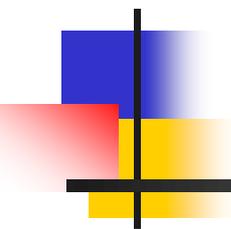
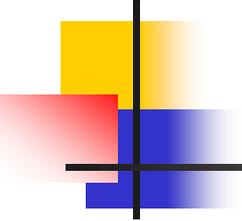


Project Formulation

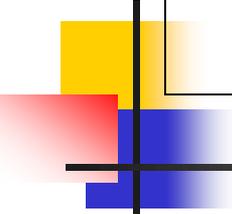


Shri K K Gadeock



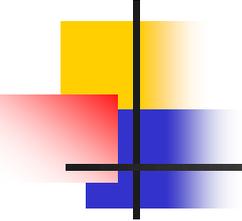
Development

- Physical
- Economic
- Human
 - HDI



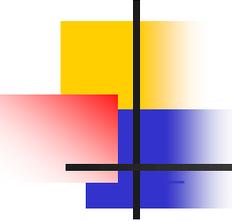
Economic Development

- Need for producing Economic Goods and Services
 - Education, Health, Infrastructure
- What do you need for these
 - Physical Resources
 - ✓ Land
 - ✓ Minerals
 - Human resources
 - ✓ Labour
 - ✓ Managerial
 - Financial Resources
- Financial Resources Need Proposals in Projects Format



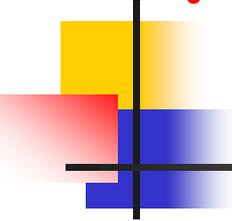
PROJECT Definition

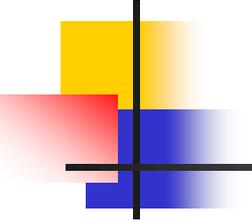
- Project can be defined as
 - A discrete package of investments, inputs and activities designed to remove or alleviate various development constraints in order to achieve one or more outputs/benefits in terms of increasing productivity and improving the quality of life of a group of target beneficiaries over a given time span, I.e. it is “Time Bound”



As an investment activity in which financial resources are expended to create capital assets that produce benefits over an extended period of time.

- Often projects form a clear and distinct portion of a larger, less precisely identified Programme.

- 
- A project is an activity for which money will be spent in expectation of returns and which logically seem to lend itself to planning, financing and implementing as a unit.
 - It is the smallest operational element prepared and implemented as a separate entity in national plan or Programme.
 - It is a specific activity, with a specific starting point and a specific ending point, intended to accomplish specific objectives.
 - A project normally will have a specific geographic location or a rather clearly understood geographic area of concentration.



Plans & Projects:

Virtually every developing country has a systematically elaborated national plan to hasten economic growth and further a range of social activities. Projects provide an important means by which investment and other development expenditures foreseen in plans can be clarified and realized. Sound development plans require good projects, just as good projects require sound planning, the two are interdependent.

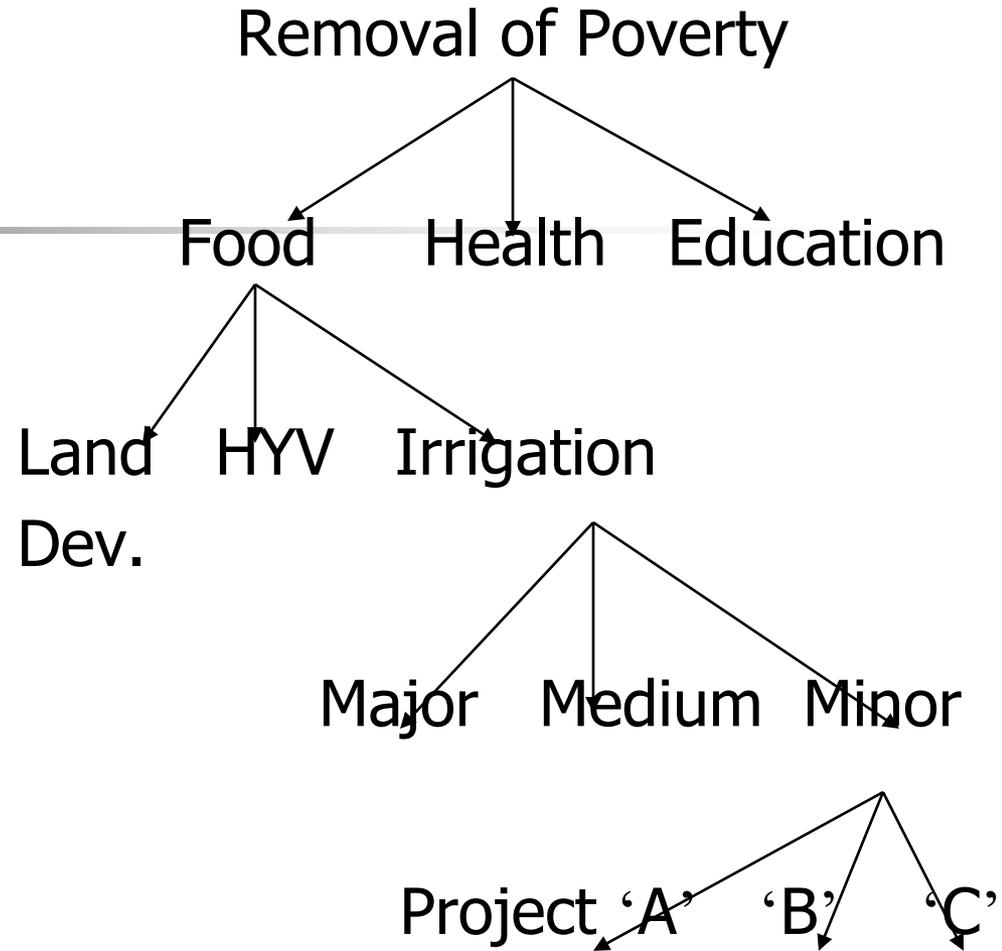
■ Policy Planning

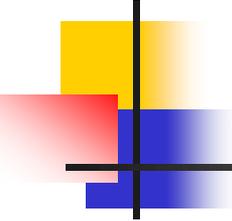
■ Sectoral Planning

■ Programme

■ Scheme

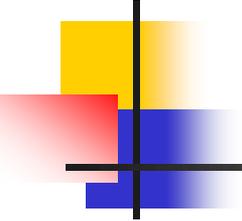
■ Project





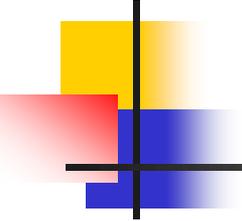
A Project is

- An Endeavour in which Human, Material and Financial Resources are organized in a Novel way to undertake a unique scope of work of given specification within constraints of cost and time, so as to achieve a beneficial change defined by quantitative and qualitative objectives.



Essential elements of a PPP Project

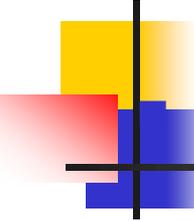
- PPPs are commercial transactions between a public and a private party by which the private party:
 - performs a function traditionally performed by the public sector for an extended period of time;
 - assumes related construction, commercial, and operational risks; and
 - receives a benefit in exchange, either by way of public authority paying from its budget, or user fees, or a combination of these.



Level of risk borne by pvt partner depends on type of contract

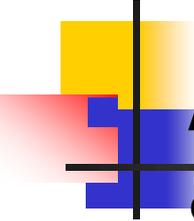
- Management contract - private party shares minimal risks with the public sector
- Lease contract – in addition, private parties take on operating and collection risks
- BOT contract - private partners also take on investment and financing risks

Essential Elements of a Project Include:



Costs

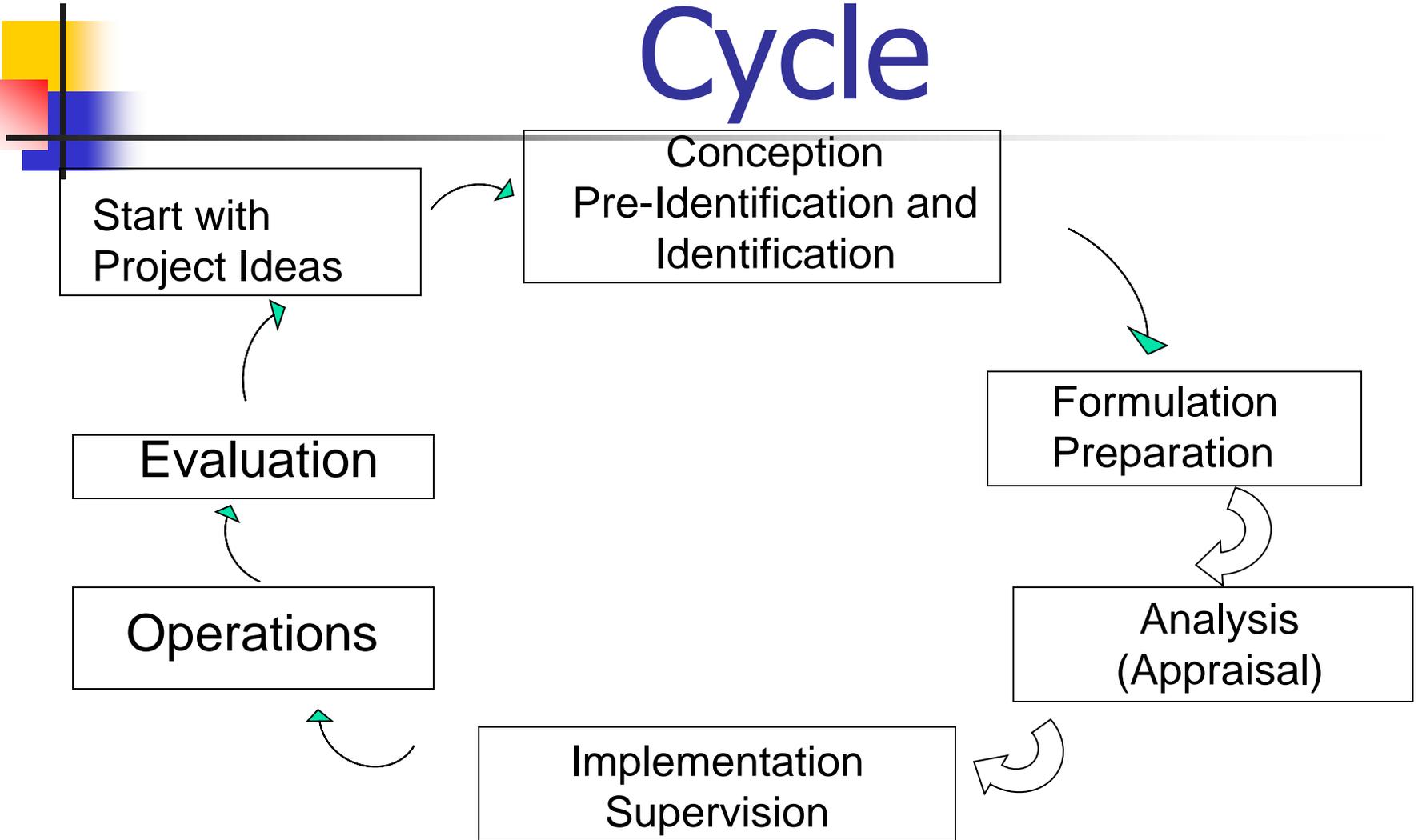
- A Defined investments or the development or purchase of fixed assets. This involves
 - Capital cost
 - Operating costs
- Annual or recurrent expenditures
- Benefits
 - Users pay charges based on consumption or single charge linked with taxes or fees. These payments reflect value of benefits received by users.
- Benefits must outweigh the costs



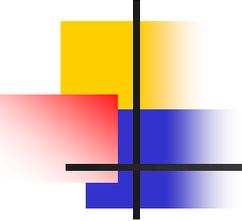
A critical component of project planning and analysis involves the identification of project costs – both capital and recurrent – and their comparison with project benefits.

- This analysis is done for the entire life of the project. Thus initial planning, as a result includes the determination of project life as well as project costs and benefits

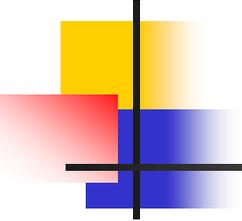
Phases of the Project Cycle



The Stages of Project Planning

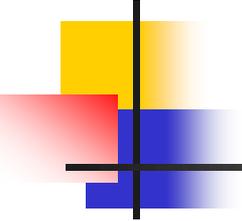


- Pre-Identification
- Identification
- Preparation
- Project Appraisal and Final Approval
- Programming and Budgeting
- Implementation
- Monitoring and Evaluation



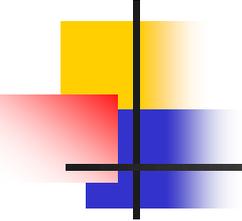
Pre-Identification

- Identifying Goals of Development
 - National and State Plans
 - Organization's Mission
- Gathering Information from Secondary Sources like Surveys, Govt. Publications etc.
 - Geological
 - Demographic
 - Socio Economic
- Generating Alternatives



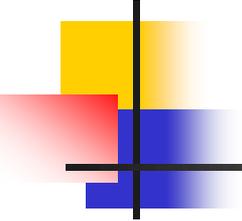
Identification

- Reaching Decisions on Alternatives
- Defining Objectives
- Preliminary Data Gathering
- Surveys, etc.



Formulation

- Detailed Surveys
 - Engineering
 - Demographic
 - Markets
 - Households
- Feasibility Studies
- Financing Options

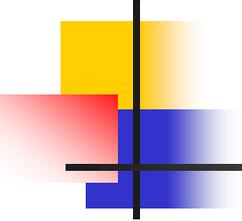


Formulation

- Decision on options
 - Bounded rationality
 - Intuition

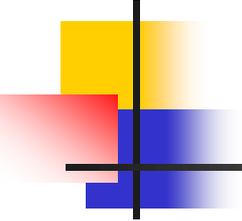
Decision Making Exercise

- Preparing Project Documents



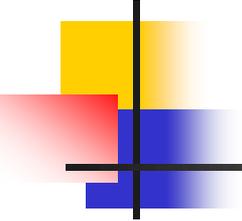
Project Feasibility

- Financial
- Economic
- Technical
- Social
- Institutional



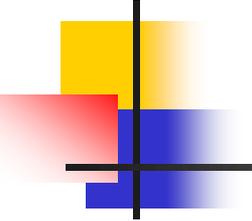
Financial Feasibility

- Financial Returns on the Money spent
 - Time Value for Money
 - Internal Rate of Return



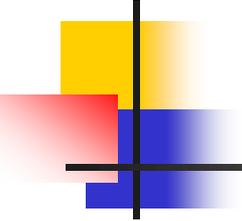
Economic Feasibility

- Analysis of cost and benefit to the society
- Economic Rate of Return



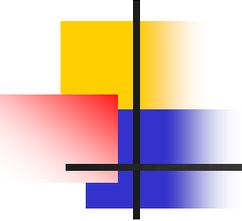
Institutional Feasibility

- Organizational Structures
- Networking Institutions
- Stakeholders
 - Local Institutions
 - Others



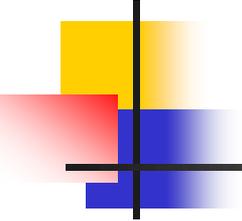
Social Feasibility

- Assessing Culture and Social Systems
- Acceptability in the prevailing social-cultural Environment



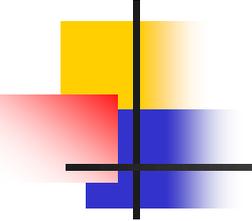
Technical Feasibility

- Technologies available
- Evaluating alternate technologies e.g.
 - Piped water supply vs Hand Pumps



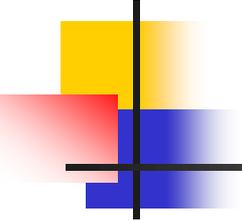
Appraisal

- Evaluating Feasibilities
- Making Changes in Project (May even include redefining objectives)
- Negotiations
- Agreement



Implementation

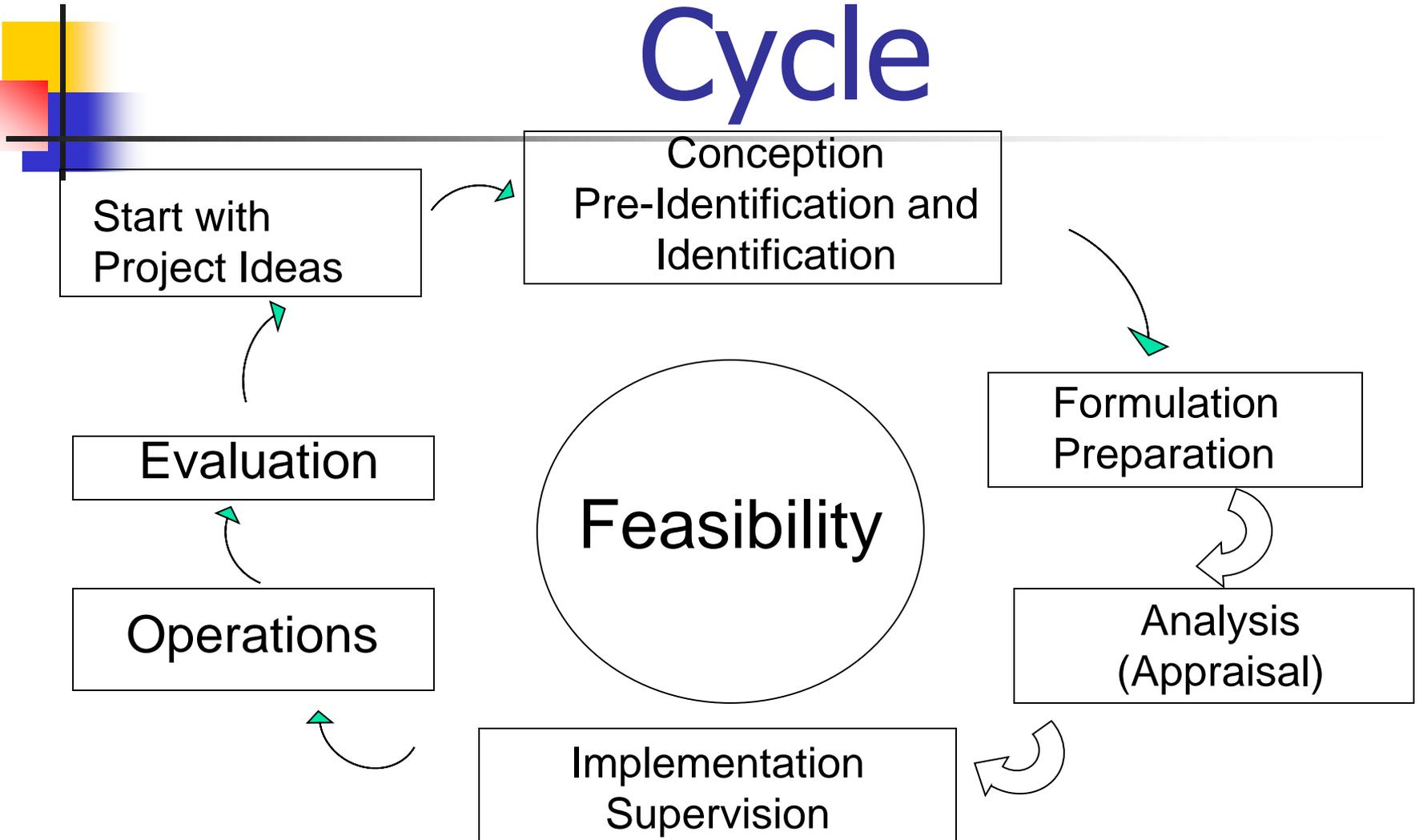
- Institutional Arrangements
 - Project Implementation
 - Operations and Maintenance
- Programme for Phased Implementation
- Monitoring Progress



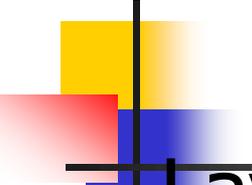
Evaluation

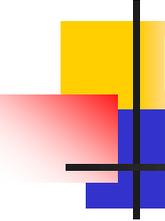
- Cost Overruns
- Time Overruns
- Other Aspects

Phases of the Project Cycle

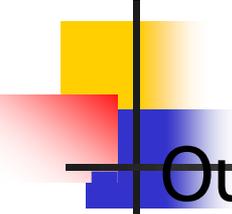


Advantages of the Project Format

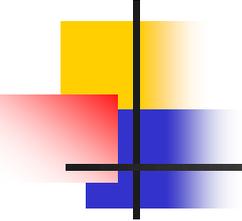
- 
- Lays down specific objectives
 - Facilitates gathering of information and laying it out
 - Allows easy collection of information
 - Allows easy appraisal of information
 - Gives an idea of Costs year by year
 - Allows financiers to do their planning
 - Allows review by wide range of specialists

- 
- Indicates the impact of investment on individual participants
 - Farmers, small firms, government enterprises or the society as a whole
 - This allows assessment of their stakes
 - Enables appropriate decisions about administrative and organizational problems
 - Helps to minimize inherent management difficulties.
 - Gives a better criteria to judge implementation process and the schedules
 - Encourages conscious and systematic examination of alternatives.

Limitations of the Project Format

- 
- Outcome is dependent on quality of data used and quality of forecasts made for future costs & benefits. (GIGO principle)
 - Rapidly changing environment may lead to obsolescence – technological or otherwise
 - Perfect quantification of risks is impossible – The analysis of risk and uncertainty come down to subjective judgment.
 - From economist's point of view project analysis is partial analysis.
 - Large projects have their own impact on price levels etc requiring much more elaborate analysis

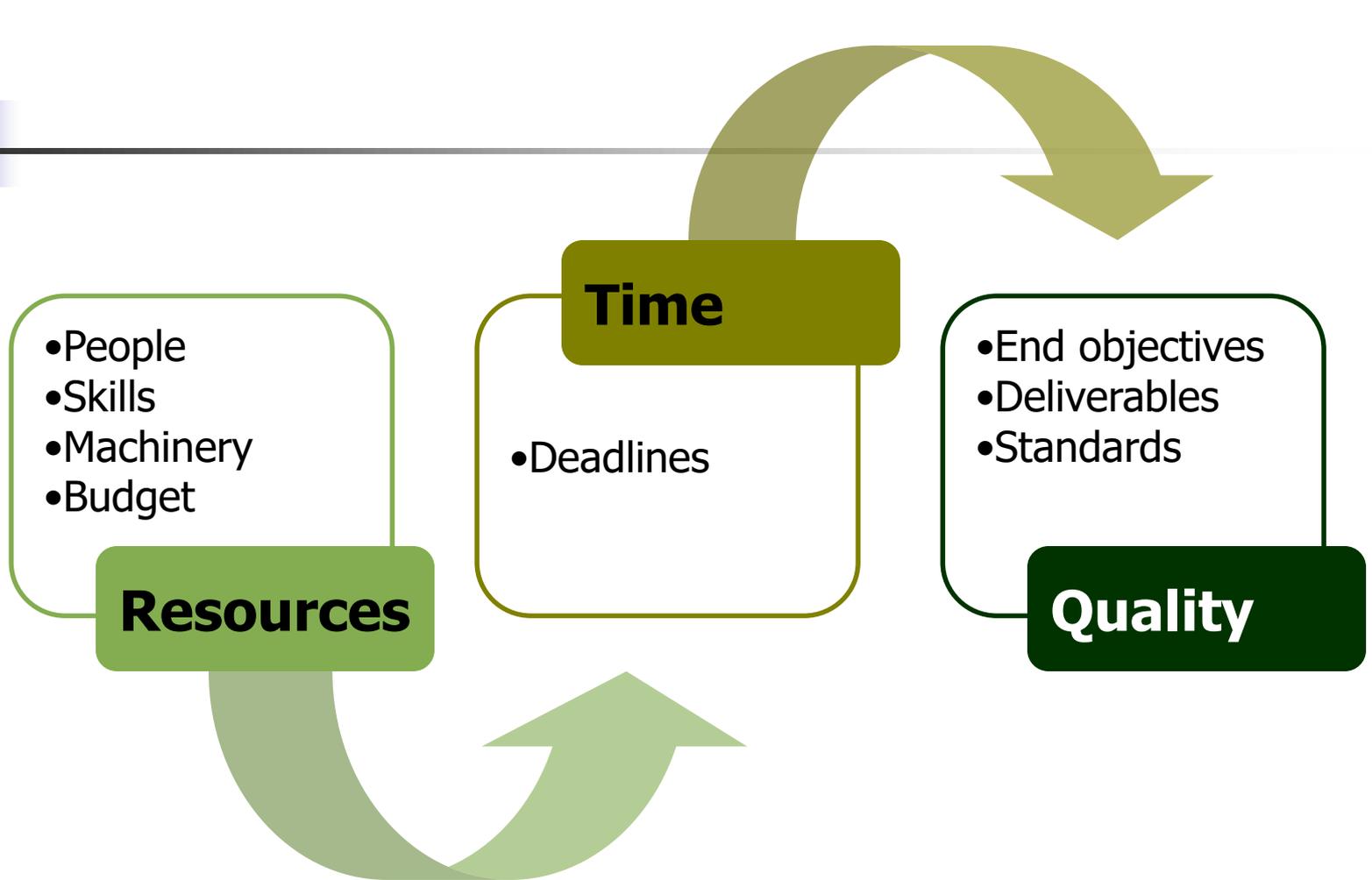
- 
- Formal analytical studies are difficult to apply while comparing different nature of projects e.g. comparing light manufacturing projects with education projects or rural water supply projects.
 - Here allocations are more subjective
 - Project analysis more useful when applied to unique investment activities only; on going services like police, fire, education etc are better treated in Programme form.
 - Project format more suited to clear investment return cycle, clear geographical area or defined clientele group.
 - Available Mechanism to assess the externalities are not adequate.
 - Project formats can not appropriately & accurately weigh various political considerations



Conclusion

Project format allows us to make sound investment decisions but the national investment decisions require broader social and economic perspective and essentially are a political act summing up the best judgment of those responsible. The function of project analysis is to provide one more very effective tool by which judgment can be sharpened and likelihood of error narrowed.

Project Management

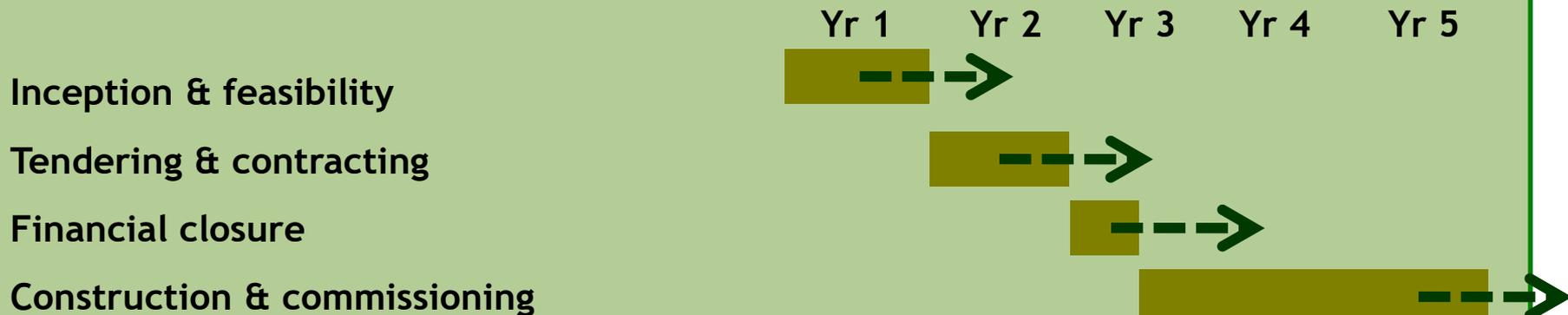


Project Management: Prone to Uncertainties & Risks

Illustrative examples...

- Change in macro economic or global market conditions
- Natural disasters
- Public protests, industrial disputes
- Delays in land acquisition and in obtaining key clearances/decisions/legislative changes
- Budget availability –for transaction advisors, land acquisition, shifting of utilities, etc.
- Departmental, inter-departmental, centre-state administrative & financial approvals
- Elections, transfer of key officials

Likely impact on (delays in) implementation...



Project Management: A Tough Balancing Act

Project manager should aim high!



- Structure projects that deliver
 - Better quality services for consumers
 - Value for money for government
 - Bankable and attractive for the private sector
- Ensure effective interaction with key stakeholders e.g. users, project affected persons, media, NGOs, political executives, etc.
- Expeditious fulfillment of public sector obligations e.g. land acquisition clearances, legislative changes, fair and transparent bidding, etc.
- Marshall adequate financial and human resources
- Effective liaison with key partners, i.e. transaction advisors, private developer
- Monitoring of performance outcomes with appropriate course corrections, where necessary and evaluation

Problems in project implementation

Common Problems

Overview

1. Loan Effectiveness
2. Establishment and Staffing of Project Office
3. Recruitment and Supervision of Consultants
4. Procurement of Goods and Works
5. Construction Management
6. Withdrawal of Loan Funds

implementation

1. Loan Effectiveness

- Delay in preparation of legal opinions necessary to make the loan effective.
- Delay in obtaining approval from the ratifying agency
- Delay in complying with special conditions for loan effectiveness such as organization of a project office, appointment of a Project Manager, and acquisition of land or rights-of-way.

problems in project implementation

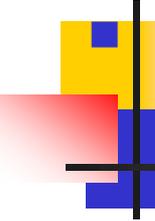
2. Establishment of Project Office

- Delay in obtaining approval of an organizational structure
- Lack of qualified technical personnel
- Difficulty in recruiting qualified personnel due to poor pay or absence of proper incentives.
- Political interference in the appointment of project staff.
- Weak or inappropriate organizational structure
- Staff appointed for project implementation not being involved in the preparation or appraisal of the project.

Implementation

3. Recruitment and Supervision of Consultants

- Difficulty in establishing qualifications and terms of reference
- Inadequate response from consultants due to unfavorable local work conditions.
- Difficulty in assessing actual capabilities of consultants through curriculum vitae or proposals.



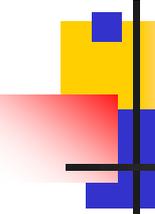
Cumbersome, stringent, or restrictive government procedures and requirements for recruiting foreign consultants.

- High cost of foreign consultants compared with local consultants.
- Settlement problems on the part of the consultant.
- Inability of the government to provide adequate logistical support to the consultants.
- Disagreements between the executing agency and the consultant.

Problems in project implementation

4. Procuring of Goods and Works

- Lack of suitable expertise for procurement in the executing agency.
- Complex and cumbersome procurement procedures
- Problems in understanding or adhering to the bank's requirements/ guidelines



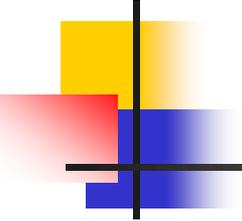
■ Difficulties or delays in obtaining approvals from higher authorities.

- Rigid government procurement regulations/ rules
- Lack of counterpart funds for local procurement or delay in release of such funds
- Failure of supplier to comply with the provisions of contract.
- Cost overruns.

Problems in project implementation

5. Construction Management

- Delay in providing engineering designs.
- Changes in work specifications/control conditions
- Poor quality of contractor's work
- Financial problems on the part of contractor.

- 
-
- Right-of-way problems
 - Security problems at project site
 - Technical problems
 - Poor working conditions at project site
 - Labor problems
 - Delay in reimbursing contractor's expenditures.

Problems in project implementation

6. Withdrawal of Loan Funds

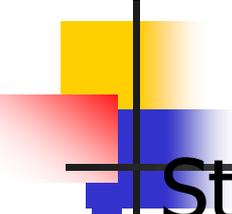
- Cumbersome government procedures for submission of withdrawal applications.
- Lack of familiarity with disbursement practices and procedures

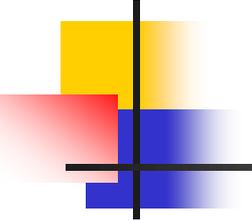
Problems in project implementation

Implementation

Upfront

- Ensure good project quality at entry (the project is well-formulated, in line with strategic development needs and priorities of the borrowing country concerned, easy to implement, demand-driven, beneficiary participation, project ownership, etc.)

- 
- Strengthening institutional capacity (training, familiarization, etc.)
 - Project readiness
 - Advance action (recruitment, appointment of consultants, advance procurement, etc.)
 - Full understanding of Project Administration Memorandum
 - Fulfilling conditions for loan effectiveness



Project Readiness

The following should be in place:

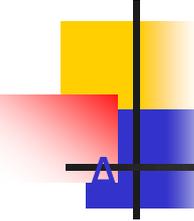
- Establishing, staffing, and commencing operation of PMU
- Procurement and financial management systems, including audit arrangements
- Establishment of monitoring and evaluation indicators, including baseline data



■ Preparation of request for proposals for consulting services and bidding documents (for goods and services) for first year of implementation

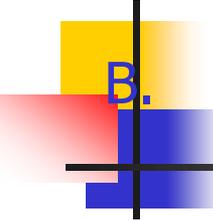
- Funding for the first year of implementation is allocated in the budget or put in place firm arrangements for financing
- Satisfactory arrangements for financing the first year of civil works
- Acquire the land and rights of way, free of encumbrance, required for the first year of civil works or satisfactory arrangement for land acquisition, resettlement or rights of way has been made

Indicators of Project Sustainability



Continued Delivery of Services and Production of Benefits

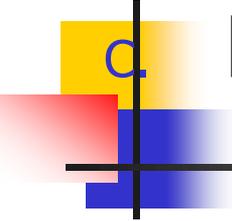
- A-1 Comparison of actual and intended benefits and services and their stability over time
- A-2 Efficiency of service delivery
- A-3 Quality of services (benefits)
- A-4 Satisfaction of beneficiaries
- A-5 Distribution of benefits among different economic and social groups



B. Maintenance Infrastructure

of Physical

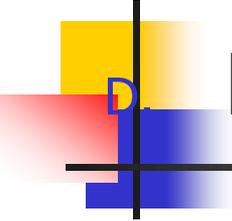
- B-1 Condition of physical infrastructure
- B-2 Condition of plant and equipment
- B-3 Adequacy of maintenance procedures
- B-4 Efficiency of cost-recovery and adequacy of operating budget
- A-5 Beneficiary involvement in maintenance procedures



c.

Long-Term Institutional Capacity

- C-1 Capacity and mandate of the principal operating agencies
- C-2 Stability of staff and budget of operational agency
- C-3 Adequacy of interagency coordination
- C-4 Adequacy coordination with community organizations and beneficiaries
- C-5 Flexibility and capacity to adapt project design and operation to changing circumstances



Political Support

- D-1 Strength and stability of support from international agencies.
- D-2 Strength and stability of support from the national government
- D-3 Strength and stability of support from provincial and local government agencies
- D-4 Strength and stability of support at the community level
- D-5 Extent to which the project has been able to build a broad base of support and to avoid becoming politically controversial