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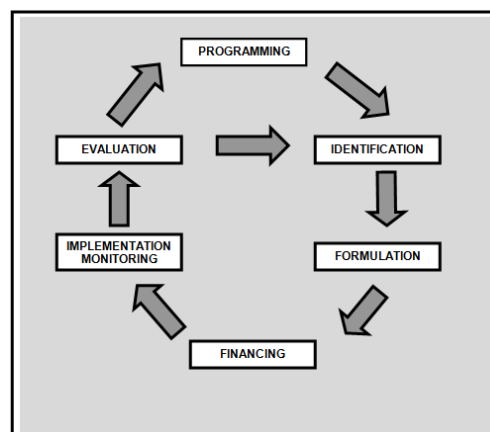


MUNICIPAL DEVELOPMENT FUND OF GEORGIA



Strengthening the Institutional Capacity of Georgian Local Self-Governments on Project Cycle Management

(Component 2 of the Second Regional and Municipal Infrastructure Development Project)



PCM RULES AND PROCEDURES

Concept for the Development of a Bylaw



Eptisa Servicios de Ingenieria S.L. (Spain)

LIST OF ABBREVIATIONS

CEGSTAR	Center for Effective Governance System and Territorial Arrangement Reform
CPA	Critical Path Analysis
GoG	Government of Georgia
EC	European Commission
FIR	Final Implementation Report
IR	Inception report
LFA	Logical Framework Analysis/Approach
LFM	Logical Framework Matrix
Logframe	Logical Framework
LSG	Local Self-Government
MDF	Municipal Development Fund
M & E	Monitoring and Evaluation
MRDI	Ministry of Regional Development and Infrastructure
OTJ	On the Job
OVI	Objectively Verifiable Indicators
Q&A	Questions & Answers
PCM	Project Cycle Management
PCN	Project Concept Note
PIP	Project Implementation Plan
PM	Project Management
PMBok	Project Management Institute's Body of Knowledge
PPD	Project Proposal Document
PPP	Public Private Partnership
SAR	Subproject Assessment Report
SDC	Swiss Agency for Development and Cooperation
SRMIDP	Second Regional and Municipal Infrastructure Development Project
SSR	Subproject Summary Report
SWOT	Strengths Weaknesses Opportunities Threats
ToR	Terms of Reference
ToT	Training of Trainers
WB	World Bank
WBS	Work Breakdown Structure

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Executive Summary

Component 2 of the Second Regional and Municipal Infrastructure Development Project (SRMIDP) focuses on strengthening the institutional capacity of Georgian Local Self Governments (LSGs) with the aim of contributing to the establishment of an effective local self-government system.

In this context, the specific objective of the Project Cycle Management (PCM) project is to establish basic project cycle management (PCM) systems and procedures in the LSGs along with qualified staff that can operate the PCM systems.

Among the activities that will be carried out to achieve this goal is the training of the LSG staff in PCM techniques, as well as on-the-job training.

Other activities involve the development and deployment of specific tools that will support the LSGs in the applying the skills learned during the training and which constitute components of the **PCM System*** that will be established in the LSGs over the course of the project.

Among these tools is the **PCM Rules and Procedures**, the aim of which will be to serve as a reference guide (along with the **PCM Guidebook**) on Project Cycle Management for the LSG staff, both during the trainings and during the on-the-job training phase of the project.

*The **PCM System** will consist in 1) PCM Guidebook; 2) PCM Website; 3) PCM Software; 4) PCM Rules and Procedures; 5) PCM Self-Learning Tool;

Purpose of the PROJECT CYCLE MANAGEMENT (PCM) RULES AND PROCEDURES

- ✓ **A Step-by-step Guideline**, including a **checklist**, of Project Cycle Management (PCM) Rules and Procedures for the development and implementation of projects that will assist Municipalities in preparing and implementing Capital Investment Projects;
- ✓ These procedures may be used as a **basis for drafting by-laws**;

In order to strengthen the **sustainability of the PCM system in the Municipalities** the project will undertake the drafting of **Rules and Procedures for the Development and Implementation of Capital Investment projects** at the level of the Municipalities. The aim is to assist the Municipalities in dealing with the issues that may arise in the implementation of projects.

The PCM Rules and Procedures may also serve as a basis for future decrees or bylaws in case a decision is taken at the level of central or local government to institutionalize the use of PCM in the LSGs.

This will take the form of a step-by-step Guideline including a check-list of PCM rules and procedures that will assist the LSG s in preparing and implementing capital investment projects as well as in dealing with the problems that may be faced when preparing and implementing these projects.

It will follow the phases of the Project Cycle and can therefore serve as a tool for the staff in the Municipalities when implementing the various phases linked to the identification, appraisal, contracting, financing, implementation and monitoring of capital investment projects

The PCM Rules and Procedures are a part of the deliverables of the project aimed at strengthening the sustainability of its activities. **They will form an intrinsic part of the PCM system and may serve as a basis for the drafting of local decrees or bylaws aiming at institutionalizing the use of PCM in the LSG s should this be considered necessary by the relevant institutions at local or central level at the end or following the end of the project³.**

³ See PCM Project Inception Report pages 10-11 and 62-64, as well as Activity 5.1 of the PCM Project Work Plan

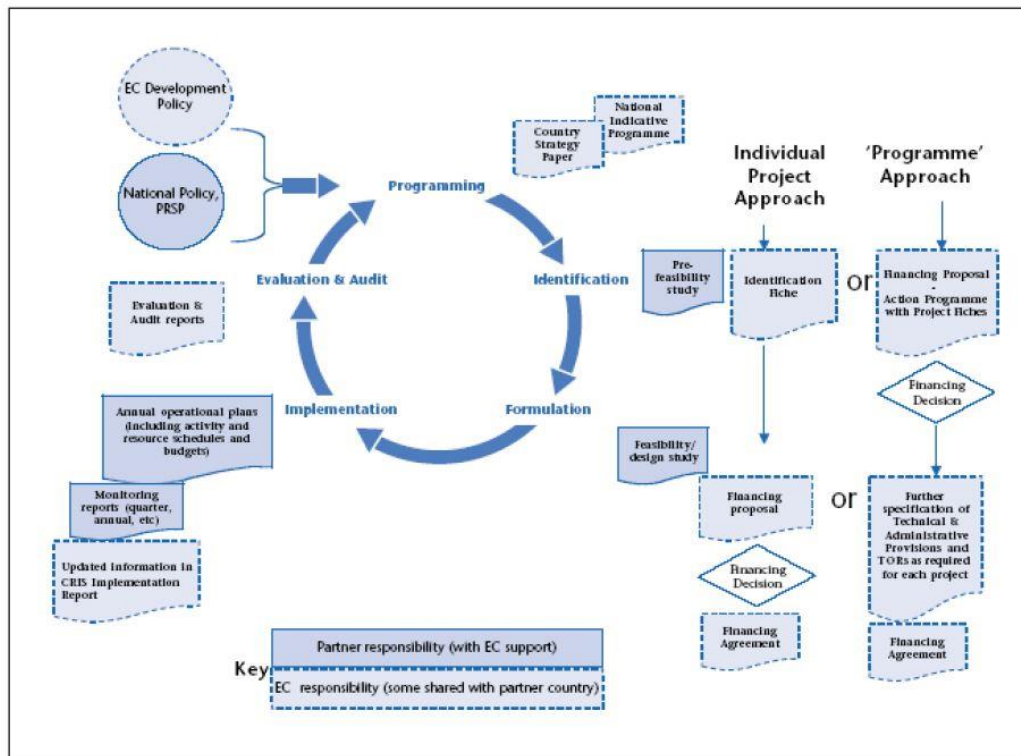
The Capital Investment Project Cycle

Phase	Input	Process	Output	Explanation
SITUATIONAL ANALYSIS	<ul style="list-style-type: none"> ➤ Strategic plans (National / Regional / Local) ➤ Policy papers ➤ Reports and consultancy papers 	<ul style="list-style-type: none"> ✓ Strategy based analysis; ✓ Beneficiaries & stakeholders; ✓ Stakeholder analysis; 	<ul style="list-style-type: none"> <input type="checkbox"/> Sectoral strategies and plans; <input type="checkbox"/> Long term objectives & Visioning <input type="checkbox"/> Criteria for project appraisal based on the relevant strategies (national, regional, municipal). 	Chapter 1: Situational Analysis <i>PCM Guidebook</i>
IDENTIFICATION	<ul style="list-style-type: none"> ➤ Linkages to existing Policy paper: Strategies and Development Plans (National, Regional, Municipal, Sectoral) 	<ul style="list-style-type: none"> ✓ Problems to be addressed; ✓ Project Ownership; 	<ul style="list-style-type: none"> <input type="checkbox"/> Project Identification Sheet; (Project Portfolio Fact sheet); <input type="checkbox"/> ToR <input type="checkbox"/> Investment Plan 	Chapter 2: Project Identification <i>PCM Guidebook</i>
FORMULATION & ASSESSMENT (& APPROVAL)	<ul style="list-style-type: none"> ➤ Terms of Reference (ToR) ➤ Filtration/Evaluation against specific set of criteria; ➤ (Project Financing/Funding proposal) 	<ul style="list-style-type: none"> ✓ Overall objective ✓ Project purpose ✓ Results ✓ Activities ✓ Setting of criteria/indicators ✓ Assumptions; ✓ Risk Identification; ✓ Financing Proposal Decisions; ✓ Decision to fund; ✓ Procurement for Detailed Design ✓ Goods procurement ✓ Services Procurement 	<ul style="list-style-type: none"> <input type="checkbox"/> Pre-Feasibility Study; <input type="checkbox"/> Assessment Score; <input type="checkbox"/> Environmental Impact Assessment <input type="checkbox"/> Feasibility Study; <input type="checkbox"/> Draft Financing/funding proposal; <input type="checkbox"/> Logical Framework; <input type="checkbox"/> Detail Design; <input type="checkbox"/> Financing Agreement; <input type="checkbox"/> Tender Documentation; 	Chapter 3: Project Formulation, Appraisal & Approval Phase <i>PCM Guidebook</i>
IMPLEMENTATION & MONITORING	<ul style="list-style-type: none"> ➤ Tender Documentation; ➤ ToR LSG contractors; ➤ Contracts with constructors/contractors; ➤ ToR Construction 	<ul style="list-style-type: none"> ✓ Physical and non-physical means of constructing; ✓ Special conditions taken by other institutions/government; ✓ Progress Monitoring according to pre-set criteria/indicators; ✓ Mid-term evaluation; 	<ul style="list-style-type: none"> <input type="checkbox"/> Progress and Monitoring Reports; <input type="checkbox"/> Implementation and organization procedures and processes; <input type="checkbox"/> Cost and financing plan; 	Chapter 4: PROJECT IMPLEMENTATION Including MONITORING & REPORTING PHASE <i>PCM Guidebook</i>
EVALUATION	<ul style="list-style-type: none"> ➤ Various Project documentation, ToR, reports, monitoring reports, progress reports, budget etc. 	<ul style="list-style-type: none"> ✓ Decision on using results in future identification and project planning; 	<ul style="list-style-type: none"> <input type="checkbox"/> Evaluation Report 	Chapter 5: Project Evaluation Phase <i>PCM Guidebook</i>

The Project Cycle, Main Documents and Responsibilities

External co-operation and partnership programmes often involve complex processes that require the active support of many parties. Project Cycle Management (PCM) is intended to ensure that the stakeholders support the decisions made within projects, and that decisions are based on relevant and sufficient information.

A range of documents and decisions follow from each phase, as represented by the following diagram.



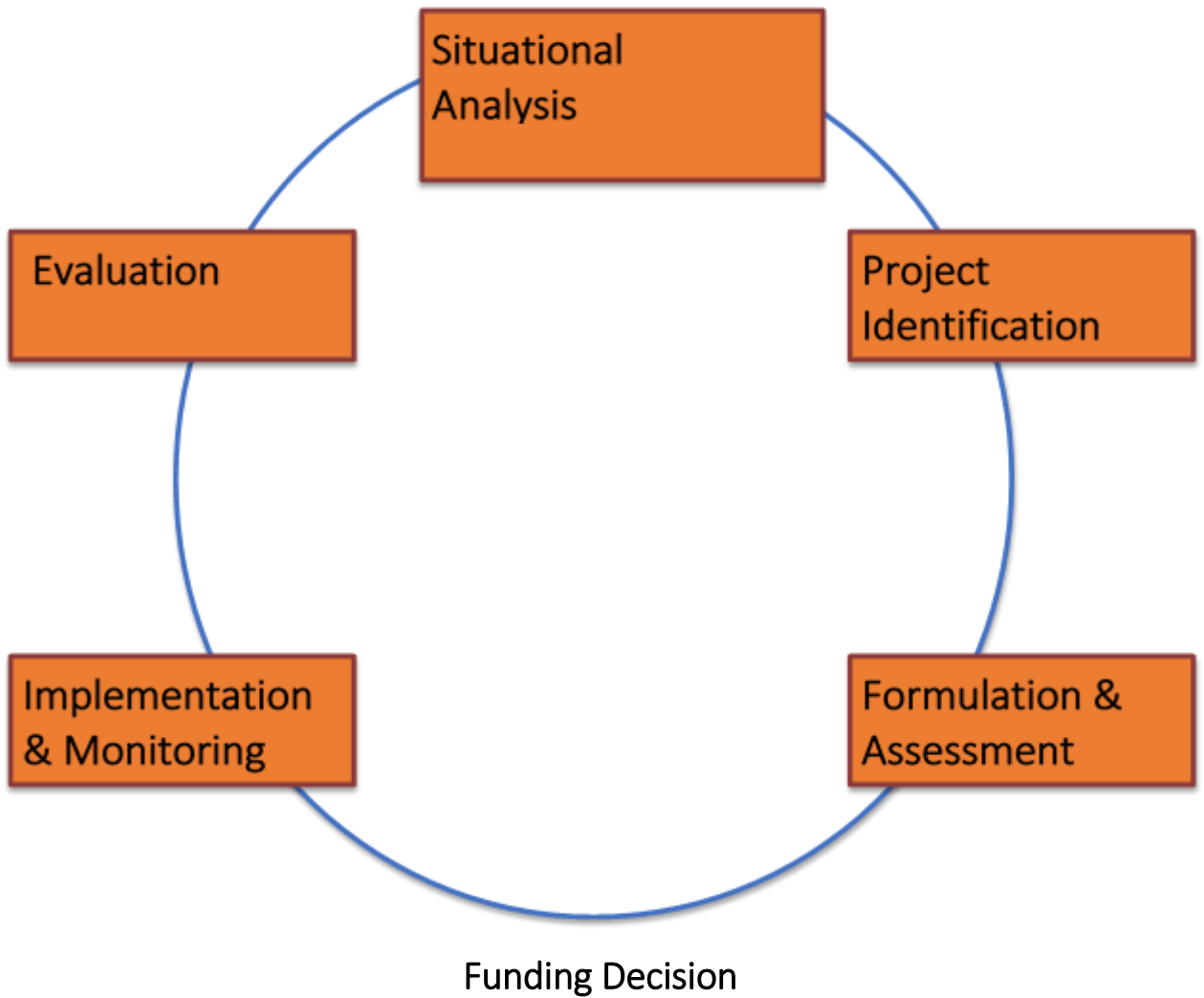
Source: Project Cycle Management Guidelines, Volume 1, European Commission - EuropeAid Cooperation Office, 2004, p. 19

To ensure the overall integrity of projects supported within its development aid programmes, the EU PCM model emphasizes the following:

- Use of the **Logical Framework Approach** to analyse problems and work out suitable solutions through project design and successful implementation.
- **Producing good-quality key document(s)** in each phase, to ensure structured and well-informed decision-making (often called the “*integrated approach*”).
- Consultation with and the involvement of **key stakeholders** as much as possible.
- Clear formulation and focus on one Project Purpose, in terms of **sustainable benefits** for the intended target group(s).
- Incorporation of **key quality issues** into the project design from the beginning.

To further ensure integration of all aspects of the cycle, there is a basic “format” applied for all documents produced during the project cycle. It follows the core logic of the Logical Framework Approach.

Project Cycle



1. The SITUATIONAL ANALYSIS PHASE

This phase sets the context within which projects are identified, developed and implemented. This can be based on national or local strategies, sector specific plans, regional or local development plans. It consists in an analysis of the situation at national, local or sector level to identify problems and opportunities. This phase includes **a definition of the change that needs to take place in order to reach long term strategic goals and objectives.**

Input to the Situational Analysis Phase: The input to this phase can consist in National policies and strategies, regional and municipal policies, strategies and development plans, sector assessment studies, sector plans and strategies, policy and strategy evaluation papers, case studies and economic, financial, social, institutional and environmental analyses.

There are a certain number of tools that can be used during the pre-identification stage of a project and that can help situate the project in the relevant context.

Strategic Tools	Description of Tools
Strategic Plan Format	Check list to guide Strategic Planning.
Environmental Scanning	A matrix for strategically listing sources and scoring of information related to the context of a project by institutional level and type of document
SWOT Analysis	A four-pane window table that summarizes a project concept's external opportunities and threats and internal strengths and weaknesses

List of Tools for Situational Analysis

2. The IDENTIFICATION PHASE

To identify what a project will focus on we need to find out **who should benefit and what their needs are.** A '**needs assessment**' will give an overview of problems of the target group and needs resulting from this. A '**capacity assessment**' will help map out existing capacities to address the problems identified. The overall **size and scope** of the project implementation also needs to be clearly defined.

This phase therefore includes tools such as **Stakeholder Needs Analysis** (who the stakeholders of the future project are, their needs and expectations), **Problem Analysis** (what the problems are that the project should address) and **Objective Analysis** (what the objectives of the project will consist in based on the problem analysis). A preliminary **Project Concept Note (Project Fiche or Project Proposal Document)** should result from this process.

Input to the Identification Phase: Input to this phase include national and local policy or strategy, result from sector study, framework established during situational analysis/programming phase, results of consultations with potential project stakeholders.

Here are some methods for defining the **scope** of the problems identified:

1. Determine the situation which is involved (e.g. geographical, demographical, sectoral etc.);

2. Determine the nature of the problems that the analysis will focus on (all problems, limited by sector, target group, etc.);
3. Decide for which stakeholder(s) these problems apply;
4. Draft a one sentence statement describing the situation;
5. Check whether this definition will be acceptable to the stakeholders undertaking the problem identification;
6. Check whether this definition is acceptable to the sponsors/donors of the project (if applicable);

During the **Project Identification Phase** several tools can be used, as follows:

Tools	Description
Problem Analysis	An analytical technique for mapping out problems or issues in a hierarchical order using cause and effect logic.
Objective Analysis	An analytical method for defining the desired Outputs/Results, Purpose and Objectives of a project and the cause-effect relationships between them.
Stakeholder Needs Analysis	Is used to identify and evaluate the importance of individuals, groups, organisations that have or that may have an influence over the success of the project, its activities and results. It is a tool used to forecast the type of influence these people may have on the project.
Strategy Analysis	A matrix which lists key stakeholder groups, identifies their interest related to the project as either beneficiaries or losers, and identifies strategies for gaining stakeholder support.
Cost Effectiveness Analysis	A comparison matrix which lists project alternatives and allows for their ranking based upon estimates of cost, effectiveness and the probability of success.
Logical Framework Matrix	A Summary 4 by 4 matrix which summarizes the key interlocking elements of a project i.e. Overall Objective, Project Outcome, Project Results and Project Activities.
Cost Estimation	A narrative table for listing resources/inputs required to carry out project Activities along with their initial cost estimates.
Project Concept Note (Project Fiche)	This is the output of the Identification Phase. It consists in a clear outline of the project including scope, benefits, estimated costs.

List of Project Identification Tools

3. PROJECT FORMULATION, APPRAISAL & APPROVAL PHASE

The aim of this phase is to assert the **feasibility of the project ideas** outlined during the project identification phase. This may involve further research into the people affected by the problems that the project aims to address and how these problems affect them. This phase includes **filtration and appraisal (evaluation of the project idea against a specific set of criteria)** as well as undertaking a **pre-feasibility study and/or a feasibility study**.

It equally involves the identification of possible **risks to the project from external factors** and how to address them. Based on this a **detailed project design** should be prepared (**Terms of Reference**) including management arrangements, the ways project performance will be measured (through monitoring), expected impact of the project (through evaluation), financing plan, cost-benefit analysis and funding proposal.

This phase also includes the so-called “**Logical Framework Matrix**” outlining the overall **objective of the project, the project purpose/outcome, the project results/outputs and proposed project activities**. To this is added the definition of **criteria/indicators** that will serve as a **basis to monitor the project** during its implementation and the **sources of information/verification for these criteria**.

Tools	Description
Pre-Feasibility Study	This is part of an appraisal process aimed at providing an analysis of the general situation around a proposed project to assess if it's worth pursuing.
Feasibility Study	If the result of the pre-feasibility process is satisfactory the feasibility study will look at the project's overall viability, i.e. if it is feasible and worth investing resources in.
Environmental and Social Impact Assessments	An assessment of the estimated environmental and social effects of the project.
Appraisal Criteria*	Criteria for appraising projects. Should be based on strategy used as basis under Situational Analysis phase.
Appraisal/Ranking Template	Template to be completed when appraising a possible project by applying the appraisal criteria.
Project Appraisal Report	Result of the technical and financial appraisals undertaken to review the technical and financial requirements of the project to determine if the project will be eligible for funding.
Draft Financing Proposal	A proposal for the funding of the project.
Logical Framework Matrix	A Summary 4 by 4 matrix which summarizes the key interlocking elements of a project i.e. Overall Objective, Project Outcome/Purpose, Project Results/Outputs and Project Activities. It included criteria/indicators that will serve as basis for the monitoring of the project as well as sources of information/verification for the criteria.
Cost Benefit Analysis	A procedure for evaluating the desirability of a project by weighting benefits against costs.

Risk Analysis and Mitigation Plan	Table with a narrative description of the likely risks that may adversely impact the achievement of project objectives, along with solutions to deal with them.
Terms of Reference (ToR) including detailed project design	This document includes the detailed project design and it represents the last step before starting tendering/procurement process. It outlines the project background and objectives, plans activities, expected inputs, budget, timetables and job descriptions.
Financing Agreement	Document providing the financing for the project.
Procurement Documentation	Procurement documentation linked to the invitation to tender for project contract.

List of Key Project Management Tools of Project Formulation and Appraisal Phase

Additional Project Ranking Criteria to assess project feasibility	
Criteria	Sources
Relevance The project has high level of ownership by stakeholders/beneficiaries and will meet overall objectives of the Council	Citizens' feedback forms, Minutes of Meetings
Sustainability The project will be sustained long after Completion (Exit plan and operational/maintenance plan)	Exit plan and operational/maintenance plan
Cost effectiveness: Material, financial and human resources required to undertake the project are adequate	Budget and project
Reliability A similar project can be implemented elsewhere with similar results	
Efficiency Are the planned resources (<i>financial, technical, human</i>) necessary and sufficient in quantity and quality to implement the activities?	
Effectiveness The project objectives will be met and all intended users will benefit	

3.1 Public Investment Project Appraisal

Project Appraisal is carried out with the help of previously defined criteria which are applied during project identification, prioritization and selection. These criteria are usually based on national or local strategies, sector specific plans, regional or local development plans.

The role of investment in the development of cities and municipalities

The **investment** is considered to be all types of property and intellectual valuables or rights invested and used for the purpose of profit- making of the activity carried out:

- Cash, shares, stocks and other securities;
- Movable and immovable property - land, buildings, equipment and other material valuables;
- Land or other natural resources, the right to use, patents, licences, "know- how", experience and other intellectual valuables;
- Other property or intellectual valuables.

Georgian Legislation regarding Investments

Who can be the initiator of the activity (the investor) and what is the object?

An investor is a natural or legal person, or international organisation that invests in Georgia. A foreign investor is:

- Foreign nationals;
- Persons without citizenship who permanently reside in the territory of Georgia;
- A citizen of Georgia who permanently resides abroad. A legal entity that is registered abroad.
- Enterprise in which a foreign investor's share amounts to less than 25%

Who can be the initiators of local investment projects?

All investment projects in Georgia are mostly coordinated/conducted either by the Georgia Regional Development Fund or by the Municipal Development Fund.

The **Regional Development Fund** focuses on long-term growth-oriented investments in growing and dynamic small and medium-size enterprises (SMEs) operating principally in the regions beyond Tbilisi. Within the framework of the Regional Development Fund, investment projects can be initiated and submitted by the executive authorities of the Central Government, the State Attorney Governor and local authorities, as well as foreign investors and local enterprises, who are willing to co-finance projects and are ready to make some commitments. The Fund has developed a Regional Development Plan where the target sectors are prioritized. Local authorities determine the priority tasks of regional development and the role of investment in resolving these problems, but this is not based on some comprehensive analysis. Additionally, most local governments are not actively engaged in this process and they are not the initiators of the investment projects. Decisions on most public investments are centralised.

The main objectives of the **Municipal Development Fund** are to support the strengthening of the institutional and financial capacity of local government units, invest financial resources in local infrastructure and services and improve, on a sustainable basis, the primary economic and social services for local communities. The decision-making process of project implementation is based on the municipality type. MDF classifies municipalities into two groups, those who are able to co-finance projects and the others. In both cases, MDF conducts the investment appraisal itself and local government is not involved in this process.

Public Investments (MDF) are defined within a context of "Regional Development Plans" prepared with the participation of the population. The decision-making process of project implementation is based on the municipality type. MDF classifies municipalities into two groups, those who are able to co-finance projects and others:

Window 1	Window 2
85% Grant	30% Grant
15% co-financing	20 % co-financing
	50% credit

note: credit is 10-year load with interest rate equal to 12%

At the present time, and in contrast with international experience, the evaluation of public investments is the function of the Municipal Development Fund (MDF).

Private Investments

Unlike public investments, the main goal of private investments is the financial profit. In order to attract private investment it is essential to deliver the relevant information to the investor. This means writing good quality projects including the most important part, **Investment Appraisal**. In addition, it is required to produce some statistics at the local level which describe the investment environment.

3.1.1 Public Investment Project Appraisal

Project appraisal is the structured process of assessing whether to proceed with a project before resources are committed. It is the act of calculating a project's viability. It's a means by which future beneficiaries can choose the best projects to help them achieve what they want for their community

Project appraisal is a requirement before a decision to fund a programme is taken.

Project appraisal is typically performed by financial institutions, government departments and others, prior to extending loans, equity finance or grants to project-implementing entities. One important

purpose of project appraisals is to protect the interests of investors. In an integrated system of governance, it is also concerned with the overall economy, efficiency and effectiveness of projects in serving the common good.

Although project appraisal may be carried out by investors, lenders and grantors, the institution bearing the major risk is usually the implementing entity itself (Local Self Government unit) . Therefore, an internal project appraisal is usually carried out in order to protect the interests of the entity because the questions posed by the project funding sources are also those which the implementing entity should be asking itself. If a project is inadequately or incompetently designed, implemented or operated, the entity risks financial loss, a waste of economic resources, failure to provide the intended services and potential political embarrassment.

There is, however, something of a dilemma here. Project preparation, analysis and appraisals consume time, money, and resources, before anything begins to be built. Sometimes, for this reason, as well as because of political and other pressures, project appraisal is seen as a delaying or limiting factor. At the same time, failure to appreciate the full financial, economic and other factors involved is not very sensible, useful or economically efficient.

There is at least one other dilemma. *Accountants and financial analysts, however professionally competent, do not usually build projects.* These are usually derived from a political, administrative or commercial vision, coupled with the leadership and dedication of a few key people. Furthermore, independently of *however well a project is appraised no-one really knows for certain how it will eventually turn out.* Indeed, even if a project bankrupts the initial investors, it may sometimes be a contribution to posterity, useful and successful over the very long term.

It is no surprise that later audits or inspections very often are not impressed with the quality of appraisals and frequently encounter problems such as:

- A lack of independence and objectivity;
- A lack of clear definition of the successive stages of appraisal and of the responsibility for these stages;
- A lack of documentary evidence after carrying out the appraisal;
- Individual appraisals which do not cover the necessary information or provide only a superficial analysis of the proposed project;
- Specific problems linked to defining risks, options and cost effectiveness;
- Appraisals which are considered too onerous/burdensome for smaller projects;
- Rushed appraisals;

There are currently very limited legal provisions to carry out project appraisals at any level of the public sector in Georgia⁴. The municipalities lack the human resources necessary to provide investment appraisals for the utilization and allocation of resource owned by the Municipalities themselves. In the regional development strategy recommendations for the years 2011–2017 it was underlined that the regional administration and local governments have a minor role in developing investment projects and in attracting foreign investments, which makes it difficult to stimulate economic processes⁵.

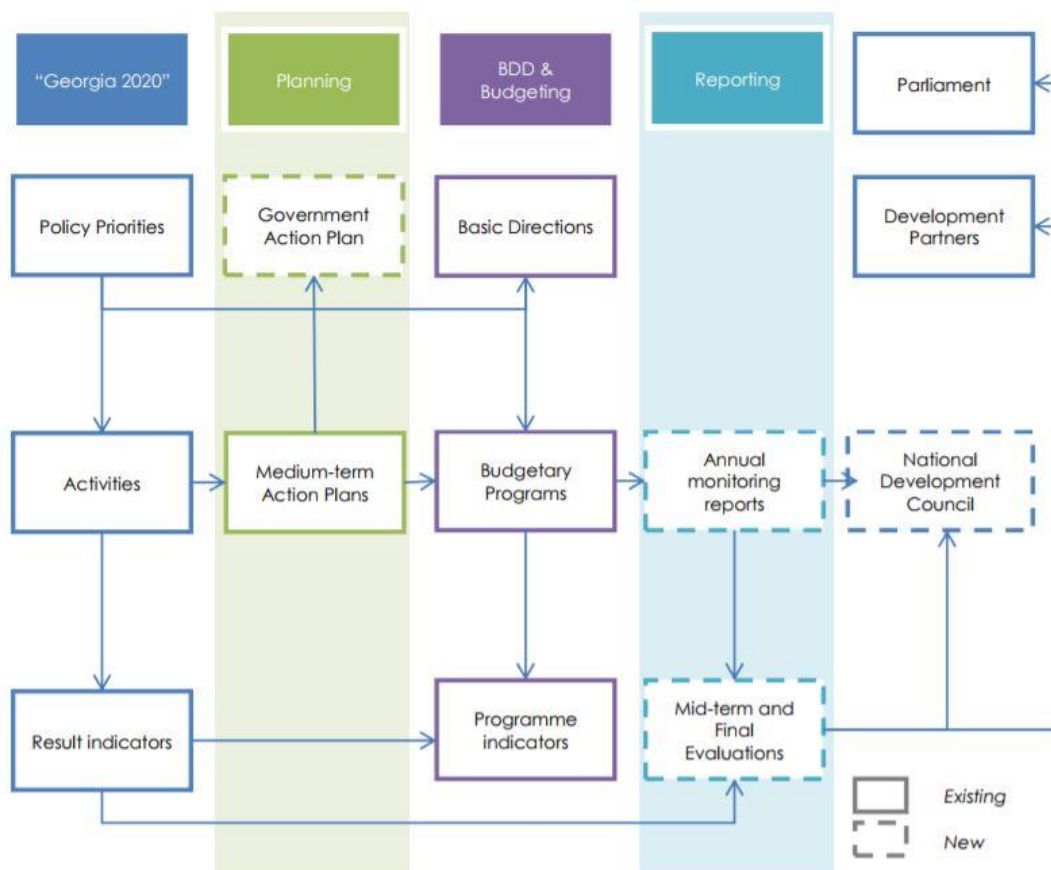
⁴ Government Decree №1750 from August 20, 2015 on Regional Development Strategy Action Plan Guidelines, along with several Regional development programmes and strategies – provides a very loose legal provision for project appraisal, not connected to the sources of potential funding.

⁵ 2012, Managing Public Investments at Municipal Level - Manual for Local Officials: NISPAcee (http://www.nispa.org/publication_details.php?p_id=176&pg=7)

Consequently, the Municipalities have neither the adequate resources to carry out these activities nor a well formulated and unambiguous legal authority to do so.

The **input** to this phase can consist in national policies and strategies, regional and municipal policies, strategies and development plans, sector assessment studies, sector plans and strategies, policy and strategy evaluation papers, case studies and economic, financial, social, institutional and environmental analyses. Georgia 2020 and Basic Data and Directions document (BDD) as well as lower level strategy documents and action plans prepared by ministries, offices of state ministers and relevant agencies subordinated to the Government must correspond to the policy priorities defined in the present Strategy.

The overall implementation framework GEORGIA 2020



Examples of Strategy Documents which can be used as a basis for defining Criteria for Project Appraisal

- ✓ Georgia 2020 - Social-economic Development Strategy of Georgia
- ✓ Government Platform 2016-2020
- ✓ Country Basic Data and Directions for 2013-2016
- ✓ Regional Development Programme of Georgia 2015-2017
- ✓ Rural Development Strategy of Georgia Action Plan 2017
- ✓ Sector strategies...
- ✓ Government Decree №1750“ on Regional Development Strategy Action Plan Guidelines
- ✓ Samtskhe-Javakheti Regional Development Strategy 2014-2021
- ✓ Shida Kartli Regional Development Strategy 2014-2021
- ✓ Kakheti Regional Development Strategy 2009–2014
- ✓ Kazbegi Development Strategy 2016-2020
- ✓ Adjara Development Strategy
- ✓ Borjomi Local Development Strategy 2016-2019
- ✓ Kazbegi LDS
- ✓ Lagodekhi Municipality Local Development Strategy 2016-2020
- ✓ Kazbegi Municipality LOCAL DEVELOPMENT STRATEGY

3.1.2 What can Project Appraisal Deliver?

Project appraisal helps project initiators and designers to:

- Be consistent and objective in choosing projects;
- Make sure their programme benefits all sections of the population, including those from ethnic groups who may have been left out in the past;
- Provide documentation to meet financial and audit requirements and to explain decisions to local population;

Appraisal justifies spending money on a project

Appraisal asks fundamental questions about whether funding is required and whether a project offers good value for money. It can give **confidence that public money is being put to good use** and help identify other sources of funding to support a project. This may help a Local Self Government make its resources go further in meeting local needs.

Appraisal is an important decision-making tool

Appraisal involves the comprehensive analysis of a wide range of data, assessments and assumptions, all of which need adequate evidence. This helps ensure that projects selected for funding

- ✓ Will deliver in line with the overall objective;
- ✓ Will involve local population and take proper account of the needs of all sections of the population;
- ✓ Are sustainable;
- ✓ Have identified mitigation strategies (management of risk);

Appraisal lays the foundations for delivery

Appraisal helps ensure that projects will be properly managed by ensuring appropriate financial and monitoring systems are in place, and that there are contingency plans to deal with risks and setting milestones against which project progress can be assessed.

Important elements of the Appraisal Process

The process of project development, appraisal and delivery is complex and require methods adapted to the local environment and organisation. Good project appraisal systems should ensure that project application, appraisal and approval functions are separate.

All the necessary information is gathered for the project appraisal, often as part of project development in which projects will need support:

- Inter-ethnic equality and other equality issues are given proper consideration;
- Those involved in appraisal have appropriate information and training and make appropriate use of technical and other expertise;
- There are realistic allowances for time involved in project development and appraisal;
- Decisions are within the implementing agency's competence;
- There are appropriate arrangements for very small projects;
- There are appropriate arrangements for dealing with novel, contentious or particularly risky projects;

3.1.3 Appraising a Project

Key issues in appraising projects include the following:

Needs, Problems and Objectives

The starting point for appraisal: applicants should provide a detailed description of the project by identifying the local needs it aims to address. Appraisal helps show if the project is the right response to a need or a problem and highlight what the project is supposed to do and for whom.

Context and linkages

Appraisal should help show that a project is consistent with the objectives of the relevant funding programme and with the aims of the local beneficiaries. Are there links between the project and other local programmes and projects, are they complementary or do they overlap?

Consultations

Local consultations may help set priorities and ensure support and ownership by the local population. Targeted consultations with potential project beneficiaries may help ensure that project plans are viable. A key question in appraisal will be whether consultations have been relevant and targeted and in what way they have shaped the project.

Options

Options analysis is concerned with establishing whether there are different ways of achieving the project objectives. This is a particularly complex part of project appraisal. It is nevertheless important to review different ways of addressing local needs and objectives.

Inputs

It is important to ensure that all the necessary human and other resources are in place to deliver the project. This may mean funding from various sources and other inputs, such as volunteer help or premises.

Outputs and outcomes

During appraisal detailed consideration must be given to what a project does and achieves: its outputs and, more importantly, its longer-term outcomes. Benefits to the population are reflected in the improved quality of life outcomes (jobs, better housing, safety, health and so on). Appraisals assess if these expected outcomes are realistic.

Value for money

This is one of the key criteria against which projects are appraised. A major concern for government, it is also important for the local environment and it may be necessary to take local factors, which may affect costs, into account.

Implementation

The appraisal will need to assess the practical plans for delivering the project, asking whether staffing will be adequate, the timetable for the work to be carried out is a realistic one and if the organization delivering the project seems capable of doing so.

Risk and uncertainty

Risk is unavoidable. However, it is important to make sure that the risk is identified (is there a risk and if so what is it?), estimate the scale of risk (if there is a risk, is it a big one?), and evaluate the risk (how much does the risk matter to the project.) There should also be contingency plans in place to minimize the risk of project failure or of a major gap between what is planned and what is delivered.

Post-project strategies

The appraisal of forward strategies can be particularly difficult, given the uncertainties about how projects will develop. But is never too soon to start thinking about whether a project should have a fixed life span or, if it is to continue beyond a period of initial funding and what support it will need in order to do so.

Sustainability

Looking at the future sustainability of a project means assessing whether it can be sustained once funding stops. It also means that the project appraisal should include an assessment of the project's environmental, social and economic impact, and the positive and negative effects of this.

3.1.4 Checklist for Project Appraisal

- Is the appraisal process systematic with a clear sequence of activities and operating rules?
- Is there an independent assessment of the project by someone who has not been involved with the development of the project?
- Does the appraisal process culminate in clear recommendations that inform approval (or rejection) of the project?
- Is the approval stage clearly separate?
- Is the appraisal process well documented, with key documents signed, showing ownership and agreement, and allowing the appraisal documentation to act as a basis for future management, monitoring and evaluation?
- Does the appraisal system comply with any relevant government guidance (i.e. Government decree 1750)?
- Are the right people involved at various stages of the process and, if necessary, how can you widen involvement?

3.1.5 What are Financial and Economic Analyses?

A **financial analysis** of a project is undertaken to assess whether it will be commercially profitable for the enterprise implementing it. *Example:* government-owned electricity authority is considering two alternative generation projects, one coal-fired and one hydroelectric powered.

Financial appraisal of alternative electricity projects (\$ million)

	Project A (coal fired)	Project B (hydroelectric)
Financial Costs	500	550
Financial Benefits	600	600
Pollution cost	75	0
Net Benefits	100	50

An **economic analysis**, also called **Cost-Benefit Analysis (CBA)** is an extension of the financial analysis. It is used to determine whether or not a particular project will improve the economic situation of the population and should therefore be supported. It includes the costs of all resources involved and all the generated benefits so that they reflect real economic costs and real economic benefits. Assume government wants the electricity generating authority to employ the generation technique that will result in the greater net improvement of the welfare among the population.

Application of Shadow Prices

When assessing alternative power station projects, some of which use local and others imported energy resources, and some employing more labour intensive technologies than others, it is necessary to correct the distortions in local labour, capital and foreign exchange markets. This is done by establishing the true economic cost of labour and capital, by correcting the distortion in local wage rates and interest rates. The process of correcting distortions in local market prices is called **economic or shadow pricing** and is used in economic analyses.

Financial appraisal of alternative electricity projects (\$ million)

	Project A (coal-fired)	Project B (hydroelectric)
Financial Costs	500	590
Financial Benefits	600	600
Pollution cost	75	0
Net Benefits	100	10

Social welfare

The Government may not merely wish to promote income growth but may equally wish to support income redistribution via its public investment programmes. A project analysis with clearly stated objectives, such as improved welfare for a target group of the population, is referred to as a **social cost benefit analysis** or **social analysis**.

In our *example*: It may be that the wheat growers whose incomes will be reduced by pollution are a particularly disadvantaged group. Hence government may decide that a dollar's worth of lost income to the growers is worth two dollars' worth of income gained by the consumers of electricity, who are assumed to be better off.

Financial appraisal of alternative electricity projects (\$ million)

	Project A (coal fired)	Project B (hydroelectric)
Financial Costs	500	590
Financial Benefits	600	600
Pollution cost	150	0
Net Benefits	-50	10

On the topic of Economic aspects of investment projects' appraisal please check the relevant manual⁶

⁶ 2012, Managing Public Investments at Municipal Level - Manual for Local Officials: NISPAcee (http://www.nispa.org/publication_details.php?p_id=176&pg=7 pages 8-18)

Contracting and Commitment Procedures

Procedure	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No NA	Sources
1. A procurement policy has been established and includes the legal, operational procedures and how to deal with conflicts and conflict of interest issues		Procurement policy
2. A procurement unit has been set up and members inducted on good procurement procedures		Minutes of meeting, induction guidelines and list of members signed and filed
3. The bid comparison process takes into account financial and analysis of major works (not only lowest bidder)		Bid selection criteria and summary score sheets
4. Clear procedures and dates of the tendering process and the outcome of the tendering have been well publicized		Letters and notices
5. An administrative procurement/contracting unit has been set up, to manage procurement process (<i>meetings, liaison with contractors minutes, publicity, correspondences, records and reports</i>)		Operational procurement office Procurement/contractor filing system established
6. A procurement point of contact/committee has been identified and is responsible for the administrative unit		Procurement officer
7. All legal requirements in the procurement process have been met		Compliance reports
8. A procurement administrative checklist has been developed and adopted to guide the process: procurement team, qualifications, meeting times; advertising, BQ specifications; bid review dates, procedures; financial estimates; risk management; contract award milestones		Signed procurement Checklist
9. List of pre-qualified contractors exists		List of qualified contractors documented and approved
10. All contract preliminaries have been fulfilled and contracts signed (<i>formal agreements, insurance, drawings, site security</i>).		A project document containing Signed Bills of Quantities, Drawings, project descriptions, project plans, and financing plan
11. A formal contract has been signed between LSG and contractor before site handover		Signed Contract
12. A preliminary briefing meeting held has been held with Project team, project manager and contractor, to go over the Requirements and project milestones		Minutes of meeting
13. A site handover meeting has been conducted between Project team, clerk, project management committee, M&E committees and contractor		Minutes of meeting

14. A site monitoring diary has been agreed upon between Project team, M&E committees and contractor		Site diary
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4. IMPLEMENTATION INCLUDING MONITORING (SUPERVISION) AND REPORTING

The purpose of this phase is to **deliver the results and contribute to the overall objective** of the project. It also involves the management of the resources available for the project as well as the **reporting** on project progress and the **monitoring** of project activities.

During the implementation of the project it is important to monitor and review the progress of the project and any outside changes that affect it. The project plans should be adjusted where necessary. The identification of key ‘**Milestones**’ to check on project progress assists in the effective management of the project. Monitoring as such serves to measure the **efficiency** and **effectiveness** of the project and its activities.

Input to the Implementation and Monitoring (Supervision) Phase includes: Terms of Reference and detailed design, tender documents and financing agreement, Logical Framework matrix including indicators and sources of information, activity- and work programme, resource and budget allocation and schedules, risk management matrix, contractual documents, project implementation plan.

This phase follows naturally from the preceding phases and is the beginning of the **Project Management Process**. The Activities identified in the previous phase have to be fully **evaluated and costed**, with appropriate **allocation of resources** and a realistic **assignment of time and man-power**.

The end product of the Implementation Planning stage is the **Project Implementation Plan (PIP)**. The PIP contains detailed information on the Project Scope, Description and Financing Plan, proposed Implementation Arrangements, the Monitoring and Evaluation Plan, and a Related ToR.

Key Tools of this phase are:

Tools	Description
Project Implementation Plan (PIP)	The PIP is a template for implementation planning. It contains detailed information on the Project Scope, Description and Financing Plan, proposed Implementation Arrangements, the Implementation Plan, the Monitoring and Evaluation Plan, and a Related ToR.
GANTT Chart	The GANTT Chart is a detailed timetable of activities in the form of a bar chart which records which activities are planned together with their intended completion dates. It is continuously modified as the project progresses, and also allows for planning of resources needed to complete an activity as well as scheduling of project activities in a specific order (<i>see Figure 8 of the PCM Guidebook</i>).
Project Budget	A table with total amount of financial resources allocated to the project including cost estimation, their allocation and breakdown by project activity.
Project Work Plan/Milestone Chart	Activities and tasks are broken down into targets or milestones which will help regular reporting and monitoring of project activities.

ToR for procurement of services and goods (construction, supervision etc).	A detailed description of the scope, activities and resources allocated in the framework of procurement of goods and/or services from external suppliers/providers.
Project Inception Report	The Inception Report aligns proposed project implementation with previously produced design documentation (such as Project Concept Note and ToR). Through the Inception Report the project team confirms a detailed and mutually agreed plan for the implementation of project activities and tasks.
Project Progress Reports	Reports detailing project progress issued on a regular basis (e.g. monthly, quarterly, bi-annual or annual). May comprise a GANTT chart to show progress in implementation of project activities/tasks as well as budget spending actual and projected.
Project Monitoring (Supervision) Plan and Reports*	Monitoring measures project progress by checking if activities of the project leads to the intended results/outputs and whether these results lead to the desired project purpose/outcome. The indicators defined in the Logical Framework Matrix are used to measure project progress and to assess the achievement of project results/outputs and project purpose/outcome.
Final Implementation Report (FIR)	The FIR is a summary of project implementation, bringing together in one place all relevant information about progress in implementing project activities, targets (milestones) achieved and any problems that may have arisen during implementation and the reason for this.
Project Completion Checklist	Project Completion Checklist delineating key project completion issues.
Delivery Acceptance Certificate	Is issued by the contractor at the end of the project and signifies the transfer of the completed project to the beneficiary.

Key Tools Implementation and Monitoring (Supervision) Phase

*Site Visit Reports should include the following items:

- ✓ Project Name;
- ✓ Date of Site Visit;
- ✓ Site Location;
- ✓ Pre-visit actions (e.g. review of previous site visit, progress reports);
- ✓ Purpose of visit (e.g. routine monitoring, solve problem);
- ✓ List of participants;
- ✓ Performance information (note progress against milestones);
- ✓ Inventory record (record all physical assets, development to date);
- ✓ Summary report (main findings, risks, corrective actions if any);
- ✓ Sign off report by staff member/M&E committee/Supervisor;

The table below provides an overview of the additional tools that can be used during the project implementation and monitoring phase:

Tools	Description
Requirements and Deliverables Specification	A table with a narrative listing of client requirements and measurements linked to the project's planned deliverables
Financing Plan	A table that lists the amounts of funds for project financing according to their source (IFI, national and/or local government) and currency (local and/or foreign)
Network Scheduling	A graphical display of project schedule information in a network form that includes dependency relationships and milestones
Resource and Cost Estimating	A table with columns for listing a project's resource requirements, estimated level of effort for each resource, and associated costs
Procurement Arrangements	A flow chart that describes the procurement planning process and the different decision points that determine the final procurement arrangements
Procurement Plan	A matrix that lists the different project elements and their procurement arrangements including contract information and procurement deadlines
Disbursement Plan	A matrix for planning and presenting, on a quarterly basis, the schedule for disbursement of funds by source throughout project implementation

Examples of Implementation and Monitoring Tools

Implementation Planning is a critical stage of the Project Cycle. A carefully thought out and well-developed implementation plan increases the likelihood of the project success by speeding up the project approval process and initiating project start-up.

The template for the Implementation Planning stage is the **Project Implementation Plan (PIP)** (see *Annex 6 of the PCM Guidebook*), a document that provides detailed information on project scope, description and financing plan, GANTT Chart, implementation arrangements, implementation plan, monitoring, reporting, evaluation and related terms of reference. With Project Formulation and Implementation Planning completed, the project contract can be negotiated and approved,

Project Start-up begins after a project is designed, approved and officially negotiated with donors and financing entities. **This is the dividing point in the project cycle between Project Design and Project Implementation.**

Start-up includes initiation of work by bringing together project personnel, equipment, facilities, and other resources. It implies the creation of a project organization and implementation management team, as well as the final integration of stakeholders and tasks in line with the predefined project objectives. In many projects, start-up includes a location change from the proposer's office to the implementation site.

The end product of the Project Start-up stage is a **Project Inception Report (PIR)**, a template that contains all necessary details for aligning project execution with previously produced design documentation that carried the project to this point.

Through the Project Inception Report the project team confirms a detailed and mutually agreed strategy for project implementation. The PIR is an important source of the information for all individuals or organizations that should join the project.

A clear common understanding on deliverables and objectives, approved cooperative methods and procedures, and the adoption of a clear plan for equitably allocating roles and responsibilities establishes a firm foundation for constructive project execution.

Project execution is the second stage in the overall project implementation process. Project execution begins when the Inception Report (IR) is approved and ends when the project is closed. Project Execution is therefore the **process of transforming the project design into sustainable results.**

The end product of the Project Execution phase is the **Final Implementation Report (FIR)**. The FIR is a summary of project implementation, bringing together in one place all relevant information about major activities, important changes, and key problems may have arisen during project execution.

The FIR is also a summary of the many reports prepared during the project execution, typically containing the same type of information from a macro-level point of view but having different emphases at a micro-level.

5. EVALUATION & AUDIT PHASE

Evaluation should be carried out at or after project completion. Evaluation can be undertaken a few months or years after the project has finished in order to assess its long-term **impact** and **sustainability**. The evaluation can contribute to improving sector policies and strategies by providing recommendation in relation to a specific programme, policy or strategy.

The **audit** reviews how the funding was made and ensures that all payments were in accordance with the regulations related to the budget in line with the criteria of the funding agency. The role of the auditors is to evaluate how well the project management adhered to these rules and regulations.

The Evaluation of a project after its completion will help the Municipalities **assess how the project was managed**, as well as its ultimate **impact and usefulness** for the Municipality and its citizens.

The main **tools** of this phase are:

- Evaluation Terms of Reference;
- Evaluation Plan;
- Project Monitoring Reports;
- Financial project documentation;

The main **outputs** of the Evaluation Phase are:

Output	Description
Evaluation Report	A report assessing the impact and sustainability of the completed project