

MODULE 7

Project planning

Background

In most development programmes the objectives of the programme become concretised when these programmes are reduced to actual projects. The actual project must reconcile the conflict between ideals and reality; between resources and intentions; between competing needs and wants and between the future and the present.

Much of the greater part of the work of most multilateral and bilateral donors revolves around the project. A project can be defined as a coherently linked envelope of resources designed to fulfill a set of development objectives. Indeed, the project is the main link between the mobilisation and the disbursement of aid funds. In a nutshell the project can be viewed as the vehicle that translates external funds into an objective-driven package of resources that are organised and scheduled in such a way as to meet identified needs. The project has a time limit for the production of intended results, a work plan, a schedule of inputs and a budget. The monitoring and evaluation of a project determines substantive achievements and accountability for the expenditure of technical co-operation resources.

This module on project planning sets out to introduce policy makers to the different stages of the project cycle. The module consists of two sections. Section 1 looks at the stages of the traditional project cycle and introduces the new World Bank Project Cycle. Section 2 introduces the reader to simple techniques of project analysis.

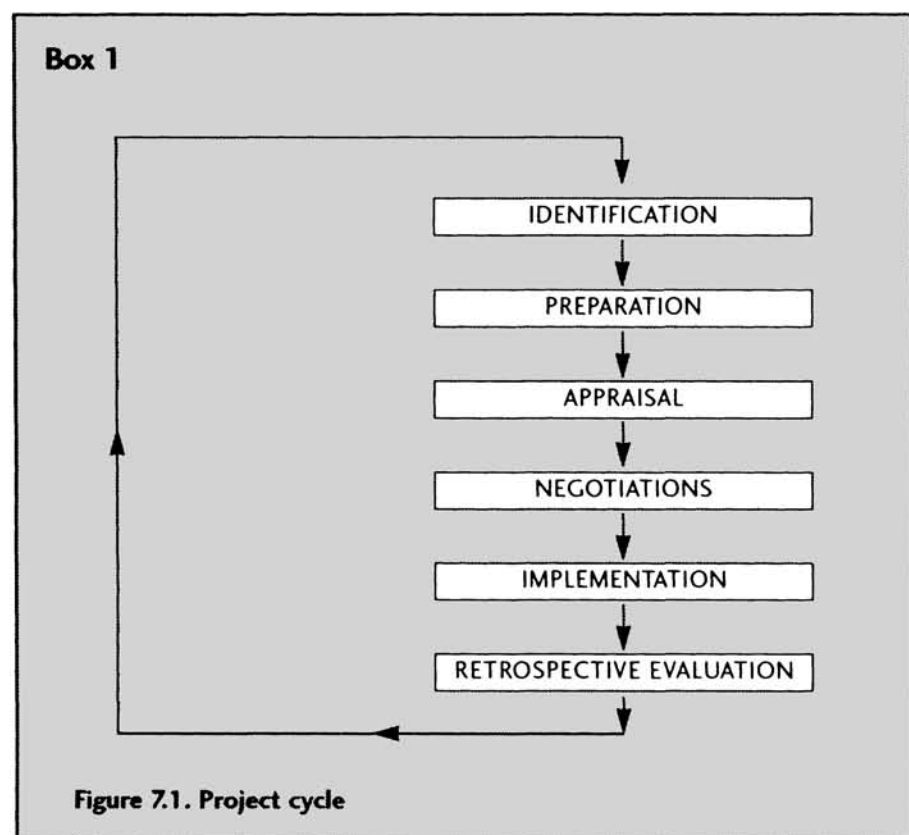
Objectives

At the end of Section 1, the participant should be able to:

1. Distinguish the different stages of the project cycle;
2. Clarify the tasks to be performed at the different stages;
3. Provide a rationale for each stage of cycle;
4. Identify key concerns and errors which may be made at the different stages;
5. Appreciate the role of different stakeholders in the design and execution of projects;
6. Explain the rationale for the new World Bank project cycle.

Instruction 1

Read Box 1.



The successive stages of a project

The life of a project is usually divided into several consecutive stages. This sequence (see Box 1) is often known as the project cycle, because each stage is the logical successor of the preceding one, while the last stage prepares the first of the next cycle.

In practice, the distinctions between the various stages are not always sharply drawn. In some projects, the first two or three stages are more or less merged, and in others there is no retrospective evaluation. On the other hand, projects financed by international aid sources generally follow the cycle quite closely. Despite these variations, it can be stated that the broad outline of the cycle is followed by most education projects. We now briefly review the different stages, examining the purpose, the agents and the process of each. (Magnen, 1991, UNESCO, p.27)

Activity 1

1. Do these different stages seem logical if one had to plan a project?
2. Why would lending agencies require that borrowers follow this cycle very closely?

Instruction 2

Read Box 2.

First stage of project cycle

Project identification

Box 2

The purpose of *identification* is precisely to select one or several projects with high priority for the country's development and then to define their objectives, strategy and main characteristics. This early selection means that the long and expensive stage of preparation can be reserved for those projects whose priority is *justified*. Thus the main function of identification is to *justify* the priority of identified projects. To justify an education project is to show that it has high priority, in that it is likely to substantially improve the performance of education. It is also to show that the project is in conformity with the national development and education policies. The responsibility for identifying education projects usually falls on the Ministry of Education, and in particular the unit entrusted with planning. (Magnen, *op. cit.*, p. 28)

Activity 2

1. How can a project identification report help in initial discussions with lending agencies?
2. How can a study of the education sector assist in project identification?
3. Would consultation of all stakeholders at this stage contribute to the success of a project?

Summary

A common problem at this stage is the concentration on the funding

necessary and the way funds will be consumed rather than the proper analysis of the problem to be solved. Another common problem is the setting of unrealistic and unachievable goals. Another is the lack of a thorough consultative process.

Instruction 3

Read Box 3.

Project preparation

Box 3

Project *preparation* has two main purposes: studying in detail all the aspects of the project, so as to ensure that it is reasonably feasible; planning its execution, so that it can start without delays. As in the case of identification, responsibility for the preparation of education projects generally falls on the Ministry of Education concerned.

Contrary to identification, project preparation is a long and costly operation. It studies all the aspects (technical, institutional socio-political, economic and financial) that have a bearing on the project's success. It details the necessary investment items, quantifying their costs, as well as the additional recurrent expenditure generated by the project. It envisages the organisation to be provided and the measures to be taken for the project execution, as well as the subsequent functioning of the institutions concerned. Preparation often requires carrying out pre-investment studies, with a view to selecting the most appropriate technical or institutional approaches. All this takes time, but this is far from wasted if the work is well done. Experience has shown, in fact, that detailed preparation is one of the keys to project success, and can result in significant savings on the required outlay. (Magnen, *op. cit.*, p. 29)

Activity 3

1. *What are some of the concerns a donor or lending agency may have when viewing plans for the project?*
2. *Would the administrative capacity of the co-ordinating agency be important? Why?*
3. *Would it be necessary to demonstrate reliance on local technical and financial resources? Why?*
4. *Should resource mobilisation strategies be built into a project?*

Summary

This can be a very lengthy period of the project cycle and can involve considerable expense. Feasibility studies and cost benefit analysis may be done at this stage. Lending agencies may stipulate procedures at this stage. The preparation of a project plan is therefore a fairly complex affair.

The problem has to be properly identified and a proper needs assessment done. This would require a consultative process which can be difficult to manage and coordinate. There is a great temptation for politicians to identify projects, not to satisfy felt and relevant needs, but for political mileage. The required data and personnel for carrying out feasibility studies may not be readily available. In addition, assessing the full range of interventions for the successful implementation of the project takes a lot of time and planning. Omission of necessary dimensions of the plan would entail future revision.

Project appraisal

Box 4

The project preparation report and its attachments (pre-investment studies, architect's drawings, call for tender documents) are transmitted to the authorities responsible for financing, and are studied by the competent services before the decision to approve or reject the project is taken.

Appraisal is therefore more or less an in-depth study of the project by the government departments or organisations that are to arrange for financing (Ministry of Planning or of Finance, external aid sources) before approval is given.

Like identification and preparation, appraisal has the goal of ensuring that the project is justified and feasible. In addition, it must verify that the project has been sufficiently well prepared for implementation to start as soon as the project has been approved. Coming under the responsibility of financial decision makers, in the appraisal of an education project particular importance is attached to its integration with the overall set of national activities, as well as to its economic and financial aspects.

All projects must be evaluated to determine whether they are suitable and more desirable than other projects.

The criteria for appraisal include:

1. Educational feasibility;
2. Technical feasibility;
3. Financial feasibility;
4. Socio-political feasibility;
5. Administrative feasibility;
6. Institutional feasibility.

Points to consider:

Consider each criteria 1–6 above and state the factors one would consider in each category in order to evaluate a project.

Project design

Consider these key questions:

1. What is the problem and its causes? How is the problem related to human needs?
2. What conditions are expected if the problems are solved?
3. What alternative solutions to this problem are possible?
4. What are the costs and benefits of each? Who will benefit from each possible solution?
5. What is the best solution? Why is it the best solution?
6. Who are the beneficiaries of this solution?
7. What technical co-operation problems, if any, are embedded in the development problem and the proposed best solution?
8. What conditions or results are expected if the technical co-operation problems are solved? What results would this solution achieve? What would be the objectives of a project to achieve these results?
9. What approaches, defined as the sets of outputs and activities, could achieve the intended solution? Which outputs and activities will best achieve the objectives?
10. What sets of inputs and arrangements are possible?
11. Which is the most appropriate set of inputs and arrangements? Why is this set the most appropriate?
12. What are the risks to the production or the relevance of project outputs? If there are any serious risks, how can they be dealt with or avoided?
13. What financial resources are needed from UNDP and the Governments?

Common iterations in the project design process

Figure 7.2 gives a summary of the project design phase. It shows the cyclical nature of project design. Advanced steps in the project design phase often lead to revisions of early steps in the process.

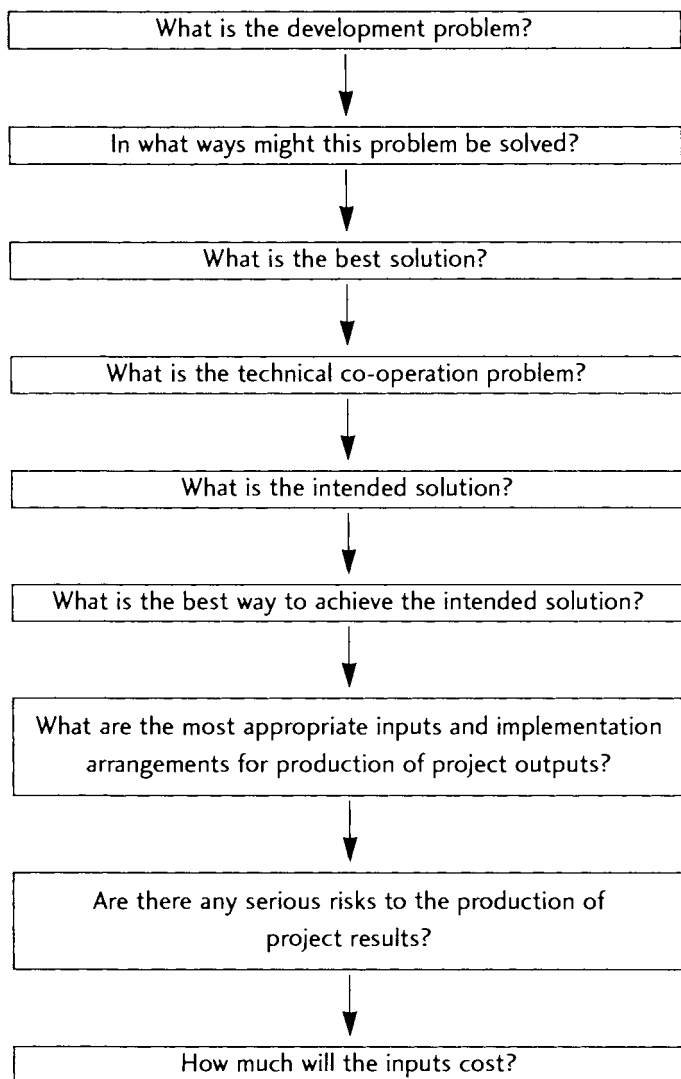


Figure 7.2. Common iterations in the project design process

Instruction 4

Read Box 5.

Negotiations

Box 5

The appraisal stage usually closes with negotiations between representatives of the Ministry of Education and of the financial decision makers. The negotiations result in an agreement as to the project's objectives, design, content and mode of financing. The Ministry of Education's representatives obviously have a better chance of having their point of view accepted if the project documentation is well prepared, and if they are perfectly familiar with the different aspects. (Magnen, *op. cit.*, p. 30)

Activity 4

1. *How would good project identification, preparation and appraisal assist education officials in negotiating with local finance officials and international financial institutions?*
2. *What are the differences in perspectives which the local education official, the local financial official and the International Lending Agency may bring to bear on a project?*

Implementation

Box 6

Project implementation or management includes the implementation of all the investments and other actions provided for by the project – construction of buildings, purchase of equipment, training of staff, technical assistance, miscellaneous services, project monitoring and evaluation. It ends when the schools or other institutions developed by the project can function normally. The responsibility for execution of an education project can lie with the Ministry of Education, with another ministry, such as Public Works, or with the donor agency as regards the components of the finances. (Magnen, *op. cit.*, p. 30)

Activity 5

1. What factors would determine effective implementation of a project?
2. Consider any education project implemented in your country and identify some implementation problems.
3. Examine the kinds of institutional arrangements that were necessary for the implementation of any education project in your country.

Instruction 5

Read Box 7.

Monitoring

Box 7

Because of the virtually infinite span of thematic and operational activities, the varied target groups, the long term time frame and the qualitative nature of developmental activities in the education sector, monitoring and evaluation processes may be approached from a wide range of perspectives and applied at various substantive, operational and impact levels.

Monitoring may be described as *a continuous process, the continuous nature of which must be entrusted to the periodic and systematic aspect of evaluation*. It relates to the review, analysis and recording of the activities being implemented, with a determination of the level of cost achievements and output relative to programmed objectives, activities, time-frame and expenditure.

An effective monitoring system should provide for recognition of the positive aspects and the validation of the design and implementation stages and the scope for enhancement of these areas of the project or programme cycle. Conversely it serves as well for identification of the constraints affecting delivery of output. It would also allow for feedback to the execution mechanism relative to the timely adoption of adjustments and changes in implementation, given that there is the proper design of the system to facilitate this process.

Activity 6

1. *Should monitoring be carried out as part of the internal operational system of projects or established as a separate external entity?*
2. *What efficiencies may result from proper monitoring of project implementation?*

Evaluation

Box 8

The retrospective evaluation stage involves studying the project's results after its completion, and hence when its final costs are known. It compares actual outlays and results achieved with the project's original estimates. Its main purpose is to identify the reasons for apparent successes and failures, so as to inform the competent authorities and to draw lessons for future projects.

Retrospective evaluation is carried out by the ministry responsible for execution of the project, or by another governmental organisation. In addition, external aid sources often carry out retrospective evaluations of projects they have financed.

Activity 7

1. *What kind of evaluation is necessary when a project is completed?*
2. *Since the final costs of a project may exceed the estimated cost, would it be necessary to re-estimate the rate of return on the project?*
3. *Would an impact evaluation become necessary five years after completion of the project?*

The new World Bank project style

The traditional project cycle – with orderly progression from identification to preparation, appraisal, approval, implementation and evaluation – has been well suited to infrastructural development in stable economies with well established institutions and predictable government policies.

In the present era development business is now more participation, more

risky and more volatile. Poor performance on development projects are attributable to: (a) lack of participation by beneficiaries; (b) borrowers not being committed to project goals; (c) inadequate risk assessment; (d) lack of emphasis on capacity building; (e) lack of flexibility. In response, the World Bank has devised a new project cycle.

Instruction 6

Study Box 9.

Box 9

- 1. Listening** – In the traditional project cycle, the first step is 'identification' – a term that suggests the visual selection of physical goals. The new project cycle starts with 'listening'. This term symbolises the learning dimension of projects, the central role of the borrower, and the participation of potential beneficiaries right from the start.
- 2. Piloting** – The second phase 'piloting' – is geared to exploring alternatives identified at the learning phase and objectively assessing risks. Pilot projects are deliberately small.
- 3. Demonstration** – Based on the results of the pilot, the 'demonstration' phase provides the opportunity to fine-tune and adapt project concepts – for example, to confirm hypotheses identified at the pilot phase through trials on a representative scale, and to confirm that risks are manageable and that the project potentially has a satisfactory development impact.
- 4. Mainstreaming** – The ultimate aim of development assistance is institutional learning and the achievement of a lasting impact on the country's policies, practices, technologies, and skills. Hence, the new cycle comes to fruition with the large-scale adoption – that is 'mainstreaming' – of methods, techniques, and programmes pioneered during the pilot and demonstration phases.

Activity 8

- 1. How does the new project cycle match up with the traditional project cycle?*
- 2. Would the new cycle deal with the shortcomings of the traditional project cycle?*
- 3. Is the new cycle friendlier to borrowing countries?*

SECTION 2

Objective

At the end of Section 2, the participant should be able to:

1. Give a simple explanation of cost-benefit analysis;
2. Explain the concept of net present value;
3. Understand the significance of the discount rate.

Distinguishing between private cost-benefit analysis and social cost-benefit analysis

Box 10

In order to decide whether any project or investment is to be undertaken the investor has to be able to determine how profitable it is compared to other projects. In order to do this a producer will simply determine costs and revenues. If revenues are greater than costs the investment is feasible. If costs are greater then the investment is not feasible. A private produce, for example, a manufacturer of furniture will determine his costs and revenues by his bills and receipts. A state agency building a school may use bills to determine a lot of the costs involved but the revenue side may prove difficult since no actual sales are generated. But there are definite benefits which society enjoys. These are called social benefits. Some investments may incur costs like damage to landscape or pollution and these costs are not borne by the producer. These are called social costs.

Activity 9

1. *Attempt a cost benefit analysis for the building and equipping of a small primary school in a rural area of your choice.*
2. *What difficulties do you encounter?*

The concept of present value

Box 11

If the rate of interest on a bank deposit is 10 per cent per annum then \$100 invested now will be worth \$110 in one year's time. Put in another way, \$110 one year into the future has a present day value of \$100. In comparing projects it is necessary to compare their stream of profits over a period of years. This is done by reducing their stream of profits to a present day value. The present day value of the project is then subtracted from the capital outlay for the project. This gives the net present value. If the answer is positive, the project is feasible. If it is negative, the project is not.

The formula below summarises the calculation.

$$NPV = -C_0 + \frac{(R_1 - C_1)}{(1 + r/100)} + \frac{(R_2 - C_2)}{(1 + r/100)^2} + \dots + \frac{(R_n - C_n)}{1 + r/100)^n}$$

C_0 = Capital outlay

R = Revenues

C = Costs

r = rate of discount

Activity 10

What would be the impact on NPV of:

1. A larger capital outlay?
2. A higher rate of discount?
3. An over-estimation of C ?
4. An underestimation of r ?

Some considerations in establishing the discount rate

The discount rate is significant since it is the rate used to reduce future streams of profits/benefits to a present value. When market considerations are involved, the rate of interest representing the cost of capital is a useful approximation of the discount rate. The higher the discount rate used the more difficult it is for a project to be approved, i.e. to show a high net present value.

Suggested reading

Hallat, J (1969). *The Analysis of Educational Costs and Expenditure*. UNESCO.

Lal, D (1974). *Methods of Project Analysis*. Washington, DC: Johns Hopkins University Press.

Magnen, Andre (1991). *Education Projects, Elaboration, Financing and Management*. UNESCO.

Mishan, E J (1976). *Cost-Benefit Analysis*. New York: Praeger Publishers.

Ray, A (1984). *Cost-Benefit Analysis*. Washington, DC: Johns Hopkins University Press.

Squire, L and Van Der Tat, G (1975). *Economic Analysis of Projects*. Washington, DC: Johns Hopkins University Press.

Woodhall, Maureen (1970). *Cost-benefit Analysis in Educational Planning*. UNESCO.