;
- To identify measures that can improve project quality and its cost effectiveness;
- To identify the problems relating to time & cost over-runs as well as causes behind the delay in project activities.
- To suggest the solution to the identified problems;
- To be part of a learning process for the participants by including monitoring-based feedback in the decision-making process which can help to improve future decisions regarding project execution, implementation procedures and their shortcomings for improved performance of the project.

7.4. Monitoring Protocols

The monitoring Wing of P&DB in consultation with the Section Chiefs will prepare a list of ongoing projects from ADP every year in the month of July and forward it to DG (M&E) for monitoring, evaluation, and TPV of the projects. DGME on need basis, will constitute a team of experts in the relevant field which may prepare the reports which would be considered by the aforementioned M&E committee. The M&E Committee will critically review the implementation of the projects with reference to their cost and physical work as given in PC-I and identify any cost and time overruns. The M&E committee will:

- Review the physical progress of the ongoing projects in line with baseline work plans.
- Review the financial progress of the projects in line with the approved budget plan and funds released by Finance Department.

¹²⁷ Policy Guidelines and Methodology for TPI/M, 2010.

- Spell out the factors responsible for any deviation in the project (if any), either in physical or financial terms.
- Highlight impediments of the projects (if any) with their plausible solutions.
- Forward M&E Committee's Recommendations on Monitoring, Evaluation, and TPV to the concerned Administrative Departments for implementation.
- Ensure compliance of the findings by the concerned Administrative Departments.
- Recommend to the Government for future planning on the basis of lessons learned/feedback from M&E and TPV reports of the project.
- The Directorate General M&E will provide secretarial/logistic support to the committee.¹²⁸

SMDP Requirements / checklists

DGM&E should have access to SMDP to upload all its M&E reports which gives physical progress tracking and pictorial evidence of development project / programmes.

At the start of the fiscal year, the project's Executing Agency will input a comprehensive execution plan for the entire year into Form A (PC-III) on SMDP. Additionally, the agency will complete Form B, which includes the actual plan on a quarterly basis.

NOTE: Uploading pictorial evidence along with PC-III(A) and PC-III(B) is mandatory to support factual position of physical progress.

Gender-mainstreaming checklist¹²⁹ for project implementation and monitoring¹³⁰

- Has the hiring of human resources and project staff been done in accordance with the set gender ratios and without discrimination?
- Did the department apply any tool or acquired services of gender specialist to monitor the project implementation from time to time from a gender perspective?
- Did the department also use gender-disaggregated information and data during the ongoing or mid-term evaluations?
- Are there appropriate opportunities for both women and men to participate in project management positions?
- Has the department given fair treatment to gender-sensitive and women-specific schemes in case of re-appropriation and funds transfers?
- Are there separate indicators to measure progress in achieving benefits for women and men?
- Are there mechanisms to ensure that the project resources or benefits are not controlled or taken over by males? Or by sub-groups, factions or individuals within/ outside the community?
- What methods of monitoring and evaluating the project (quantitative and qualitative) have been established?
- How will you know whether you are meeting your project goals?

¹²⁸ No.35(231)PO(Coord-II)P&D/2021 dated: 07th October,2021

¹²⁹ No.1(46)PO(Coord-II)/P&D/2022-23 Dated: 23rd November 2022.

¹³⁰ Gender Responsive Planning and Budgeting, UNWOMEN and Labor and Human Resources Department, Government of Punjab, 2020.

Source: <https://asiapacific.unwomen.org/sites/default/files/Field%20Office%20ESEAsia/Docs/Publications/2021/01/Final%20-%20GRPB%20Guidelines%20Punjab.pdf>



Chapter 8: Project Closure

Key Concepts

Operational Closure

The operational closure of the project indicates the stage when the last input has been provided, all activities including reconciliation of expenditure and statutory audit ended, assignments of all project personnel completed and disposal of or transfer of equipment purchased by the project has been carried out. It also marks the point in time beyond which no further financial obligations or commitments should be incurred.

Financial Closure

The financial closure takes place right after the operational closure. Ideally, the operational and financial closures should be done simultaneously to avoid large gaps between the two. The financial closure marks the date after which no further transaction on that project account will be permitted.

The project closure aims to bring project execution to a formal and orderly conclusion, which includes informing all stakeholders about the completion of the project. It triggers the winding up of technical, operational, and administrative actions by the project-sponsoring public sector entity as determined in the last approved version of the PC-I.

The project is completed or closed when all the funds have been utilized and objectives achieved or abandoned for any reason. At this stage, the project must be closed formally, and reports prepared on its overall performance and results achieved using the PC-IV proforma. This involves handing over the deliverables to the authorities concerned, closing of the supplier's contracts, closure of bank account, releasing security money, staff, and equipment as well as informing stakeholders about the closure of the project per the last approved PC-I. Project closure can be best understood by dividing it into two parts: 1) Operational, and 2) Financial.

8.1. Operational Closure¹³¹

The aim of Operational closure is to ensure that continuity in project operation is not hindered, and public assets created under the project are maintained. This exercise will be initiated six months before the expected completion date. The sponsoring agency will:

- Hand over the project to the agency responsible for maintenance and operation
- Provide maintenance cost to the authority concerned.
- PC-IV¹³² is submitted to DGM&E on behalf of P&DB.
- DGME will prepare an evaluation report on PC-IV and issue it to all concerned stakeholders.
- The evaluation report is then presented to the Evaluation Committee; and minutes of meeting are issued to all stakeholders including Finance department.
- A case is prepared for the creation of project posts (if required) in the revenue budget and to secure approval for the same from the Finance Department.
- Ensure the required O&M budget for sustainability of the project is allocated in consultation with the Finance Department.

¹³¹Federal Planning Manual, 2021, Planning Commission

¹³² PC-IV available at Appendix B.

The DGM&E upon receipt of the PC-IV will assess physical and financial targets and timelines against commitments made in the PC-I, along with any lessons learned.

Handing and taking over of assets will involve coordination between the sponsoring and executing agencies for the transfer of assets and liabilities with a proper inventory, at least 6 months in advance of project closure. Specifically, this will entail the following tasks:

- Assessment of the current value of physical assets
- Calculation of the appreciation in cost of land
- Registration of cost of physical assets in the inventory register, including both moveable and immovable assets
- Submission of report on annual stock-taking of inventory
- Use or disposal of physical assets (plant, machinery, vehicles) including the option of a third party at competitive price.

Gender-mainstreaming checklist¹³³ for project completion¹³⁴

- Is there a gender-specific section in the project completion report?
- Has gender-disaggregated information regarding Operational and Financial closures been obtained, if possible?
- For the post-completion audit, is there any mechanism for conducting a gender audit of the scheme/ project?
- In case there is a follow-up project, has the department applied gender lens before submission?

8.2. Financial closure¹³⁵

The sponsoring agency concludes that all financial transactions that it has authorized have been finalized and that there are no further financial commitments (hard or soft) and there exists no cash deficit or liability. The sponsors must also verify that the total expenditures are within the allocated budget. However, the closure of the project may not be delayed on account of the security money. The pay order of the security money will be prepared by a bank and released after completion of the maintenance period or defects liability period as per rules. The financial closure will be achieved within six months of the operational closure.

8.3. Submission of Completion Report (PC-IV)

It is the responsibility of the administrative departments to ensure the timely submission of the PC-IV report. The DG, M&E is responsible for reviewing and evaluating this report.

The Project Completion Report, identified as PC-IV, has been digitized through SMDP. All Executing Agencies (EAs) and Administrative Departments (ADs) are required to digitally submit PC-IV via SMDP and forward it to the Director General of Monitoring and Evaluation (DG M&E) at the Planning and Development (P&D) department for project evaluation.

¹³³ No.1(46)PO(Coord-II)/P&D/2022-23 dated 23rd November 2022.

¹³⁴ Gender Responsive Planning and Budgeting, UNWOMEN and Labor and Human Resources Department, Government of Punjab, 2020. Source: <https://asiapacific.unwomen.org/sites/default/files/Field%20Office%20ESEAsia/Docs/Publications/2021/01/Final%20-%20GRPB%20Guidelines%20Punjab.pdf>

¹³⁵ Federal Planning Manual, 2021, Planning Commission

Subsequently, DG M&E will conduct an assessment of PC-IV, and if any observations emerge, they will be communicated online to the relevant department through SMDP.

PC-IV: Essential information

- Project ID information (name, location, sector, etc.)
- Sponsoring and executing agencies
- Date of approval of the competent forum
- Planned, actual commencement & completion date and total duration, along with details of any extension obtained.
- Approved capital cost of the project as well as actual expenditure till closure
- Details of original financial phasing and expenditure vs. ADP yearly allocations
- Planned physical targets, item-wise allocation, impact and outcomes vs. those achieved at project closure.
- Details of agency responsible for running costs and receiving project assets after project closure
- Exit strategy to sustain project impact.
- Financial, unit cost and economic analysis based on actual capital and recurring cost is given. The benefits of the project may also be calculated on prevailing prices and output.
- Variation (if any) in approved cost, scope and time
- Lessons learned during project implementation.

The following is a checklist for project closure (PC-IV):

| S. No. | Checklist items for PC-IV | Tick as appropriate | | |
|--------|--|---------------------|-----|----|
| | | N/A | Yes | No |
| 1 | The name and location of the project along with sector/sub-sector in which the project falls are mentioned. | N/A | Yes | No |
| 2 | The responsible agencies during and after completion of the project are given. | N/A | Yes | No |
| 3 | Date of approval of the competent forum is provided with a copy of the decision/s enclosed. | N/A | Yes | No |
| 4 | Planned, actual commencement & completion date and total duration (in months) is provided. Details of extension granted are given. | N/A | Yes | No |
| 5 | Capital cost of the project as approved by the competent forum is given. | N/A | Yes | No |
| 6 | Actual expenditure incurred on the project till preparation of the PC-IV with expected/actual completion cost is provided. | N/A | Yes | No |
| 7 | Financing/funding requirement and agency (indicating exchange rate in case of foreign component provided in the PC-I) are given. | N/A | Yes | No |
| 8 | Details of financial phasing and expenditure as per PC-I along with actual ADP allocations and yearly releases for the project are included. | N/A | Yes | No |
| 9 | Quantifiable physical targets achieved vs. planned (as given in PC-I) are provided. | N/A | Yes | No |

| | | | | |
|----|---|-----|-----|----|
| 10 | Item-wise allocations for the project vs. actual expenditures are given. | N/A | Yes | No |
| 11 | Actual achievement of objectives and outcomes against those stipulated in PC-I are included. | N/A | Yes | No |
| 12 | Result Based Monitoring & Evaluation (RBM&E) indicators as stated in PC-I are indicated along with impact of the project on the target group/ area, etc. | N/A | Yes | No |
| 13 | Mechanism by which project activities will be continued in a sustainable manner are indicated. | N/A | Yes | No |
| 14 | Details of who is financially responsible for recurring costs and to whom assets of the project are transferred, after project completion is given | N/A | Yes | No |
| 15 | Financial, unit cost and economic analysis based on actual capital and recurring cost is given. The benefits of the project may also be calculated on prevailing prices and output. | N/A | Yes | No |
| 16 | Whether the project has been implemented as per approved cost, scope and time is indicated. In case of variation, reasons are provided. | N/A | Yes | No |
| 17 | Lessons learned during identification, preparation, approval, financing, and implementation of the project are stated. | N/A | Yes | No |
| 18 | Suggestions for planning & implementation of similar nature of projects are given. | N/A | Yes | No |

Table 28: PC-IV Checklist

NOTE: After submission of PC-IV documents to DGM&E, projects will be treated as completed and concluded in all respects and there shall be no revision(s) allowed.¹³⁶

¹³⁶ No.DGM&E/DC/23, Restriction on project revision after submission of PC-IV documents to DGM&E, P&D Board

Chapter 9: Project Evaluation

Key Concepts

Project evaluation

The systematic and objective assessment of an on-going or completed project, programme or policy, its design, implementation, and results. The main focus is an assessment of project outcomes and impacts against those proposed in the project PC-I as part of the RBM framework. 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 lessons learned into the decision-making process of both recipients and development partners.

Results Based Management

A management strategy focused on the chain of results that are part of the project's logic model, including the inputs, activities, outputs, outcomes, and impacts.

Outcome

The likely or achieved short-term and medium-term effects of an intervention's outputs.

Outputs

The products, capital goods and services which result from a development intervention may also include changes resulting from the intervention which are relevant to the achievement of outcomes.

Efficiency

A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted to results.

Effectiveness

The extent to which the development intervention's objectives were achieved or are expected to be achieved, considering their relative importance.

Relevance

The extent to which the aid activity is suited to the priorities and policies of the target group, recipient, and development partner.

Indicator

Quantitative or qualitative factor or variable that provides a simple and reliable means to measure achievement, to reflect the changes connected to an intervention, or to help assess the performance of a development actor.

9.1. Difference Between Monitoring and Evaluation

Evaluation is a learning management tool but differs materially from monitoring. The project monitoring is undertaken at the implementation stage, while evaluation is generally preferred when a project is complete. The monitoring reports provide the database for the evaluation, but evaluation cannot contribute directly to monitoring. The evaluation studies are more comprehensive, covering all aspects of the projects, whereas monitoring provides information mainly to assess and help maintain or accelerate the progress of implementation.

However, the aims of M&E are very similar as both provide information that can help inform decisions, improve performance, and achieve planned results. The key differences between the M&E functions are summarized in the table below:

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

Table 29: Difference between Monitoring & Evaluation

9.2. Types of evaluation¹³⁷

'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.'

| Evaluation Type | Description |
|-----------------|-------------|
|-----------------|-------------|

¹³⁷ Notification: No. DGM&E/DG/20252, Dated: 12th June,2012, DGM&E Evaluation Guidelines, June,2012 (Revised)

| | |
|----------------------------|--|
| Review Evaluation | It focuses on outcomes in terms of effectiveness, efficiency, and relevance. And examines whether the activities have delivered the planned outputs and that these outputs have in turn led to outcomes that are contributing to the purpose of the project. |
| Impact Evaluation | It is typically carried out towards or at the end of projects, or after their completion, by those 'outside' of the project in an effort to enhance objective 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. |
| Ex-ante Evaluation | It is carried out prior to the start of the project. Details of the project and its expected outputs are analyzed, and indicators are set to measure the effect of the project. Ex-ante evaluation primarily prevents wastage of resources, especially by examining the rationale behind the allocation of funds to avoid unnecessary spending. Discussing the alternatives to achieve the desired results is a main component and coming up with the least cost option is the objective. |
| Mid-Term Evaluation | It is conducted at the midpoint of a project with an aim at examining the achievements of the project, while also keeping in view the relevance and efficiency criteria. The results obtained through this evaluation assist in the revision of the original plan, or the strengthening of the operation structure, if needed. They measure and report on performance to date and indicate adjustments that may need to be made to ensure the successful implementation of the project or program. |
| Terminal Evaluation | At the project closeout stage, the Implementing or Executing Agency conducts a terminal evaluation. The main purpose of such evaluations is to review the implementation process and achievement of results and draw lessons. Its focus is primarily on the efficiency, effectiveness, and sustainability criteria. This type of evaluation also helps to determine whether the project has been successfully completed, if it requires a follow-up etc. |
| Ex-Post Evaluation | It refers to a backward-looking assessment of the effects of introduced policies or proposals. This type of evaluation is conducted after a particular time period has elapsed post-completion of the project, ranging from a year to five years or more. The purpose of ex-post evaluation is to analyze how close the actual outcome is to the projected one, and for studying the impact and sustainability aspects of the project. |

Table 30: Types of Evaluation

9.3. Overview

The final phase of the project lifecycle is the evaluation of project performance and results. Project evaluation aims to determine the relevance, effectiveness, and impact of activities in the light of the objectives as systematically and objectively as possible. It allows us to ascertain the net benefits of a project or programme and draw lessons for the future. It is a critical analysis of the

factual achievements and results of a project, programme or policy vis-à-vis the intended objectives, underlying assumptions, strategy, and resource commitment.

In specific terms, project evaluation tries to objectively assess:

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

It is important to note that a rigorous and independent assessment of either completed or ongoing activities determines 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.

Evaluations can primarily 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).

9.4. Institutional Arrangement

The post-completion evaluation of development projects is an important function being performed by the Directorate General, M&E. In order to decide about the fate of the projects, a Monitoring & 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. 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.

9.5. Evaluation Protocols

The monitoring Wing of P&DB in consultation with the Section Chiefs will prepare a list of completed projects from ADP every year in the month of July and forward it to DG (M&E) for

monitoring, evaluation, and TPV of the projects. DGME on need basis, will constitute a team of experts in the relevant field which may prepare the reports which would be considered by the aforementioned M&E committee. Further, concerned section of P&DB communicated with the department for timely submission of PC-IV soon after completion of project. Based on received PC-IV duly signed by Competent Authority of concerned department, DGME will constitute the Evaluation Team for evaluation and the reports prepared would be considered by the EC. The M&E Committee will critically review the implementation of the projects with reference to their cost and physical work as given in PC-I and identify any cost and time overruns.

Evaluations should be conducted according to the following minimum standards:

- All evaluations conducted at the behest of GoPb where necessary / related must be equity focused and gender responsive with high quality evidence and actionable recommendations.
- All evaluations should examine the relevance, efficiency, effectiveness of development programmes, projects, and initiatives. Impact and sustainability analysis/examination depends upon the nature of project(s).
- Evaluation methodology will select the most robust methods choosing carefully both quantitative and qualitative methods; focus on the relevance, efficiency, effectiveness, sustainability, and impact.¹³⁸
- The type of evaluation will be determined in accordance with its purpose i.e., formative, summative and impact evaluation etc. for all the public-sector development projects/schemes.
- After the submission of PC-IV to DGM&E by the relevant departments, there will be no revision and further no PC-I related to extension of the same project will be entertained by relevant forums until the issuance of final evaluation report from DGM&E.

9.6. Schematics of Evaluation

¹³⁸ Notification: No. DGM&E/DG/20252, Dated: 12th June,2012, DGM&E Evaluation Guidelines, June,2012 (Revised).

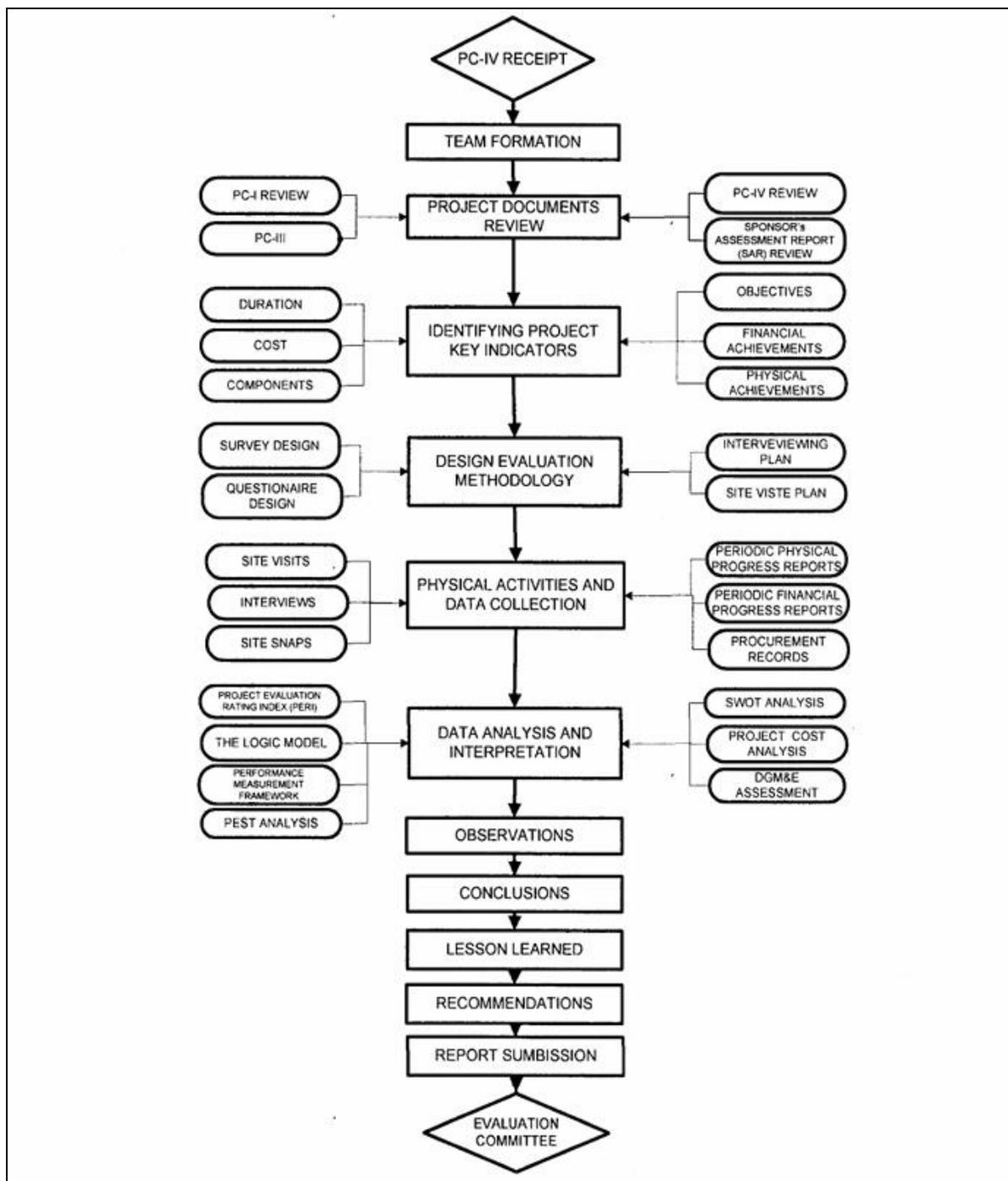


Figure 9: Schematic for evaluation methodology adopted by Director General, M&E, Punjab¹³⁹

9.7. Post-Completion Evaluation (PC-V)

The post-completion evaluation of development projects is an important function being performed by the Directorate General, M&E. The sponsoring agency at this stage of Project lifecycle will

¹³⁹ DGM&E Evaluation Guidelines, Director General Monitoring & Evaluation, Planning & Development Board, Government of Punjab

ensure availability of O&M funding required, in consultation with the Finance Department as well as submission of PC-V¹⁴⁰ report each year for 3-5 years (3 years of the sectoral projects and 5 years of the core projects) to the P&DB.

To ensure a seamless process, the Project Completion Report, denoted as PC-V, is required to be submitted through SMDP. This submission should adhere to the specified format and follow the instructions provided by the Planning Commission.

PC-V: Essential Information

- Objectives and scope (as per PC-I) of the project
- Comparison of planned vs. actual
 - Recurring cost
 - Manpower employed
 - Project output
 - Project income
 - Project benefit to economy
 - Cost per unit
- Mechanism of marketing the output of the project is stated
- Arrangements for the maintenance of building & equipment during the last financial year
- Lessons learned during the year under report
- Any change in the senior management of the project
- Suggested measures to improve the performance of similar projects

| S.No. | Checklist items for PC-V | Tick as appropriate | | |
|-------|--|---------------------|-----|----|
| 1 | Objectives and scope of the project as stated in the approved PC-I are indicated. It may also be indicated that up to what extent the objectives of the project have been met. | N/A | Yes | No |
| 2 | Planned (as per PC-I) and actual recurring cost of the project along with details for the financial year under report are provided. | N/A | Yes | No |
| 3 | Category-wise details of manpower actually employed for the operation of the project as compared to proposed in the PC-I is given. | N/A | Yes | No |
| 4 | Output of the project as given in the PC-I for the year under report vs. actual output of the project is given. | N/A | Yes | No |
| 5 | Income of the project as indicated in the PCI for the year under report along with assumptions vs. actual income for the year are provided. | N/A | Yes | No |
| 6 | Comparison of quantifiable actual benefits to the economy vs. anticipated benefits as listed in PC-I is given. | N/A | Yes | No |
| 7 | Social benefits to the target group as given in the PC-I are compared with the year under report and the extent to which social benefits have been achieved is stated. | N/A | Yes | No |
| 8 | Cost per unit produced and sold at the weighted cost of capital of the project is stated along with comparison to PC-I figures. | N/A | Yes | No |
| 9 | Mechanism of marketing the output of the project is stated. In case it differs from the PC-I, the details may be provided. | N/A | Yes | No |

¹⁴⁰ PC-V available at Appendix B.

| | | | | |
|----|--|-----|-----|----|
| 10 | Arrangements made for the maintenance of building & equipment during the last financial year are provided. It may also be indicated whether annual maintenance of building & equipment is being carried out. | N/A | Yes | No |
| 11 | Are output targets as given in the PC-I for the year under report met? In case of variation, reasons are provided. | N/A | Yes | No |
| 12 | Lessons learned during the year under report related to operations, marketing, and management are stated. | N/A | Yes | No |
| 13 | In case of any change in the senior management of the project, the details along with justification are provided. | N/A | Yes | No |
| 14 | Based on the experiences gained during this project, measures are suggested to improve the performance of similar projects in the future. | N/A | Yes | No |

Table 31: PC-V Checklist

Identify Key Questions

The first step for developing any M&E regime would be to identify key questions that need to be answered through M&E. The answers to these questions would then help in reviewing the 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:

1. 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?
2. Did any other organisation undertake a similar project earlier? If yes, then what has been the learning?
3. How would the M&E results feed into the project cycle? Is the design flexible enough to incorporate the learning?

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.

Selecting Indicators

Selecting the right indicators is of paramount importance during the planning phase of any project. As for M&D, once key questions have been identified, they need to be connected to the preset indicators and then targets (in the results framework). Indicators are then measured to demonstrate that the project did or did not do what it set out to do. The key questions that need to be asked 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.

It is important to note that there is a need to distinguish indicators for different levels of assessment i.e., monitoring, evaluation, and impact indicators. Monitoring essentially concerns with tracking the progress of project implementation and relate to inputs and activities. Evaluation and impact assessment on the other hand relates to measuring the results of the project i.e., the outputs, the outcomes and ultimately the impact.

9.8. Developing M&E Approach and Methodology¹⁴¹

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:

1. What is going to be the best approach for M&E? What is the counterfactual?
2. What has been learned from previous M&E designs?
3. What is going to be the baseline? Would secondary data suffice or are primary data needed?
4. How will the sample be selected?
5. 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.

| | |
|---|--|
| <p>Monitoring</p> <p>Regular systematic collection and analysis of information to track the progress of project implementation against pre-set targets and objectives.</p> | <ul style="list-style-type: none"> • Clarifies project objectives. • Links activities and their resources to objectives • Translates objectives into performance indicators and sets targets. |
|---|--|

¹⁴¹ The Monitoring and Evaluation Handbook for Business Environment Reform

| | |
|--|---|
| <p>Did we deliver?</p> | <ul style="list-style-type: none"> • Routinely collects data on these indicators, compares actual result with targets. • Reports progress to decision-makers and alerts them to problems |
| <p>Evaluation</p> <p>Objective assessment of an ongoing or recently completed project, its design, implementation, and results.</p> <p>What has happened as a result?</p> | <ul style="list-style-type: none"> • Analyses of 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. |
| <p>Impact assessment</p> <p>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.</p> <p>Have we made a different and achieved our goal?</p> | <ul style="list-style-type: none"> • 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 synthesize, compare, or contrast a range of interventions in a region, timeframe, sector, or reform area |

Table 32: Monitoring, evaluation and impact assessment

Gender Appraisal¹⁴² checklist for project evaluation¹⁴³

- Have the objectives, goals and outputs been analyzed with gender-disaggregated impact indicators as per PC-I?
- Have the Output, Outcome and Input indicators been pooled with gender segregation?
- In case primary data is needed, has gender been included as a key parameter?
- Has the performance of socio-economic fabrics been reviewed from a gender perspective by the department in relevant areas?

¹⁴² No.1(46)PO(Coord-II)/P&D/2022-23 Dated: 23rd Nov,2022

¹⁴³ Gender Responsive Planning and Budgeting, UNWOMEN and Labor and Human Resources Department, Government of Punjab, 2020. Source: <https://asiapacific.unwomen.org/sites/default/files/Field%20Office%20ESEAAsia/Docs/Publications/2021/01/Final%20-%20GRPB%20Guidelines%20Punjab.pdf>

Chapter 10: Public Private Partnerships (PPPs)

Key Concepts

Public Private Partnership:

A commercial agreement between the Authority and a private party pursuant to which the private party:

- Undertakes to perform a public function, provides a public service, or develops use of a public property on behalf of a Government Agency by, amongst other things, designing, constructing, financing, operating, marketing, or maintaining such public property; and
- Assumes substantial financial, technical, operational, or environmental risks in connection with the performance of a public function or provision of public service or use of public property.

PPP Agreement / Concession Agreement:

A contract between the public sector represented by the Authority and a private

party for the provision of an infrastructure facility or service through a project.

Project Development Facility (PDF):

A facility including but not limited to grants, loans, contributions from international donor agencies for project development which includes financing the engagement of transaction advisers, consultants, and services for preparing proposals for projects by the Authority.

Viability Gap Fund (VGF):

The funds or other assets of the Government which are made available to the private party to support the project including funds for covering revenue shortfalls by means of grants, subsidies, guarantees, or any other mode approved by the PPP Policy & Monitoring Board. This section is based on the Punjab PPP Act, 2019.

10.1 PPP Institutional Framework

PPP Policy and Monitoring Board (PPP P&M Board)

The PPP P&M Board is constituted to promote, facilitate, coordinate, direct and oversee the PPP regime in the province. The Board is the final decision-making and approving forum of PPP projects in the province. The Board is headed by the Chief Minister Punjab whereas Minister for Planning and Development (or any other person nominated by the Chief Minister) acts as the Vice Chairperson. The Board consists of 19 members including technical experts and representatives from the private sector. Section 6 of the Punjab PPP Act, 2019 delineates the functions of the Board.

PPP Cell

The PPP Cell's key responsibility is to act as a Secretariat for the PPP P&M Board. The Cell supports PPP P&M Board decisions/ functions pertaining to appraisal of PPP proposals, requests and recommendations submitted by the PPPA. For this purpose, the Cell liaises with the RMU for assessment of risks and liabilities. The Cell has also been mandated to review and strengthen the institutional/regulatory framework for PPPs in Punjab as well as monitor PPP projects during the concession period. Section 7 of Punjab PPP Act, 2019 elaborates the functions of the Cell.

Punjab PPP Authority (PPPPA)

The Authority is established under Punjab PPP Act, 2019. The Authority provides one window solution vis-à-vis identification, development, execution, implementation, and monitoring of PPP projects across various sectors throughout the lifecycles of the projects. Section 9 of Punjab PPP Act, 2019 elaborates the functions of the Authority.

Executive Committee of PPPPA

The Executive Committee performs the management and administrative functions of the Authority. Most important function of the EC is approval of Project Development Facility (PDF) funding requests up to a maximum limit of fifty (50) million rupees in each case. Functions and powers of the EC are provided in Section 12 of the Punjab PPP Act, 2019.

Risk Management Unit (RMU)

The RMU, housed in the Finance Department, acts as fiscal guardian for PPP projects. The Unit's main purpose is to ensure fiscal sustainability of the PPP portfolio and it is mandated to assess risk, quantify liabilities, and make recommendations for all PPP projects to the PPP P&M Board. The RMU also reflects government support and annuity payments in the annual budget, as per the approval of the Board. Section 13 of Punjab PPP Act, 2019 elaborates the functions of the RMU.

10.2. Inclusion of project in PPP Mode

All Government Agency and local governments, which want to implement PPP projects in their sector and/or geographical area of responsibility, can seek support from the Punjab PPP Authority vis-à-vis project identification, screening, preparation, and execution.

Project Identification

PPP Authority / Government Agency may identify a suitable project from its master plan or other planning document which have potential to be executed under the PPP mode.

Project Conceptualization

The concept paper allows the relevant department to review whether a project qualifies to be developed under the PPP mode. The Government Agency / PPP Authority must prepare a Concept Paper for the project highlighting broad contours of the project including but not limited to the following (necessary support may be sought from PPP Authority, where required):

Project Brief [Need, Scope, and Objective]

A preliminary analysis of the sector and market justifying the need for the project. Based on the Government Agency's institutional needs, strategic objectives, and output specifications of the project, the optimum project scope should be determined. Key benefits/objectives of the projects to be jotted down.

PPP Modality

Any suitable PPP modality may be indicated. Some of the common PPP modalities are:

| Model | Description |
|---|--|
| Build-and-Transfer (BT) | A contractual arrangement in which the Private Party undertakes the financing and construction of an infrastructure project and after its completion hands it over to the Government Agency. |
| Build-Operate-and-Transfer (BOT) | A contractual arrangement in which the Private Party undertakes the financing and construction of an infrastructure project, and the operation and maintenance thereof. The Private Party transfers the facility to the Government Agency at the end of the fixed term that shall be specified in the PPP agreement. |
| Build, Own and Operate (BOO) | A contractual arrangement whereby the Private Party is authorized to finance, construct, own, operate and maintain an infrastructure project, from which the Private Party can recover its investment and operating and maintenance expenses by collecting user levies from project users. The transfer of the project to the Government Agency is not envisaged in this arrangement. However, the Government Agency may terminate its obligations after the specified time. |
| Build-Own-Operate-Transfer (BOOT) | A contractual arrangement like the BOT agreement, except that the Private Party owns the infrastructure project during the fixed term before its transfer to the Government Agency. |
| Management Contract (MC) | A contractual arrangement whereby the Government Agency entrusts the management of a project to the Private Party for an agreed period on payment of specified consideration. |
| Service Contract (SC) | A contractual arrangement whereby the Private Party undertakes to provide services to the Government Agency for a specified period with respect to an infrastructure facility. The Government Agency will pay the Private Party an amount according to the agreed schedule. |
| Rehabilitate, Own and Operate (ROO) | A contractual arrangement whereby an existing infrastructure facility is handed over to the Private Party to refurbish, operate and maintain with no time limitation imposed on ownership. The Private Party can collect user levies to recover its investment and operation and maintenance expenses in perpetuity. |
| Rehabilitate, Operate and Transfer (ROT) | A contractual arrangement whereby an existing infrastructure facility is handed over to the Private Party to refurbish, operate and maintain it for a specified period, during which the Private Party collects user levies to recover its investment and operation and |

| | |
|--|--|
| | maintenance expenses. At the expiry of this period, the facility is returned to the Government Agency. |
|--|--|

Table 33: Description of PPP Models

Roles of Government and Private Party

This section will cover the roles of Government (e.g., provision of land, waiver of taxes, financial support, any changes in law, administrative support, etc.) as well as Private Party (designing, financing, construction, operation, and maintenance etc.).

Financial Viability

To attract private investors, it should be demonstrated that the project is likely to generate revenues over the concession period at levels sufficient to recover the estimated investment with adequate returns.

| Costs | Revenues |
|---|---|
| 1. Project Construction Cost (Capital Expenditure). | 1. Revenue / Fees i.e., how the private party is proposed to recover project costs (user charges, government payment etc.) |
| 2. Project operation and maintenance Cost (Operational Expenditure) | 2. Other revenue: for instance, in a road project, we can account for revenue generated from billboard fee and fee from service area etc. |
| 3. Interest on Loan undertaken to finance construction cost including interest during construction and operation, if any. | |

Table 34: Description of Costs & Revenues

Economic Viability

At least a qualitative description of the economic benefits of the PPP project. If some quantification is possible, a preliminary estimate of the economic internal rate of return may be provided.

Project Screening and Approval to Include in the PPP Mode

Based on the information provided in Concept Paper, the Punjab PPP Authority performs screening of the project for execution under PPP mode. If found viable, the Authority places the matter before PPP P&M Board for approval to include the project in the PPP mode and preparation of formal project proposal.

In case of approval by the PPP P&M Board to include a project in the PPP mode, the Government Agency cannot execute such projects by availing public funds unless otherwise allowed in writing by the Board.

10.3. PPP Project Delivery Process

PPP project proposals are generally classified as Solicited or Unsolicited. Solicited Project Proposals are initiated by the Authority. On the other hand, Unsolicited Project Proposals are proposed by the private sector to undertake a PPP project, rather than in response to a request from the Government. Both are delineated below.

Solicited Proposal

The steps for process of Solicited PPP Proposal are as under:

1. Project Identification
2. Preparation of Project Proposal
3. Appraisal and Approval Process
4. Tendering, Bidding and Selection of Private Party
5. Signing of Concession Agreement and Financial Close
6. Project Implementation, Operations and Transfer
7. Project Monitoring

Project Identification

For identification of project please see “Section above on Inclusion of a Project in PPP Mode”

Preparation of Project Proposal

After approval by the EC, the Authority may hire Transaction Advisor (TA), if needed, for preparation of a comprehensive project proposal. TA shall be selected through an open competitive process, on the basis of their track record in their field of expertise. Hiring / payments to the Transaction Advisors will be done by the Authority out of PDF.

The Authority shall supervise preparation of the PPP project proposal by the transaction advisor. The proposal shall consist of the following documents:

- Analysis of Feasibility (Financial & Technical) and Sustainability of the Project
- Detailed Business Case and Financial Model along with Economic Viability of the Project
- Risk Analysis
- Environmental and Social Assessment
- Analysis of Need of Government Support
- Affordability of Project
- Determination of PPP Modality
- Value for Money (VfM) Analysis
- Preparation of Request for Proposal (RFP)
- Draft Concession Agreement

Appraisal & Approval Process

Upon completion of the project proposal by the Transaction Advisor, the Authority shall evaluate it thoroughly and validate all the assumptions, figures and conclusions made in the proposal. Recommendation of the TA for Government support, if required, shall also be evaluated, and commented upon by the Authority. After satisfying itself about soundness of the project proposal prepared by the TA, the Authority shall submit the proposal to the PPP Cell along with its own recommendations. The PPP Cell shall appraise the project proposal vis-à-vis its conformity to the Act, rules, and regulations in vogue. Simultaneously, the PPP Cell shall forward the PPP project proposal to the Risk management Unit (RMU), which shall review its justification and eligibility, analyze the fiscal impact of the related direct and contingent liabilities, and check consistency of the Government support with the Act, rules, regulations, and fiscal sustainability. The PPP Cell

shall place the matter before the PPP Policy and Monitoring Board for a final decision. Based on the recommendations of the Authority, and appraisal of RMU and PPP Cell, the Board shall decide about approval, rejection or modification of the project proposal including requested Government support/ VGF along with its amount and form (loan, grant, subsidy, equity etc.). Minutes of the Board meetings shall be issued by the Cell, being Secretariat of the Board.

Tendering, Bidding and Selection of Private Party

After approval of the PPP project proposal by the Board, the Authority shall select a private party through open competitive public tendering as per process prescribed in the Act. After the completion of the bid evaluation, the Authority shall submit the bid results to the Board through PPP Cell to seek approval of the Board. Upon approval, the Authority shall announce the results of the bidding and issue a letter of award to the selected Private Party.

Signing of CA and Financial Closure

After approval of the bid by the Board, the Authority shall ensure conclusion of contract negotiations with the selected private party within 30 days of receipt of approval. Accordingly, the Authority shall sign a Concession Agreement of the project with the Private Party of the approval granted by the Board. The private party shall achieve financial closure for the project within one hundred and eighty (180) days of signing of the concession agreement, or as specified in the concession agreement.

Project Implementation, Operations and Transfer

The project shall be executed by the concessionaire through a formal arrangement as laid down in the signed concession agreement. Upon completion of the concession period, it shall be handed over to the Authority, if applicable, for onward transfer to the respective government agency subject to approval of the Board.

Project Monitoring

The Authority shall monitor and evaluate every PPP project during its implementation and operation to ensure its conformity with the plans, specifications, performance standards and user levies set forth in the PPP agreement, and to assess its actual outcomes. The Authority shall furnish biannual monitoring reports on all projects in implementation and operation phases to the Cell. The Cell shall appraise the biannual monitoring reports submitted by the Authority and place its findings before the Board.

Unsolicited Proposal

A project proposal submitted by a person to the Authority together with a written confirmation that it is economically viable, shall be considered as an Unsolicited Proposal (USP). The proposal shall comprise of all components as required for a Solicited Proposal excluding the Request for Proposal. USP allows the Government to benefit from the knowledge and ideas of the private sector. However, the Government is also aware of the potential risks associated with USPs. Therefore, it requires additional procedures and rules to strike a balance between incentivizing the private sector to develop projects and ensuring transparency and competition. Keeping in

view these facts, USP shall follow all the same steps of solicited proposals, and additionally the following, in case of approval of the USP from the Board:

- The person who submitted the USP shall be given five (05) percent additional weightage in technical scoring and the first right to match or improve the best bid received in response to the call for bids, if its bid is not the best bid.
- If the person who submitted the unsolicited bid fails to match the best bid, the Authority shall direct the successful bidder to reimburse, the amount specified in the bid documents as the cost of preparing the unsolicited bid, to the person who submitted the USP. The cost of preparation of USP shall be determined by the Authority.

Important Considerations for Developing a PPP Project

These are some important considerations for development of a PPP project:

1. Why is it preferable to do the project under PPP instead of ADP?
2. Is the project bankable?
3. Can the cashflow repay the investment (debt and equity)?
4. If not, can the project be eligible for VGF?
5. What are the key risks under PPPs?
6. Are the risks allocated to the party who is better able to manage risk or develop risk mitigation strategies?
7. Any previous lessons for similar projects in Punjab, Pakistan, or even abroad?

It is important to understand that severe fiscal crises can arise due to flaws in the design and structure of PPP projects. Many such instances occurred globally due to mismanagement of Fiscal Commitments and Contingent Liabilities (FCCL). In some PPP projects, governments may commit fiscal resources, such as equity, VGF and subordinate debt under the terms of agreement of the project. Risks emerging from fiscal commitments also need to be analyzed and reported by the government. FCCL has become a fundamental issue to be addressed by the government while making efforts to promote fiscally responsible PPPs.

10.4. Government Support for PPPs

Following types of Government Support can be provided under PPPs:

1. Administrative support
2. Utility connections at project site
3. Clearance of right of way
4. Rehabilitation and resettlement
5. Government equity in the form of land or infrastructure facility
6. Viability Gap Funding (VGF)
7. Government Grants
8. Governments' guarantees for risk such as demand risk etc.

| Commitment | Description |
|-------------------|--------------------|
|-------------------|--------------------|

| | |
|---|--|
| <p>“Guarantees” on particular risk variables</p> | <p>The government may commit to compensating the private party for loss in revenue should a particular risk variable deviate from a contractually specified level. The associated risk is thereby shared between the government and the private party. For example, this could include guarantees on the following:</p> <ul style="list-style-type: none"> • Demand remaining above a specified level, or within a specified range. • Exchange rates remain within a specified range. • Tariffs being allowed to follow a specified formula (where tariffs are set or approved by a government entity). |
| <p>Force majeure compensation clauses</p> | <p>The government may commit to compensate the private party for damage or loss due to certain specified force majeure events. These are typically limited to those events for which insurance is not commercially available, which may include certain natural disasters.</p> |
| <p>Termination payment commitments</p> | <p>The government may commit to pay an agreed amount should the contract be terminated due to default either by the private party or by the government on their obligations under the contract, and to take control of the project assets. Typically, the defined payment is lower in case of private party default.</p> |
| <p>Credit Guarantees</p> | <p>The government may guarantee repayment of some, or all the debt taken on by the project company if the project company itself defaults on the debt, regardless of the reason for the default.</p> |

Table 35: Types of Fiscal commitments in PPPs

It is also important to note that there are three types of guarantees provided in PPP projects:

1. **Service Use Guarantee (or Revenue Guarantee):** The direct beneficiary from this guarantee is the project company and not its creditors. If the company costs are not managed properly, the project company is likely to fail to pay its debts to the creditors.
2. **Guarantee of Minimum Service Fees:** Under this guarantee, the state guarantees the private partner a minimum of service fees paid regardless of the performance of the project company is undertaking.
3. **Guarantee of Law and Regulation Amendment:** The state provides protection from any future regulatory policy, provided that the contract shall not be unilaterally changeable. All projects that are undertaken by the P3A are dealt with through “Change in Law Provisions” without issuance of formal guarantee by the Government.

Common reasons for failure of PPPs are presented below. It is important to understand these reasons for designing sound PPP projects.

1. **Compliance Issue:** Lack of compliance with applicable legal and regulatory frameworks.
2. **Costing:** Unrealistic revenue and cost estimations add to the potential failure of a PPP project.

3. **Public Resistance:** Public resistance can be observed as one of the major failures of some PPP projects. A better communication strategy can help circumvent such risks.
4. **Deferred Payments:** PPP projects are carried out under a regime of deferred payments which often gives an illusion of developing infrastructure without any cost.
5. **Contingent Liabilities:** The cases of Portugal and India explain that poor management of contingent liabilities may add to the failure of PPP projects.
6. **Research Gaps:** Lack of substantive research on PPP processes and projects that inhibit the capacity to incorporate lessons in future projects.
7. **Training and Capacity:** Lack of training and capacity to negotiate and draft legal contracts may hamper the performance of PPP projects. Training can help overcome this challenge.

Chapter 11: Foreign Assistance Projects

Key Concepts

Foreign Assistance

Foreign assistance, also known as international development assistance or foreign aid, refers to the transfer of resources (financial, technical, or humanitarian) from governments, international organizations, non-profit organizations, or individuals in developed countries to support the development needs of developing countries.

Loans

Loans may be obtained for development projects from multilateral development partners such as the World Bank Group (which comprises the International Development Association International Bank for Reconstruction and Development, International Finance Corporation) and the Asian Development Bank. Loans are also provided by certain bilateral aid agencies originating in France, Germany, Italy and Japan.

Grants

Unlike loans, grants do not have to be repaid by the recipient government. Both multilateral agencies (such as UNICEF, WFP, UNDP, UNESCO, and FA) often provide grants along with bilateral agencies from the US, Japan, Canada, Germany, and the UK (among others).

Technical Assistance

Foreign funded projects often include a technical assistance component for consultants, training, or other project preparation tasks. This is intended to build the technical capacity of the host government to design/execute the project as well as to facilitate broader knowledge transfer in the particular sector.

Development Partners

Any entity involved in supporting the development goals of another country or region. This could include governments, international organizations, NGOs, private sector companies, and even foundations or individuals. More specifically, Organizations working collaboratively with a specific country or region to achieve development goals. This could involve joint projects, knowledge sharing, financial assistance, or technical expertise. Examples include partnerships between a recipient country and donor agencies, or collaborations between NGOs and local communities.

Concessionalality

Concessionalality (also referred to as grant element) is essentially a measure of the 'softness' of a loan or more specifically, how much softer it is than a market loan. In other words, the loan is provided on terms that are more favorable for the borrower than a market loan i.e., at interest payable below market rates). This means that there is an element of gift/transfer from the IFI to the borrower i.e., the grant element. Generally, the lower the interest rate, the longer the grace and maturity periods and the more backloaded the repayment profile, the higher the concessionalality of the loan.

Project Document

The project cycle primarily includes: (i) Identification; (ii) Preparation; (iii) Appraisal; (iv) Negotiation/approval; (v) Implementation; (vi) Completion/validation and evaluation. Project Appraisal Document (PAD), or PAM, AFD is produced at the third stage of the project cycle. Its purpose is to

allow the borrower and the foreign financier an opportunity to review the project design and validate project outcomes, beneficiaries, application of environmental and social safeguard requirements, monitoring and evaluation tools, among other design elements worked out during the Identification and Preparation phases.

Hybrid financing agreements

The IFIs have introduced hybrid financing instruments that combine characteristics of programs and projects. Examples include

Programme for Results (PforR), Development Policy Credits (DPCs) and Financial Intermediation Programmes (FIPs). Hybrid instruments are aimed at policy/institutional reforms while some funding is earmarked for technical assistance. The bulk of funding is disbursed on the basis of performance indicators. Given these conditionalities, the NEC has issued guidelines that define a fast-tracked pathway for approving projects carried out under these hybrid instruments so that disbursements are not delayed.

Foreign Assistance refers to the financial, technical and other forms of support provided by international development partners with the objective to achieve economic and social development. The development partners include governments, international organizations, non-governmental organizations and multilateral institutions.

Foreign Assistance has played a significant role in the economic development of Punjab across various sectors including infrastructure development, agricultural modernization, healthcare and social welfare, skill development, education, environment sustainability, disaster resilience, governance and institutional strengthening.

Key international development partners engaged with government of the Punjab include the World Bank Group (WBG), Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), various United Nations (UN)' agencies, Foreign Commonwealth & Development Office (FCDO)-UK, Japan International Cooperation Agency (JICA), Exim Bank China, Danish International Development Agency (DANIDA), AFD, USAID etc.

11.1. Types of Foreign Assistance

Foreign Assistance from international development partners is provided in the form of Loans, Grants and Technical Assistance, the details of which are as follows:

i) Loan

Foreign Loans refer to financial assistance provided by foreign governments, international organizations, or financial institutions to a recipient country to undertake development projects and programs. Foreign Loan are categorized as follows based on repayment obligations:

a) Concessional Loans:

Concessional Loans are offered with more favorable terms such as low / zero interest rate and extended repayment periods. Such loans are provided to poor and low income countries. World Bank's IDA loans and Asian Development Bank's concessional Ordinary Capital Resources (OCR) loans are few of the examples of concessional loans.

b) Non-Concessional Loans:

These loans are offered with market based interest rates (SOFR plus variable spread), standardized repayment terms and commitment charges. Such loans are provided to low and middle income countries. World Bank's IBRD and Asian Development Bank's regular OCR loans are few of the examples of non-concessional loans.

ii) Grant

The second category of foreign assistance is grant. Grants offered by international development partners do not have any repayment obligation and are preferred source of financing for undertaking development projects. Grants may be categorized in the following broad categories:

a. Grant in Aid:

Grant in Aid refer to the purpose specific financial assistance in the form of monetary funds from international development partners with no repayment obligations.

b. Grant in Kind:

Grant in Kind refers to the provision of goods (machinery, equipment), services or technical expertise from the international development partners

c. Off-Budget Grants

Off Budget grants are mainly in the form of in-kind support or technical assistance support for capacity building.

Technical Assistance:

Technical Assistance is offered in the form of consultants, trainings, capacity building, project preparation facilities, feasibilities and design surveys etc. and do not involve monetary flow or expenditure on part of recipient entity.

1. Modes of Financing

International Development Partners provides foreign assistance in the following modes:

i. Project Financing:

Project financing, also referred as the Investment Project Financing, is provided to undertake specific projects with well-defined objectives and outcomes that create physical and social infrastructure.

ii. Program Financing (Program for Results):

Program financing also referred as the results based financing links the disbursement of funds directly to the achievement of defined results helping countries improve the design and implementation of their own development programs and achieve lasting results by strengthening institutions, enhancing systems, and building capacity. Program financing encompasses multi departmental institutional and structural reforms to achieve broader development agenda of the province.

iii. Hybrid Financing:

Hybrid financing involves a mixture of project and program modes of financing. Hybrid instruments are aimed at policy / institutional reforms executed in program mode while some funding is earmarked for technical assistance executed in the project mode. The bulk of funding is disbursed on the basis of results achievement.

11.2. Criteria for Foreign Funded Projects

The enhancement of domestic resources and gradual reduction of dependence on external financial resources forms the basic tenet of Government of Pakistan economic policy, however, the relevant entities may seek external finances while taking the following considerations into account:

- i. The project is well aligned to, and, is an integral part of provincial development agenda.
- ii. The project has strong financial and economic viability and is backed by feasibility study, where required, clearly highlighting that its future economic returns are higher than its cost.
- iii. The project is complex in nature with a large capital investment outlay that requires external financial, managerial and technical support.
- iv. The project is developed indigenously and has full ownership of the relevant administrative departments.
- v. The project is duly approved by the competent fora.

Seeking Foreign Assistance:

The foreign assistance has played a crucial role in advancement of the development agenda of Punjab. Foreign Assistance not only bring fiscal resource to fund resource intensive infrastructure projects and bring about governance reforms but also technical expertise through international development partners making them an invaluable contribution to provincial growth.

Foreign Assistance must be sought for the development projects falling under the economic framework as laid down in the prevailing long / medium / short term development plans, strategies and policies of the government of Punjab. Policy Parameters for borrowing from multilateral and bilateral donors approved by the Government of Punjab has clearly spelled out Punjab Government's priorities while seeking financial assistance from international development partners.

Punjab Government will continue to engage bilateral and multilateral donors to raise concessional financing which would be channeled towards creation of non-financial assets (physical assets) that have the potential to contribute towards economic growth of the Province or welfare of its population. In the medium term, program loans (Budgetary support) may preferably be financed from Province's own resources rather than financing from international development partners.

Moreover, all the relevant provisions of PFM Act 2022, rules / regulations / guidelines issued by the government by time to time will be strictly adhered to while seeking foreign assistance.

Procedure for Obtaining Foreign Assistance (Project Financing)

The procedure to obtain foreign assistance from international development partners is as follows:

i. Project Identification

The potential projects for foreign assistance are identified by the executing agencies / line department of the government of the Punjab keeping in view the development priorities and objectives of the Government of the Punjab. Project identification must involve a thorough need assessment to identify the pressing needs and challenges within the targeted sector where external support is most crucial.

ii. Approval of the Concept Paper

After project identification the line department prepares the concept paper for the proposed project. The concept paper must include project rationale and justification along with gap analysis, objectives, project scope, mode of financing, expected outcomes and deliverables, targeted beneficiaries, budget and financial plan, timeline and sustainability.

The approval of the concept paper involves the following steps:

a) Approval from Provincial External Financing Assessment Committee (PEFAC)

The concerned administrative department prepares and submits the concept paper of the proposed project for the consideration of Provincial External Financing Assessment Committee (PEFAC). The concerned section of Planning and Development Board shall examine and analyze the proposal keeping in view the following:

- i. Need of the proposed interventions along with gap analysis.
- ii. Government policies and priorities on the proposed interventions.
- iii. Similar interventions already executed along with their evaluation findings.
- iv. Availability of alternate sources of funding i.e., provincial ADP etc.
- v. Existing sectoral debt stock analysis.
- vi. Proposed modalities of the external financing.

- vii. In case of loan, the terms and conditions along with tentative repayment schedule of the loan.
- viii. Any other detail(s) in support of the project.

After thorough examination of the concept paper, the concerned section of P&D Board will submit a working paper to External Capital Assistance Wing of P&D Board for placement before PEFAC.

b) Approval of the Government for Approaching the International Development Partner

After the approval of the PEFAC, the concerned administrative department will initiate a Summary for SCCFD / Cabinet requesting permission to approach the international development partner for the proposed loan / grant in light of policy parameters for borrowing from bilateral and multilateral donors approved by the provincial cabinet.

c) Approval from PDWP

After approval of the SCCFD / Cabinet, the concept paper of the proposed project shall be presented to the PDWP for consideration. No concept paper shall be presented to PDWP without prior approval of the SCCFD / cabinet.

d) Approval from Concept Clearance Committee, MoPD&SI

After PDWP approval, the concept paper shall be submitted for consideration of concept clearance committee chaired by the Deputy Chairman Planning Commission.

Concept Clearance: Common Errors / Omissions¹⁴⁴

1. Basic information regarding project concept, cost breakdown and departmental feasibility is missing for projects costing Rs. 10 million and above
2. Foreign assistance is being exclusively for purchase of domestic goods (vehicles, air conditioners, etc.) or for importing foreign machinery / equipment, instead of a comprehensive and justifiable project design
3. Availability of matching local currency funds have not been ensured in the PSDP and ADP

¹⁴⁴ Planning Commission, 'Concept Clearance Proposals – Policy Guidelines' Notification No.23(1)PIA-I/PC/2018 dated 4 April 2018

e) Formal Request for Financing to International Development Partner through Economic Affairs Division

After approval of the concept clearance committee, the concerned administrative department shall initiate formal request for financing for the proposed project / program from the potential international development partner through Economic Affairs Division. The formal request of the concerned administrative department shall be routed through External Capital Assistance Wing of P&D Board. No administrative department shall engage directly with the international development partner and without prior approval of the CCC.

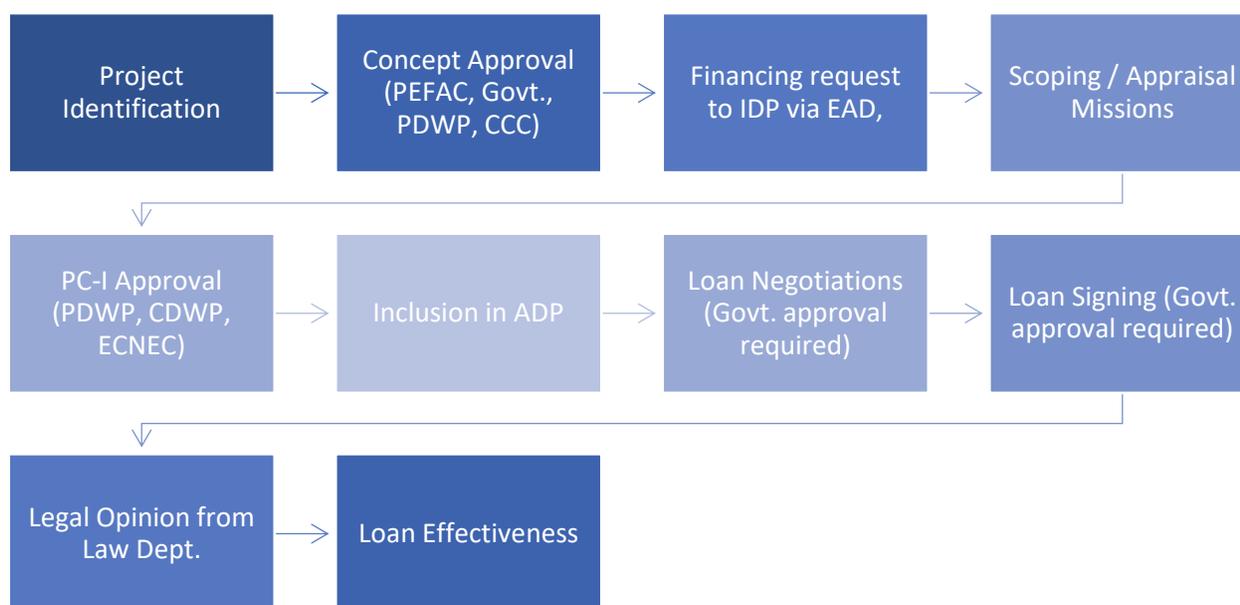


Figure 10: Process Flow for approval of Foreign Funded Projects

f) Identification / Scoping / Appraisal Missions of the International Development Partner

After receiving formal request from EAD, the development partner field missions with respect to identification, scoping and appraisal of the proposed intervention. The respective teams of the international development partner in consultations with the concerned administrative department prepares the initial project documents such as project information document, project appraisal document, project administration manual along with the environment and social safeguards reports. During preparation the development partners give attention to other important concerns including citizen engagement, gender, climate change, fraud and corruption, and grievance

redressal mechanisms. Beneficiaries and stakeholders are also consulted to ensure the project considers their needs. The teams of the development partner supports the concerned administrative department in development project design, identifying implementation arrangements, and conducting various reviews and studies.

g) Approval of PC-I

- PC-I must be accompanied by:
 1. Feasibility study
 2. Project Document, including:
 - Strategic context - Country profile, institutional and sector context, link with strategic objectives).
 - Project development objective - Project objectives, beneficiaries, and results indicators).
 - Project description – Project components, financing and lessons learned that are incorporated in project design.
 - Implementation – institutional arrangements, M&E strategy, and sustainability considerations.
 - Key risks and mitigation measures
 - Appraisal – Economic, technical, financial, management, procurement, environmental and social analysis
 3. Draft agreement for loan or grant
- PC-I must include the name of the development partner, amount of foreign exchange and local currency that is to be committed to the project.
- The financing of local currency component must be clearly broken down by type i.e., loan, equity, grant, etc. (See Section 3.1.5.1 for details)

h) PDWP

After thorough consultations with the international development partner and keeping in view the recommendations of the appraisal missions, the concerned administrative department shall prepare PC-I of the project and submit for consideration of PDWP. The procedure / guidelines issued by coordination wing P&D Board for approval of development projects from PDWP shall be duly followed.

i) CDWP

After recommendation of the PDWP, the concerned administrative department shall submit PC-I for consideration of CDWP. The approval of CDWP is mandatory for entering into negotiations with international development partner. CDWP is the competent approving forum for approval of foreign funded projects up to PKR 10 billion.

j) ECNEC

On the recommendation of CDWP, the PC-I is submitted for the consideration of ECNEC. For approval of PC-I, the following guidelines of the Planning Commission must be adhered to:

- Firm commitment of availability of foreign financing must be verified by the EAD before the PC-I is forwarded to the Planning Commission for CDWP/ECNEC approval. The PC-I will be forwarded to Planning Commission for approval along with feasibility studies, draft PAD/PAM and loan agreement.
- The name of the donor agency / development partner and amount of foreign exchange and local currency committed should be mentioned in the PC-I. Similarly, the source and amount of rupee component should be indicated as government sources, that is, grant, loan, equity, etc.
- The Pakistani Rupee (PKR) equivalent of the Foreign Exchange Component (FEC) of projects should be worked out based on the 'Bank Floating Average Exchange Rate' of the relevant currency as shown on the website of the State Bank of Pakistan (SBP) for the month preceding the one in which the PC-I and PC-II were submitted to the Planning Commission.
- Loan agreement will only be signed once the PC-I is approved (and completing any other necessary requirements) to avoid commitment charges.
- Land availability must be ensured by a sponsoring /executing agency prior to signing any agreement.

PC-I for Foreign-funded projects: Common errors / omissions

- Feasibility study is missing or older than 3 years.
- Financial information is incomplete in terms of clear breakdown of foreign and local currency as well as type of financing.
- Availability of matching funds for local currency have not been ensured in the PSDP or ADP
- A foreign exchange component has also not been expressed in local currency, which makes subsequent cost escalation opaque.
- Incorrect exchange rates for computing costs in local currency.

k) Inclusion in Annual Development Program

All foreign funded projects approved by their respective competent forums are included in the Annual Development Plan (ADP), subject to the availability of funds. The allocation of funds by

the government of Punjab (counterpart funding) and the development partner's share must be ensured in the ADP.

l) Approval of the government for Loan Negotiations

After approval of the PC-I by the competent forum, the approval of the SCCFD / Cabinet shall be obtained for (i) entering into loan negotiations with the respective development partner and (ii) loan negotiations team. Draft project appraisal document / project administration manual, draft Loan agreement, draft project agreement and other negotiation Documents, received from the respective development partner, must be enclosed with the Summary initiated for SCCFD / Cabinet.

m) Opinion from Law and Finance Departments

The opinion / comments of the Law and Finance Departments must be obtained on the draft negotiating documents prepared and shared by the respective development partners. Finance and Law Departments shall examine and comment on the loan negotiation documents.

n) Loan Negotiations

The SCCFD / Provincial Cabinet approved team does loan negotiations with development partners along with the representatives of the Federal Government (EAD). The Chief Negotiator of the loan negotiations is the senior officer from EAD which is nominated by the Federal Government.

The key consideration in loan negotiation is concessionality. The following terms of the loan agreement assume significance:

- a. Face value i.e., the nominal amount of credit that needs to be repaid to the IFI.
- b. Interest rate, i.e., whatever final interest rate is agreed on the loan which will become part of the total cost to the borrower.
- c. Repayment profile i.e. The repayment schedule can be modelled on several specific profiles that are commonly used by IFIs (including the IMF and World Bank) i.e. Equal principal payment, Annuity (amount of the loan amortized for fixed annual repayment), Lump sum principal (entire principal or nominal amount is deferred to the last repayment date while interest is paid throughout the maturity period), Lumpsum principal and compounded interest (both loan and principal payments are deferred to

the last repayment date, but interest compounds over the repayment period). This is referred to as the amortization plan.

- d. Commissions and fees – IFIs defray the cost of contracting or managing the loan through commitment fees, management fees, or upfront commissions determined as a percentage of the face value.
- e. Maturity and grace periods – The grace period is the period of the loan during which only interest and no principal payments are payable to the IFI. The maturity is the period required to service the loan and includes the grace period. Both are typically unitized as years.
- f. Currency of the loan
- g. Applicability of rules / regulations of the development partners and borrowing country.

o) Approval of Government of Punjab for Signing of Loan

After successful loan negotiations, the concerned Administrative Department shall initiate a summary for approval of the SCCFD / cabinet for signing of the project agreement with respective development partner as well as the signatory (concerned Administrative Secretary) of the Project Agreement on behalf of government of Punjab. Loan / Financing Agreement is signed by EAD on behalf of Government of Pakistan.

p) Legal Opinion from Law Department

After signing of Loan / Project Agreement, legal opinion is obtained on the signed agreements / documents. Legal opinion from law department is mandatory requirement for the effectiveness of the loan from the development partner, however, it may vary with each international development partner.

q) Loan Effectiveness

After signing of the loan / project agreement and furnishing the legal opinion to respective development partner, the development partner issues declaration of effectiveness.

11.3. Procedure for Obtaining Foreign Assistance (Program Financing)

Various International Financial Institutions (IFIs) have introduced hybrid financing instruments, which combine elements of both a project and a programme. These new financial instruments

include Programme for Results (PforR), Development Policy Credits (DPCs) and Financial Intermediation Programmes (FIPs).

These instruments are designed mainly to target policy and institutional reforms, while a part of financing also goes for technical assistance. These instruments mainly contain performance indicators, which are based on disbursements for budgetary support, while only a small portion is allocated for expenditure on base-activities.

The program loans fall outside the PC-I purview as the financial assistance provided is for budgetary and balance of payment support. Therefore for obtaining the program loan, the approval of PC-I is not required. However, all steps for availing project loans mentioned from 5 (i - xii) will be adhered to, other than PC-I approval mentioned at 5 (v).

NEC has approved the following guidelines for the Program-for-Results (PforR), Financial Intermediation Program (FIPs) and Development Policy Credit (DPC) mode of financing:

1. The relevant executing agencies shall obtain concept clearance of the proposed programs from the Concept Clearance Committee and communicate the same to EAD.
2. On receipt of Concept Clearance EAD will formally request the development partner for seeking funding support
3. The development partner will prepare Program Appraisal Document in consultation with sponsoring and executing agencies and then share it with EAD for negotiations.
4. Before initiating loan negotiations, the EAD will seek clearance of the programme loan agreement from the Ministry of Law and Justice and the Finance Division.
5. Loan negotiations shall be conducted with the development partner after the concept clearance by CDWP. The EAD, Finance Division, Planning Commission, Law and Justice Division and relevant sponsoring agency and executing agency will participate in the negotiations.
6. The EAD may, on completion of negotiations, move a summary for approval of Chairman ECNEC before signing the program loan agreement.
7. For TA parts of the PforR and FIPs, these shall subsequently follow the PC-I by the respective executing agencies before the release of funds into the assignment account/project account.

Establishment of Project Management Unit (PMU) / Recruitment/Retention of Staff

Timely establishment of Project Management Unit, recruitment of project staff and retaining key staff is essential for smooth execution of the projects. For foreign funded projects, Planning Commission recommends that:

- i. The process for the establishment of a PMU and hiring of an independent Project Director (PD) should start soon after concept clearance.
- ii. This should run parallel to the approval process of PC-I.
- iii. The PD must be appointed no later than one month after approval of the PC-I

The Project/Program Directors of all foreign funded projects/programs must put maximum efforts for retention of key project staff and ensure that project staff must obtain Departmental Permission from concerned Administrative Secretary prior to applying for any other project position. The project hiring authorities shall not entertain any application without permission duly granted by the concerned Department.

Opening of Assignment Accounts

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

The following specific steps are involved:

- i. Request for opening of assignment account to Finance Department
- ii. Issuance of advice by Finance Department to AG
- iii. Issuance of advice by AG to TO/DAO
- iv. Issuance of advice by treasury office to NBP
- v. Request to SBP by NBP
- vi. Opening of Account

Submission of Specimen Signatures / Details of Authorized Signatories to sign withdrawal applications

The authorized signatories of the RFAs are submitted to the development partner through EAD. The request for submission of authorized signatory is initiated by concerned PD duly endorsed /

verified and attested by concerned Administrative Secretary and forwarded to ECA Wing of P&D Board. P&D Board then submits the request to EAD. The Finance Department should authorize any other project staff member or any other suitable official to act as a co-signatory of such statements. However, all requests/withdrawal applications for the replenishing of accounts/transfer of funds should be routed through the Project Management Unit.

Disbursement of funds

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

Implementation/Operating Stage

As already mentioned, separate Revolving Fund Accounts (RFA) shall be opened by the PMU at NBP for the Loans/Grants, and that RFA will be assigned a special Identification Number upon the establishment of the account. Rules for opening and operated RFAs are provided above in Section 6.3.2.

- **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 development

partner 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 development partner and the GoPb.

Chapter 12: Engineering, Procurement and Construction (EPC)

Engineering, Procurement and Construction (EPC) – often used interchangeably with the term ‘turnkey’ project – is a common project delivery method used in the construction and engineering industry, where a contractor is responsible for the design, procurement, and construction of a project. EPC projects are typically used for large-scale infrastructure projects, such as power plants, oil refineries, and transportation infrastructure. The defining features of the EPC approach are:

- It enables the owner to transfer the bulk of project risks to the contractor – including risks associated with detailed engineering design, procurement of all necessary inputs and construction of the facility to be delivered in a turnkey or ready-to-commission state.
- It limits the owner’s engagement or interaction to a single lead contractor who bears the legal responsibility for delivering the project.

Depending on the type of EPC modality adopted and how individual project agreements are negotiated, EPC contracts also often provide for fixed prices and fixed completion dates.

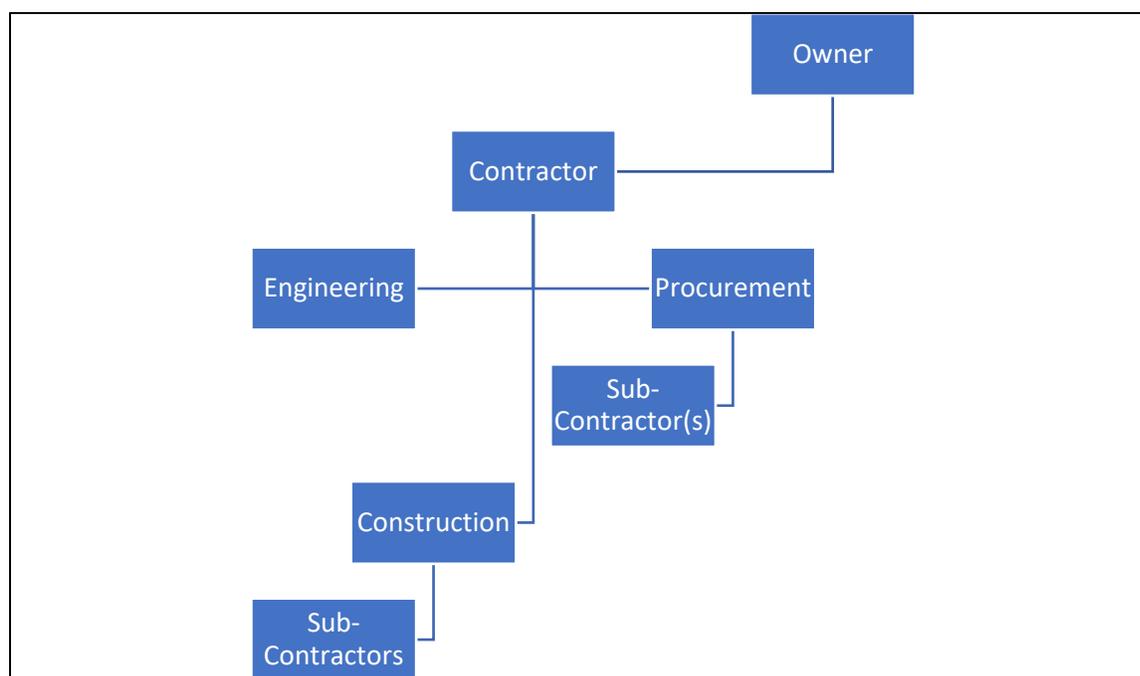


Figure 11: Typical EPC Project Organization

12.1. Screening projects for EPC Mode

Administrative departments must consider the following factors (among others) that can make a project suitable for EPC mode include:

- **High complexity:** Projects that are highly complex, requiring a high degree of engineering expertise and specialized equipment, may be best suited for EPC mode. The contractor can leverage their expertise and experience to design and construct the project efficiently and effectively.

- **Large scale:** EPC projects are typically large-scale, involving significant capital investment and long construction timelines. This can include projects such as highways, bridges, and airports, as well as power plants and other large-scale infrastructure.
- **Defined scope:** EPC projects require a well-defined scope of work, with clear specifications and requirements. This allows the contractor to design and construct the project efficiently, while also providing clear expectations for the client.
- **Limited flexibility:** EPC projects typically have limited flexibility, with little opportunity for the client to make changes to the project scope or design once construction has begun. This can help ensure that the project is delivered on time and within budget but may not be suitable for projects with high levels of uncertainty or change.
- **High capital cost:** EPC projects often require significant capital investment, and the contractor is typically responsible for financing the project. This can make EPC mode suitable for projects that require significant upfront investment but may not be suitable for projects with lower capital requirements.
- **High profitability:** EPC projects must be pre-assessed for profitability in terms of IRR or other similar measures, based on a comprehensive consideration of all cost parameters examined by detailed technical and legal due diligence studies.

| EPC Benefits | EPC Risks |
|---|--|
| <ul style="list-style-type: none"> • One-window engagement and responsibility, which simplifies contract management. • Greater certainty of price and duration (especially important for financial backers) • Limited delivery and procurement risks | <ul style="list-style-type: none"> • Tend to be expensive because contractors' price in an appropriate risk premium. • Contractors may default in case profit margins are low and project controls are weak, which is common in construction projects. • Lapses in standards of quality where contractors 'cut corners' to minimize costs. • Loss of control and flexibility of decision-making once the agreement is in place. • Project inception may be delayed because of added pre-project milestones (e.g., FEED) • Limited pool of available bidders available because of project size and risk |

Table 36: Difference between EPC Benefits & Risks

However, the ultimate decision to invest in a particular EPC project must be made based on a detailed Front End Engineering Design study that provides technical specifications required by the project, a solid foundation for costing of inputs and a framework for the agreement to be considered between the owner and the contractor. The FEED is essentially a preliminary

engineering design for the project that is undertaken on the basis of a feasibility study, often by a FEED consultant engaged for the purpose (as per Section 14.2).¹⁴⁵

The following matrix describes the benefits and risks associated with adopting different kinds of EPC contract modalities as compared with alternate methods including the unit-rate (conventional procurement) and Design Build (DB) method¹⁴⁶.

| Contracting Mode | Benefits | Risks | Applicability |
|---|---|--|---|
| EPC Modes | | | |
| Lump Sum | Cost certainty | Built in risk premium | <ul style="list-style-type: none"> The scope is well-defined. Low probability of unexpected cost increases |
| Cost Plus | Transparency of cost structure | No incentive for contractors to economize on expenses | <ul style="list-style-type: none"> Uncertain scope Transparency of expenditure is a priority |
| Guaranteed Maximum Price | Cost certainty | Built in risk premium | <ul style="list-style-type: none"> Scope is well-defined. Moderate risk of mid-project changes |
| Engineering, Procurement and Construction Management (EPCM) | Greater flexibility and control for owner | Additional investment in experts and other resources | <ul style="list-style-type: none"> Control over project management is a priority. Multiple contractors involved |
| Alternative Contracting Modes | | | |
| Unit Price Contracts | Greater flexibility to pay for quantities delivered | No incentive for contractors to economize on expenses | Scope of work entails standardized or repetitive tasks |
| Design-Build | Integration of design and execution | Conflict of interest between design and execution responsibilities | <ul style="list-style-type: none"> Time is a priority. Single point of responsibility is critical |

Table 37: Benefits & Risk Matrix

¹⁴⁵ <https://www.blackridgeresearch.com/blog/what-is-feed-front-end-engineering-design>

¹⁴⁶ Adapted from EPC Land learning platform. <https://www.youtube.com/watch?v=qkf39hK0p7s>

12.2. Framework for Owner's engineer / Project Management Consultancy

To ensure quality of works and optimal use of resources it is mandatory to engage services of consultants for Owner's Engineer as per the following guidelines¹⁴⁷:

- Owner's Engineers or Project Management Consultant shall be appointed in all EPC, BOT, PPP Projects, and projects of unique complex nature.
- For EPC Contracts, there will be no provision for Resident Supervision on TPV and Owner's Engineer or Project Management Consultant will serve as consultant from start to end as client representative. The Owner's Engineer or Project Management Consultant will validate the performance and output/outcome of the project. EPC Contractor would essentially comprise engineering consultant besides contracting team from its own budget, provision of which is usually made in the estimates.
- Factory Acceptance Tests, Pre-shipment tests etc., services will be outsourced by the Owner's Engineer or Project Management Consultant to specific service.

12.3. EPC Contracts

In 2010, the Pakistan Engineering Council adopted a Standard Form of Bidding Documents for EPC/Turnkey Contracts which covers the Single Stage – Two Envelope method but can be tailored to apply in case Two Stage – Two Envelope method is adopted. It is recommended that all projects above PKR 25 million should adopt these standard documents for bidding processes. These Documents are based on FIDIC General Conditions of Contract for Electrical and Mechanical Works (1987 Edition reprinted in 1988 with editorial amendments) as well as Preamble to General Conditions of Contract, Particular Conditions of Contract and sample Schedules required for bidding¹⁴⁸.

These have not yet been adopted by the Government of Punjab, but it is recommended that a bidding regime along similar lines may be developed and notified for Punjab by the competent authorities, subsequent to detailed research and thorough consultation among administrative departments. However, in 1999 FIDIC issued the Silver Book (updated in 2017) for execution of projects under EPC/Turnkey modality, which should be included in this exercise.

EPC Contracts typically include the following provisions¹⁴⁹:

- 1) Single point of responsibility
- 2) Fixed contract price
- 3) Fixed completion date
- 4) Performance specifications
- 5) Performance guarantees – liability of the contractor for damages in case of project failure
- 6) Performance Security – bank guarantee, assurance from parent company or advance payment that immunizes the owner from potential financial losses.

¹⁴⁷ As per P&DB notification No: 4(24)PO(CONS P&D/97-Vol-III dated 27th July 2017.

¹⁴⁸ <https://pec.org.pk/wp-content/uploads/2022/04/EPC-Document-05-10-2010.pdf>

¹⁴⁹ <https://www.blackridgeresearch.com/blog/what-is-an-epc-contract>

- 7) Caps on liability – limitations on the liability of contractors
- 8) Right to suspend the contract.
- 9) Flexibility in ordering variations – provides flexibility to the owner for mid-project course correction.
- 10) Force Majeure provisions

Introduction to the FIDIC Silver Book

The International Federation of Consulting Engineers, or FIDIC, is an international standard-setting organization for the consulting engineering and construction industries. In December 2017, FIDIC launched the second editions of its Red Book (owner-designed), Yellow Book (contractor design-build) and Silver Book (turnkey project) model conditions for EPC contracts.

The FIDIC Silver Book is a standard form of contract used for turnkey projects, where the contractor is responsible for the design, engineering, procurement, and construction of a project. The Silver Book is primarily used for large-scale construction and infrastructure projects and can be used for a variety of sectors including transportation, energy, water, and buildings. Some of the key features of the Silver Book that make it suitable for EPC projects include:

- **Comprehensive scope of work:** The Silver Book provides for a comprehensive scope of work, which covers all aspects of the project from design to construction. This allows the contractor to have a clear understanding of their responsibilities and obligations and provides the client with a single point of contact for the entire project.
- **Defined timeline:** The Silver Book includes provisions for a defined timeline for the project, including the design, engineering, procurement, and construction phases. This helps ensure that the project is completed on time and within budget and provides clear expectations for both the contractor and the client.
- **Clear risk allocation:** The Silver Book includes provisions for clear risk allocation between the contractor and the client, including provisions for force majeure, insurance, and liability. This helps ensure that risks are appropriately allocated and provides a framework for resolving disputes that may arise during the project.
- **Quality control:** The Silver Book includes provisions for quality control and testing, which help ensure that the project meets the required specifications and standards. This can include provisions for testing of materials, equipment, and completed works, as well as provisions for remedial works if defects are identified.

Overall, the FIDIC Silver Book is suitable for large-scale, complex EPC projects that require a comprehensive scope of work, a defined timeline, clear risk allocation, and quality control measures. The suitability of the Silver Book will depend on the specific requirements of the project, and other standard forms of contract such as the FIDIC Red Book or Yellow Book may be more appropriate for certain types of projects.

Appendix A

Constitutional & Legal Context of Planning

After the 18th Constitutional Amendment, the provincial planning has transformed with the introduction of a medium-term perspective, increased inflow of resources, and new planning imperatives such as public-private partnerships and RBM.

The formulation of the Annual Development Programme (ADP) and approval of development projects are important exercises carried out by the P&D board at the provincial and special area levels in consultation with the provincial departments and agencies concerned. This exercise is based on the guidelines provided by the federal government in accordance with the national priorities and resource availability. The ADP formulation exercise determines the size and the direction of the public sector programme in the provinces.

The overarching constitutional and legal aspects of economic planning and development practices in Pakistan are described hereunder:

Article 29: Principles of Policy

Article 29 of the Constitution of Islamic Republic of Pakistan, 1973 mandates that it is the responsibility of each organ and authority of the State and each person performing functions on behalf of an organ or authority of the State to act in accordance with those Principles they relate to the functions of the organ or Authority¹⁵⁰

Article 79: Custody, etc., of Federal Consolidated Fund and Public Account

Article 79 of the Constitution of Islamic Republic of Pakistan, 1973 deals with the custody of the Federal Consolidated Fund, the payment or moneys into that Fund, the withdrawal of moneys therefrom, the custody of other moneys received by or on behalf of the Federal Government, their payment into, and withdrawal from, the Public Account of the Federation, and all matters connected with or ancillary to the aforesaid matters.

Article 118: Provincial Consolidated Fund and Public Account

Article 118 of the Constitution of Pakistan provides that:

1. All revenues received by the Provincial Government, all loans raised by that Government, and all money received by it in repayment of any loan, shall form part of a consolidated fund, to be known as the Provincial Consolidated Fund.
2. All other moneys-
 - a. received by or on behalf of the Provincial Government; or
 - b. received by or deposited with the High Court or any other court established under the authority of the Province; shall be credited to the Public Account of the Province.

¹⁵⁰ Principles of Policy as per Chapter 2 of Part-II of the Constitution of Pakistan.

Article 119: Custody, etc., of Provincial Consolidated Fund and Public Account

Article 119 of the Constitution of Pakistan deals with the custody of the Provincial Consolidated Fund, the payment of moneys into that Fund, the withdrawal of moneys therefrom, the custody of other moneys received by or on behalf of the Provincial Government, their payment into, and withdrawal from, the Public Account of the Province, and all matters connected with or ancillary to the matters aforesaid, shall be regulated by Act of the Provincial Assembly or, until provision in that behalf is so made, by rules made by the Governor

Article 122: Procedure relating to Annual Budget Statement

Article 122 of the Constitution of Pakistan states as under:

1. So much of the Annual Budget Statement as relates to expenditure charged upon the Provincial Consolidated Fund may be discussed in, but shall not be submitted to the vote of, the Provincial Assembly.
2. So much of the Annual Budget Statement as relates to other expenditure shall be submitted to the Provincial Assembly in the form of demands for grants, and that Assembly shall have power to assent to, or to refuse to assent to, any demand, or to assent to any demand subject to a reduction of the amount specified therein.
3. No demand for a grant shall be made except on the recommendation of the Provincial Government.

Article 123: Authentication of schedule of authorized expenditure

Article 123 of the Constitution of Pakistan provides that:

1. The Chief Minister shall authenticate by his signature a schedule specifying.
 - a. the grants made or deemed to have been made by the Provincial Assembly under Article 122 and;
 - b. the several sums required to meet the expenditure charged upon the Provincial Consolidated Fund but not exceeding, in the case of any sum, the sum shown in the statement previously laid before the Assembly.
2. The schedule so authenticated shall be laid before the Provincial Assembly but shall not be open to discussion or vote thereon.
3. Subject to the Constitution, no expenditure from the Provincial Consolidated Fund shall be deemed to be duly authorized unless it is specified in the schedule so authenticated and such schedule is laid before the Provincial Assembly as required by clause (2).

Article 126: Power to authorize expenditure when Assembly stands dissolved.

Article 126 of the constitution provides as under:

Notwithstanding anything contained in the foregoing provisions relating to financial matters, at any time when the Provincial Assembly stands dissolved, the Provincial Government may authorize expenditure from the Provincial Consolidated Fund in respect of the estimated expenditure for a period not exceeding four months in any financial year, pending completion of the procedure prescribed in Article 122 for the voting of grants and the authentication of the

schedule of authorized expenditure in accordance with the provisions of Article 123 in relation to the expenditure.

Article 138: Conferring of functions on subordinate authorities

Article 138 of the Constitution of Pakistan provides that on the recommendation of the Provincial Government, the Provincial Assembly may by law confer functions upon officers or authorities subordinate to the Provincial Government.

Article 139: Conduct of business of Provincial Government

Article 139 of the Constitution of Pakistan states that:

1. All executive actions of the Provincial Government shall be expressed to be taken in the name of the Governor.
2. The Provincial Government shall by rules specify the manner in which orders and other instruments made and executed in the name of Governor shall be authenticated, and the validity of any order or instrument so authenticated shall not be questioned in any court on the ground that it was not made or executed by the Governor.
3. The Provincial Government shall also make rules for the allocation and transaction of its business.

Article 156: National Economic Council

Article 156 of the Constitution of Pakistan, 1973 emerges as a beacon of economic governance within the constitutional framework of Pakistan. The NEC, as established by this article, symbolizes a commitment to informed, inclusive, and transparent economic decision-making. By incorporating representatives from provinces and facilitating regular meetings, the NEC addresses the diverse economic landscape of Pakistan. As per the Article 156(1), The President shall constitute a National Economic Council headed by the Prime Minister (Appendix B) Article 156(2) stipulates that the NEC is responsible to '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 Principles of Policy set out in Chapter 2 of Part-II. The NEC has as its members, the provincial chief executives, cabinet ministers concerned with economic and social development and the Deputy Chairman of the Planning Commission. Vision statements, long term perspectives, five-year plans, annual plans, and the Public Sector Development Programs (PSDP) require the approval of the NEC.

Article 153, 154, 155 and 157: Council of Common Interest (CCI)

Consequent upon the passage of the Eighteenth Constitutional Amendment in April 2010, the Concurrent Legislative List was abolished. Important subjects relating to the Federation have been placed in the Federal Legislative List (Part-II) for the consideration of and decision by the Council of Common Interests (CCI). Article 153-155 deals with the constitution, composition, and functions of CCI. In accordance with Article 153(1) read with Article 154(2), the President appoints the Council on the advice of the Prime Minister under Schedule V-B of the Rules of

Business, 197. In accordance with Article 154, the Council is responsible to formulate and regulate policies in relation to the matters enumerated in Part-II of Federal Legislative List (FLL) and exercise supervision and control over related institutions. Article 155 of the Constitution extends the purview of CCI on resolution of a dispute among federation and the federating units or area's governments regarding their rights on water from any natural source and authorizes the Federal or the Provincial Government concerned to make a complaint to CCI. Whereas Article 157 provides that in case of any dispute in the matter related to "electricity", the Federal or Provincial Government can approach the CCI for resolution of the dispute.

The Federal Public Finance Management Act 2019 (effective from July 1, 2019; and amended in 2020)

To ensure compliance with the Article 79 of the Constitution of Pakistan and to give elaborate mechanism of public finance management as envisaged in Articles 78 to 88, and 160 to 171 of the Constitution and to guide budgetary management processes, financial and fiscal controls, cash and banking arrangements, and financial oversight of public entities Federal Government promulgated **The Public Finance Management Act 2019** (amended in 2020). Chapter III of the Act *ibid* titled 'Development Projects and Maintenance and Use of Public Assets' (Sections 13-20) contains the following provisions:

- 1) Classification of development projects (Section 13)
- 2) Preparation of development projects (Section 14)
- 3) Quality assurance (Section 15)
- 4) Technical Approval (Section 16)
- 5) Inclusion of development projects in demands for grants (Section 17)
- 6) Monitoring and evaluation of development projects (Section 18)
- 7) Budgetary provision for maintenance of assets (section 19)
- 8) Utilization of public assets (Section 20)

The Punjab Public Finance Management (PFM) Act 2022 was enacted (effective 2nd December 2022)

To ensure compliance with the Article 119 of the Constitution of Pakistan to regulate financial affairs in the public sector and matters relating to the Provincial Consolidated Fund and Public Account of the Punjab, Government of the Punjab promulgated the Punjab Public Finance Management (PPFM) Act 2022 to regulate and manage financial affairs in the public sector in a comprehensive, efficient, transparent and sustainable manner contributing to long-term socio-economic stability and growth of the Province; to make provisions relating to custody of the Provincial Consolidated Fund, the payment of moneys into that Fund, the withdrawal of moneys therefrom, the custody of other moneys received by or on behalf of the Government, their payment into and withdrawal from the Public Account of the Punjab; and to provide for the matters connected with or ancillary thereto.

Chapter V of the Act *ibid* relates to Public Investment which provides as under:

Medium-term Planning for Public Investments

(1) The Planning and Development Board shall prepare a Growth Strategy for the province of Punjab and submit it to the Government for approval.

The Growth Strategy shall contain the following:

- a) socio-economic targets to be achieved over the next three financial years;
 - b) key features of the strategy to achieve those targets;
 - c) fair allocation of resources to strive for regional equalization and balance in the distribution of resources; and
 - d) sectoral /departmental plans for public investments to be made for this purpose.
- (2) The process and timelines for preparation and approval of the Growth Strategy shall be as prescribed.
- (3) The Planning and Development Board shall notify guidelines to be followed for timely preparation of Growth Strategy including the sectoral plans, and the Planning and Development Board may, from time to time, amend the process.
- (5) The Departments shall prepare and update the medium-term Public Investment Plans in consultation with the Planning and Development Board and ensure that estimates of costs and revenues are prepared for each Public Investment project or program included in such Plans.

Approval and Monitoring of Public Investment Projects and Programs

- (1) All public investment projects and programs included in Annual Development Plan of the Government in a financial year shall:
- a) be part of the respective sectoral or departmental plan approved by the Government along with the Growth Strategy; and
 - b) have undergone the process for appraisal and approval of public investment projects.
- (2) The Planning and Development Board shall prepare and notify a Planning Manual containing the criteria and process for appraisal, approval and monitoring of public investment projects and programs for inclusion in Annual Development Plan.
- (3) The Planning Manual shall include the following:
- a. criteria for deciding whether to execute a project or program in Public Private Partnership or Project Finance modes or as part of the regular Public Investment plan;
 - b. minimum projected financial rate of return at the time of appraisal and approval; and
 - c. mechanisms for monitoring and reporting of the actual financial rate of return over the life of the project or program.

Stock of public investments.

- (1) The Planning and Development Board shall maintain stock of public investments made by the Government in non-financial assets.
- (2) For the purpose of subsection, the Planning and Development Board shall maintain an Asset Register in electronic form.
- (3) The Asset Register shall include the following information in respect of individual non-financial assets during and up to the financial year and the flexibility to aggregate the information for various categories of non-financial assets:
- (a) acquisition of non-financial assets;
 - (b) disposal of non-financial assets;
 - (c) consumption of fixed capital in respect of non-financial assets; and
 - (d) net investment in non-financial assets.

(4) The Planning and Development Board shall issue guidelines for updating the Asset Register on a regular basis, and all Departments including other institutional units of the Government shall follow such guidelines.

Framework for management of public investments

(1) The Planning and Development Board shall approve a Public Investment Management Framework consisting of good practices in three key phases of public investment management consisting of planning, budgetary allocation and implementation.

(2) Good practices mentioned in subsection shall include:

(a) In planning phase:

- i. appropriate measures to evaluate the financial or economic returns of public investments;
- ii. provincial and sectoral planning, such as prioritization, multi-year costing;
- iii. coordination among entities, such as coordination between provincial and local government institutions;
- iv. project appraisal; and
- v. alternative infrastructure financing, such as public private partnerships;

(b) In budgetary allocation phase:

- (i) multi-year budgeting;
- (ii) budget comprehensiveness and unity;
- (iii) adequate budgeting for investment;
- (iv) adequate budgeting for maintenance; and
- (v) project selection; and

(c) In implementation phase:

- (i) procurement;
- (ii) availability of funding;
- (iii) portfolio management;
- (iv) project management; and
- (v) monitoring of public assets.

(3) The Planning and Development Board shall, at least once in every four years, carry out a Public Investment Management Assessment (PIMA) in accordance with international standards.

(4) After the close of each financial year, the Planning and Development Board shall submit an annual report to the Government in respect of public investments in non-financial assets.

(5) The report shall include the following:

- (a) stock of non-financial assets at the end of the financial year;
- (b) trends in net investment in non-financial assets; and
- (c) lessons learned, and good practices introduced in management of public investments.

Planning Commission

The Planning Commission is an apex planning and coordination body functioning under the Chairmanship of the Prime Minister, while the Planning, Development and Special Initiatives (PD&SI) Division is serving as the Secretariat of the Planning Commission.¹⁵¹

Ever since the attainment of independence, the Government of Pakistan has been conscious of the need for rapid economic development of the country. Therefore, considering the role of planning in Economic Development and growth, Government of Pakistan soon after independence established a Development Board in 1948 in the Economic Affairs Division to deal with the economic development of the country. In 1950, a Six-Year Development Plan was formulated and embodied in the “Colombo Plan” for cooperative economic development in South and Southeast Asia. A few years later in 1953, a Development Board was established by the government with the expanded function of preparing the national plan of development. In addition to developing the five-year plans. In line with the objectives stated in the Article 28 and 29 of the Constitution of Pakistan (1956), a permanent Planning Board was established with the Prime Minister of the country as its chairperson. The Planning Board was re-designated as the Planning Commission in 1958. Later on the Planning Commission was restructured and its functions redefined in 1961. Then in 2006, the Government revamped and strengthened the Planning Commission with a view to ensuring that it played an effective role as the apex planning and coordination body of the country. In 2013 Government of Pakistan again revamped and restructured the Planning Commission to enable it to effectively plan for the economic and social development of the country and to act as the apex *Think Tank* for the Government in the context of adjusting to the new realities and challenges including the recognition that without reforms high and sustainable growth is not achievable, the increased role of private sector, civil society, media, information technology, impact of globalization, devolution and NFC award on economic policy, design and formulation. Planning Commission moved to a new paradigm of “Participatory and Collaborative Planning” involving Parliament, Ministries/ Divisions, Provinces, Special Areas, Private Sector, Academia, Civil Society and Diaspora, to play the role of facilitator and stewardship as well as an integrator in the areas of economic policy and reforms in post devolution scenario. As per the 2013 resolution, the Prime Minister of Pakistan is the Chairman of the Planning Commission and Deputy Chairman is functional head of the Planning Commission supported by Members from private sector, academia, civil society, public representatives, public sector and other segments of society.

From the above discussion it is clear that the Planning Commission regulates the policies and processes of development with help from the Provincial Planning and Development Boards/Departments and the line Ministries of the Federal Government. Both the substantive and the procedural dimensions of planning processes in Pakistan under the purview of the Planning Commission do not flow from any Act of the Parliament. The Commission’s functions and the organization emanate from subordinate legislation called Resolutions issued by the President of Pakistan. It is, however, also been made a part of the Rules of Business 1973 that flow from the Constitution. It is a part of the Ministry of Planning, Development & Special Initiatives and is the

¹⁵¹ Entry No 13 under Item 30 of Schedule II of the Federal Government Rules of Business, 1973, as amended from time to time.

topmost national planning institution in the country. However, in 2019 a separate Chapter (Chapter III) under The Public Finance Management Act 2019 (amended in 2020) titled 'Development Projects and Maintenance and Use of Public Assets' (Sections 13-20) has been added which empowers the Planning Commission to deal with matters related to the Development Projects and Public Assets.

Functions of Planning Commission since 2013

Core Development Functions

- Preparing the National Plan, reviewing and evaluating its implementation.
- Formulating Annual Plan and Annual Development Programme.
- 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 and decision making.
- Organizing research and analytical studies for economic decision making.

Vision, Strategic Planning and Capacity-Building Functions

- 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.
- Assisting the government in providing a conducive macroeconomic and regulatory framework, improved resource mobilization, an institutional framework and efficient public investment.
- Promoting and developing the role of the private sector as an engine of growth by co-opting it as a partner in development process through institutionalized effective consultative process.
- Facilitating capacity-building of agencies involved in development.
- Promoting and coordinating reform and innovation in the government in partnership with relevant ministries/divisions and organizations.

Think-Tank including Research and Development Functions

- Promoting and developing social capital for development with stakeholders (MDGs, poverty alleviation, social harmony).
- Promoting and coordinating economic and infrastructure initiatives towards developing regional economic integration.
- Monitoring Pakistan's economic competitiveness and developing strategies for its enhancement with relevant ministries/divisions and organizations.
- Promoting development discourse in the country towards participatory and collaborative planning and development.
- Study trends and evaluate impact of globalization and develop appropriate national responses in coordination with relevant ministries/divisions and organizations.

- Study and evaluate impact of new technologies on development and develop appropriate national responses in coordination with relevant ministries/ divisions and organizations.
- Any other function assigned by the Prime Minister¹⁵².

PUNJAB

Planning & Development Board

The P&DB Department of Punjab was established on the 1st July 1970, which subsequently evolved into the Punjab Planning and Development Board (PP&DB) in 1977.

The P&DB comprises the following:

- i. Chairman of the Board,
- ii. Chief Economist,
- iii. Secretary P&D Department, and
- iv. Members Water, Private Sector Development, Production Sector, Energy, Health and Nutrition, Governance, Information Technology (IT) and External Capital Assistance (ECA), and Environment and Climate Change.

The Board is organizationally divided into functional sections, headed by a senior chief/chief/joint chief economist. The economic sections deal with matters relating to coordination with the federal government on economic issues and development plans, macroeconomics and policy analysis, project economic appraisal, and monitoring and evaluation (M&E). The technical sections are responsible for the technical appraisal of development projects of different sectors, that is, water and power, roads and bridges, urban development, development authorities, regional planning, agriculture, livestock and dairy development, forests and fisheries, industries and manpower health, population welfare and nutrition, education and training, information, culture, tourism, social welfare, housing and physical planning, urban and rural water supply and sewerage. Other sections include governance, IT, and ECA, Environment and Climate Change, and the Projects Training Institute.

Functions

While performing its functions, the P&D Board closely coordinates with the Finance Department regarding the formulation and determination of the ADP and the approval of individual development schemes during the ADP implementation. At all levels, efforts have been accelerated to involve non-governmental organizations (NGOs) and communities in development works. For the social sectors, the involvement of the NGOs in development works through health and education foundations is being promoted. Lately, the private sector has also been involved in project financing and implementation.

The functions assigned to PP&DB include:

- i) Formulation of the provincial government vision, policies and strategies for economic planning and development in consultation with all stakeholders, in the light of the NEC guidelines.
- ii) ADP and MTDF including:
 - Preparation in coordination with all departments of the provincial government

¹⁵² Source: Cabinet Division Resolution No. 4-6/2006-Min-1, Islamabad, dated 30th October 2013

- Monitoring implementation, and
 - Evaluation of development projects and programmes
- iii) Analytical work on economic issues, including conduct research, surveys, reviews, and analyses of the socio-economic data.
- iv) PSDP including preparation of the short- and long-term provincial development plans and coordination with the federal government.
- v) Policy for the approval of development schemes as a catalyst for different departments and sectors to improve the pace and quality of economic development.
- vi) Resource allocation, reappropriation of development funds, appropriations from block allocations and disbursement of supplementary grants.
- vii) Secretariat of the PDWP and clearinghouse for the development projects and programmes requiring approval of the CDWP and ECNEC.
- viii) Foreign assistance, including determination of key areas for such assistance and preparation of the sector-wise portfolios, loan negotiations and securing federal financial guarantees, wherever required, and review of foreign aided projects.
- ix) Coordination of nominations for foreign training, seminars, conferences, and workshops for all officials serving in the provincial government.
- x) Capacity-building of the government departments, agencies, and functionaries for good governance.
- xi) Accelerated development of the rain-fed (barani) and less developed areas.
- xii) Framing guidelines for the procurement of consultancy services, policy formulation concerning private sector development and promotion and public private partnerships (PPPs).
- xiii) Implementation, development, and administration in respect to the foreign assisted/funded and mega ADP projects.
- xiv) Matters relating to attached departments, autonomous bodies, and special institutions of the P&D Department.
- xv) IT including:
- 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 the public sector departments and private sector agencies in the field of IT
 - Service matters of the IT cadres, both at the provincial and district levels
- xvi) 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.

Appendix B: List of Annexures in the Compendium of Annexures

| Annexure No. | Title |
|--------------|---|
| 1 | PIMA Framework |
| 2 | P&DB Functions and Distribution of Work |
| 3 | ADP Formulation Guidelines 2024-25 |
| 4 | Root Cause Problem |
| 5 | Result Based Management (RBM) Framework |
| 6 | Stakeholder Classification and Analysis Tools |
| 7 | Project Scheduling Tools (CPM, PERT, Gantt Charts) |
| 8 | PC-I Proforma |
| 9 | Framework for evaluation of budgeting proposals by JPC |
| 10 | Template for Risk Matrix |
| 11 | PC-II Proforma |
| 12 | PC-III Proforma |
| 13 | PC-IV Proforma |
| 14 | PC-V Proforma |
| 15 | Notification on Clarification Regarding Streamlining The Approval Procedure of Development Projects |
| 16 | Notification on Projects not requiring environmental appraisal |
| 17 | Notification on Incentive Allowance in Projects/ Programs, Policy Units/ Policy Cells/ Companies/ Authorities, Foundations/ Funds, Commissions, Punjab Information Technology Board (PITB) And Administrative Departments Against Non-Cadred Posts. |
| 18 | Notification on Framework for Feasibility Studies, Design Review, Resident Supervision, TPV, and Owner's Engineer |
| 19 | Guidelines for Grant of Incentive Allowance/ Revised Pay Packages for The Project Employees |
| 20 | Guidelines for Approval Mechanism of Programme / Umbrella Scheme Included in ADP 2022-23 |
| 21 | Guidelines for Cost Benefit Analysis of Development Schemes |
| 22 | Implementation of Annual Development Programme ADP 2022-23 |
| 23 | Notification on Standard Format for Recording Minutes of PDWP Meeting |
| 24 | Notification of Standing Committee of Cabinet on Finance & Development (Composition) |
| 25 | Guidelines for Release of Development Funds to the Autonomous Bodies/ Public Sector Companies under Annual Development Programme (ADP) |
| 26 | Notification of Revised Approval of Development Projects |

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| 27 | Notification of Revised Standard Pay Packages for Project Posts |
| 28 | Notification on Streamlining the Approval Procedure of Development Projects – Provision of Cushion for Cost Clearance of Approved Schemes |
| 29 | Guidelines for Formulation of Annual Development Programme, 2023-24 |
| 30 | Notification of Clarification – Incentive Allowance in Projects/Programs, Policy Units/ Policy Cells/Companies/Authorities, Foundations/Funds, Commissions, Punjab Information Technology Board (PITB) And Administrative Departments Against Non-Cadred Posts. |
| 31 | Notification of Extension in the Gestation Period of Development Projects |
| 32 | Notification of Mechanisms for Approval of Development Projects Funded under Other Development Projects Programme (ODP) |
| 33 | M&E Rules of Business |
| 34 | Notification for Provision of Funds to un-funded schemes/clearance of liabilities |
| 35 | Notification of Restriction on Project Revision After Submission of PC-IV Documents to DGM&E, P&D Board |
| 36 | Notification for Amendments in Punjab Government Rules of Business, 1974 |
| 37 | Notification On Composition of Punjab PDWP |
| 38 | Notification On Composition of DDSC Punjab |
| 39 | Notification Of Gender-Mainstreaming Checklist for Project Identification |
| 40 | Notification On Checking Alignment of the ADP/MTDF With PSS 2047 |
| 41 | Notification On Need and Scope of Feasibility Studies |
| 42 | Notification On Engaging Services of Consultants For PC-II Feasibility Studies |
| 43 | Notification On Acquisition of Land by Sponsoring Agency To Avoid Delay In Execution And Cost Overrun. |
| 44 | Checklist For Disaster Risk Reduction Notified by The Planning Commission |
| 45 | Notification On Special Responsibilities of Administrative Secretaries |
| 46 | Notification On Joint Priorities Committee |
| 47 | Notification On Change of Scope of Project |
| 48 | Notifications On Revision of Cost of Projects |
| 49 | Notifications Of Extension in Gestation Period of Approved Development Projects |
| 50 | Notification On Framework for Review of Engineering / System Design |
| 51 | Notification Of Discount Rate Chargeable on Development Loans and Advances by The Federal Government |
| 52 | Notification On Cost Effectiveness Analysis for Social Sector Projects. |
| 53 | Planning Commission ‘Guidelines for Appointment of Independent Project Director in Development Projects’ |
| 54 | SOPs for Online Submission of ADP, PC I – V on SMDP |

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| 55 | Streamlining the procedure for approval of ADP by PDWP |
| 56 | Guidelines for Price Variation Claims |
| 57 | Notification of PDWP Composition 2024 |