



Session 2

The Project Cycle, by Stefan Enzelberger

The project cycle consists of a series of stages of information-gathering and decision-making which take place between a project's inception and completion. The terminology associated with these stages varies from one organisation to another but in general terms the sequence starts with identification, goes on to project preparation, project appraisal, project implementation, project evaluation, and then feeds back to policy formulation and preparation of the next project.

As the term "cycle" suggests, the feedback loop is important, specifically the feedback from evaluation to future projects. This is an important part of the learning process for good project planning.

In practice, there is no need to be too concerned about the boundaries between successive stages. In practice these boundaries are rather elastic. However, it helps to understand the IFIs' terminology and it is useful to know what happens at which step.

WHY USE THE PROJECT CYCLE?

It is useful for a client to consider the project cycle as a checklist for the activities which must be undertaken from "dreaming" of a project to monitoring the completed infrastructure and the agreed policy changes. Many clients and quite a lot of development bank staff use the project cycle as a marching guide through the rules and procedures of project preparation, appraisal and monitoring.

Different stages in the cycle will usually involve different sets of people, will involve very different levels of project details, and will have very different resource implications. The project cycle can also be used as a timetable according to which the project will be prepared and implemented. Therefore, the project cycle can also be seen as a management tool.

Although the various IFIs use different language, all project cycles can be split into the following steps:

1. Project Identification

Projects arise from a great variety of sources. If an economy has a strong central planning component, and/or the political power is concentrated in the central government, most project ideas will be generated in the state capital and the state government.

In less developed countries the formal planning process is more limited. This is partly because the planning process itself is not sophisticated and/or because the private sector plays a more significant role.



In developed capitalist economies, the role of the public sector can be very limited. Mostly it is only concerned with the macro-economic environment (e.g. appropriate fiscal and exchange-rate policies) and infrastructure support (e.g. road and rail links).

Most of the projects which are eventually financed by IFIs either come from government departments, local authorities or companies owned by the public sector. Although it can happen that project ideas are born out of selfishness of politicians or civil servants, it is seldom that these ideas survive the first stages of the project cycle.

The most common sources of projects which pass the first hurdles are:

- a) well-informed technical specialists and local leaders (*for example: a road engineer knows that the roads in a certain area need rehabilitation*);
- b) proposals to extend existing programs (*a local politician, backed up by his experts wants to extend the road network*); or
- c) systematic examinations of market trends and important statistics (*traffic forecasts and technical studies expect the road network to be insufficient in a couple of years time*).

Sometimes, "political planning" is a possibility in countries which are highly dependent on external sources of development finance. In such countries, the public sector investment priorities are determined almost entirely on the basis of which international agency is thought to be lending for what purpose in the current period. Examples are highly indebted countries which know that IFIs and other donors will only finance the import of food or other urgent goods.

2. Project Preparation

This part of the cycle involves several sub-stages, each more detailed than the previous one. At the beginning, the issue might be stated as no more than a general problem: the road system is overloaded. A project must then be developed which addresses this issue.

The possible options here are very wide. For example, if the problem is that the existing road network is insufficient, the possibilities are:

- build more roads;
- enlarge existing roads;
- shift freight to the rail system;
- restrict access by cars;
- shift to larger trucks; etc.

Project preparation involves the elaboration of the initial idea:

- a) a more careful and explicit examination of the issue. (*Is the road system really overloaded, or is it just the local mayor who believes the road is congested? Is the entire road system overloaded, all the time?, etc.*);



- b) the *costs* of the problem (*What are the economic costs of the congestion? How much time is wasted because of congestion?*) This provides some guidance to the feasibility - in terms of costs - of the potential projects which might solve the problem;
- c) the variety of the options which are available to solve the problem (*new roads, road widening, etc.*). This includes preliminary design and cost estimates; and
- d) feasibility of the proposed investments, including an examination of the technical, institutional, economic and financial aspects of the possible solutions. (*Economic Rate of Return of the new road*)

The concern is to find out as early as possible whether the proposed solutions are viable and feasible. The client, together with the development bank, aims to separate the wheat from the chaff. This avoids wasting everybody's time and money.

For some types of projects, simple analysis, even back of the envelope calculations, are all that is needed to select the possible solutions. For more complex projects, a good deal of work will be needed to determine which one of many potential solutions will make most sense. Because it is early in the project cycle, and there are many possible investments, one aims to spend little time and money on the pre-selection of the project. Luckily, sometimes it is evident which of the proposed solutions is the most sensible one.

Despite the preliminary nature of this stage it will be necessary to include both financial and economic analysis, even if these are rather approximate (e.g. based on assumptions or general models rather than exact data). As noted previously, there is no wish to spend considerable time and energy working up a complex technical proposal only to find at a later stage that this is financially unfeasible.

As the components of the stage are completed it would be expected that a fairly detailed proposal will be developed, though this may still contain a variety of options from which an eventual choice must be made. For each option, a clear statement of the physical quantities and costs of project components would be expected, together with an implementation timetable and economic and financial analysis to indicate the returns.

The time required for this stage clearly depends on the nature and complexity of the problem but between one and two years is normal. Thorough preparation increases a project's efficiency and helps ensure its smooth implementation in the future, so that the additional time and money required will be returned many times over by the increased return from the investment. A hastily prepared, superficial analysis will very likely be rejected by the IFIs or yield projects that fall behind schedule, have lower returns, and waste scarce resources.

Project preparation can be the responsibility of a recipient ministry or the government. Normally, the EIB does not get deeply involved in this stage. The World Bank, however, can get deeply drawn into feasibility studies. In some circumstances, IFIs may provide specific Technical Cooperation ("TC") funding if studies require expertise or resource inputs which are not available locally.

Assuming that a feasible solution to the problem has been identified, the proposed project will be discussed with the IFI, and the development bank will appraise the project.



3. Appraisal

Appraisal is the final stage in the project preparation sequence and it is the phase where the IFI decides whether to finance a proposed project, and/or whether the investment proposal shall be amended. Appraisal is different from previous stages in several respects:

- a) it can be more detailed;
- b) it can be more comprehensive;
- c) it is driven by the demands of the IFI; and
- d) it involves additional, IFI specific project aspects.

The bank's appraisal team will consist of IFI personnel and consultants, supported by host ministry/government personnel. The team will typically be in the country for a relatively short period but the whole process will be much longer than this.

If detailed surveys and costings have not been carried out as part of the earlier feasibility studies then they will have to be undertaken as part of the project appraisal. In addition, the appraisal team will spend some time reviewing all existing documents, such as engineering designs, existing feasibility studies -particularly the assumptions used-, and previous projects of the same type.

The appraisal covers all the issues of the previous stages, i.e. the technical, economic, institutional and financial aspects, but will take a more objective view of the project. It will typically be less generous in terms of assumptions, and may require the replacement of assumptions by measurements (*traffic counts instead of guesses*). The appraisal may also use more rigorous standards of economic and financial analysis.

In addition, development banks also review the sustainability of the project. For example, the project is scrutinised whether the investment can be properly maintained once it is completed (*is there enough money for road maintenance?*), whether the project is acceptable to the environment (*what are the environmental side effects of the by-pass, was an Environmental Impact Assessment conducted?*), whether the social aspects of the project have been duly anticipated (*How many people will need to be resettled because of the new motorway?*), etc. Other aspects will be procurement, possible corruption and fraudulent practice, public participation in the project preparation, etc. Experience shows that these sustainability factors are the most time consuming and contentious issues during the appraisal phase.

The appraisal stage is deliberately designed to be 'hard' since this represents the last chance to identify gaps and analytical faults which may result in project failure. The next stage of the cycle involves spending large amounts of money during project implementation and the appraisal is intended to ensure that the investment yields an adequate benefit.

The resulting appraisal report is then reviewed by the IFI's senior management and forms the basis for negotiations with the recipient. Once the negotiations between the IFI and the client have been completed, the loan documents can be signed and the project can be implemented.



4. Implementation

The loan agreement, which is based on the appraisal report, plus supporting documentation, describes in detail the project to be implemented. Often, the appraisal report specifies the nature of the implementation team (normally, a mixture of consultants and local personnel) and the organisational structure within which it will operate.

This implementation team will be required to draw up more detailed work plans and timetables, based on targets specified during the appraisal and the negotiations. The early stages of implementation are often concerned with project mobilisation, i.e. organising offices, recruitment of support personnel, acquisition of equipment, special studies and surveys etc.

This stage is often referred to as implementation and supervision: the borrower implements the project and the IFI supervises this implementation via a regular programme of external missions.

5. Evaluation

Evaluation judges whether a project achieved its objectives, and feeds back the lessons learned during project implementation to the next sequence of projects. Evaluation therefore closes the loop and completes the project cycle.

In practice, evaluation involves at least two distinct, but linked, components; monitoring and evaluation.

1. Monitoring

Monitoring is required because it cannot be certain that the project can be implemented as planned. Indeed, it is almost certain that the project will not entirely be implemented as expected. Therefore, a mechanism is needed to detect problems and to allow adjustments to project implementation to overcome those problems.

Monitoring is a frequent or even continuous activity, focused on issues and problems of immediate project management concern and normally undertaken by IFI staff which was already part of the project appraisal team. The purpose of monitoring is to enable the bank to follow the progress of the project and to react to unexpected developments. Monitoring involves the physical and the institutional components of the project and should never be seen as a threat by the implementation agency. Monitoring or supervision missions can be very helpful to the client because sometimes bank staff can discuss and agree changes to the project scope without going through the bureaucracy of the head office.

The supervision missions use information from the in-house monitoring system and the regular reports produced by project management, plus their own observations and findings, to make regular assessments of the progress of the project. These assessments will then feed back to the project as a set of recommendations to project managers, and perhaps to authorities above the level of the project itself. The supervision missions will subsequently monitor compliance with these recommendations.



2. Evaluation

Often, project evaluation takes only place once the project is implemented. It is therefore, an infrequent activity, focused on the achievement of overall project targets and objectives and is often undertaken by units from outside the project management team. The purpose of evaluation is to generate lessons about project design which can be used in subsequent projects. Such lessons will typically concern the efficiency and appropriateness of the intervention model which underlines the project.

In larger, long-term, projects, there may be three types of evaluation:

- a) Midterm evaluation takes place during project implementation, once the initial problems are over and once the project has started to deliver the first benefits. It is usually the first detailed examination of the project since appraisal and the timing is significant because the results can still feed back into the implementation phase. It will usually include the following items:
 - Organisational structure and management capabilities, progress and problems in staff recruitment and placement, ability to get necessary facilities such as office space and transportation for project staff, and establishment of the organisational linkage with various governmental agencies and organisations;
 - Procurement issues, including deviations from original budget and time schedule;
 - Progress in building the physical project;
 - Volume and quality of project output;
 - Initial response by the target population to the project output; and
 - Changes in the environment since appraisal which are likely to affect performance during the remainder of implementation.
- b) Final evaluation takes place at the end of the implementation phase. It is more detailed than the mid-term evaluation because it covers more time and thus there is more evidence of the longer-term effects and impact of the project.

The particular role of the final evaluation is in examining the sustainability of the benefits from the project and the rates of return on investments. The sustainability issue is significant because once external funding ends, the project is often not properly maintained and the benefits are significantly reduced. The final evaluation will need to examine whether the project has been sufficiently "institutionalised", and whether its activities and benefits will continue once the loan has been repaid. The rates of return calculation can only be partial since the final benefit impacts of the project may not arise until several years after the end of funding. They will need to be calculated from monitoring information, special studies commissioned by the evaluation team and non-project sources of information.

Because of the timing, the results of the final evaluation are available only to subsequent projects.

- c) Ex-Post evaluation takes place several years after the end of the project and is designed to record impacts which take many years to mature. The major focus is on fundamental changes to employment, incomes, living standards, economic growth, economic benefits, economic inequalities, gender-based stratification, institution-



building, and environmental conditions. As with final evaluation, the lessons from ex-post evaluation will be passed on to subsequent projects, though the feedback loop is clearly very long-term.

The significance of the monitoring and evaluation system for the project cycle is that it provides the formal structure by which those who identify, prepare, appraise and implement projects learn from the successes and failures of the past. Without such a system the 'learning curve' associated with projects would be much flatter than is presently the case.

CONCLUSION

As already mentioned earlier, there is no shortage of potential funding or of potential projects to be funded by development banks. What is in short supply are well-prepared projects. The project cycle attempts to address this problem by providing a sequence of discrete steps for the development of a project, specifying the nature and content of the activities at each step, and indicating the level of resources to be used.

The project cycle is not exact. Stages overlap and the content of each stage - and perhaps even the number of stages - will depend on the nature of project. However, the formalisation of the project development process via the project cycle is a useful discipline for all parties involved and provides the basis for an organisational structure within administrations which is devoted to project development and project delivery.

An alternative project cycle could be described as following:

1. Enthusiasm
2. Disillusion
3. Panic
4. Search for the Guilty
5. Punishment of the Innocent
6. Praise and Honours for the Non-Participants

Obviously, such things never happen at IFIs. However, you may want to try to find the different phase in the cycle of the following project:

Once upon a time, the Government and a local school decided to have a competitive boat race on the river. Both teams practiced long and hard to reach their peak performance and on the big day they were as ready as could be. The result of the race was that the local school won by a mile.

Afterwards the Government team became very discouraged by the loss, and morale sagged. Senior Management decided that the reason for the crushing defeat had to be found and a project team was set up to investigate the problem and recommend appropriate action. Their conclusion: the problem was that the local school team had eight people rowing and one person steering; the Local Government team had one person rowing and eight people steering.



Senior Management immediately hired consultants to do a study on the team's structure. Many Euros and several months later they concluded that too many people were steering and not enough were doing the rowing. To prevent losing to the local school next year, the team structure was changed to four 'Steering Managers', three 'Senior Managers' and one 'Executive Steering Manager'. A performance and appraisal system was set up to give the person rowing the boat more incentive to work harder and become a key performer. "We must give him empowerment and enrichment. That ought to do it". The next year the Boys School won by two miles.

The Government laid off the rower for poor performance, sold off all the paddles, cancelled all capital investment for new equipment and halted development of a new boat. They awarded high performance awards to the consultants and distributed the money saved to Senior Management.

MEDITERRANEAN TRANSPORT INFRASTRUCTURE NETWORK PROJECT (MTIN)

THE PROJECT CYCLE

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Istanbul, Turkey - May/June 2006



MEDA Transport Infrastructure Network Project



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WHAT IS THE PROJECT CYCLE

- Every project comprises series of distinct stages
- Project Identification - Project Preparation - Project Appraisal - Project Implementation - Project Evaluation
- Important: feedback form evaluation to policy formulation and preparation of the next project
- Boundaries between stages are elastic



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WHY USE THE PROJECT CYCLE

- Use it as a checklist
- Use it as marching guide through the rules and procedures
- Use it as a timetable for project preparation and implementation
- Use it as management tool to schedule various inputs



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PROJECT IDENTIFICATION

- Sources of projects:
 - Well-informed technical specialists and local leaders
(road engineer knows road needs rehabilitation)
 - Extension of existing programs *(extension of IFI financed road project)*
 - Examinations of market trends and important statistics *(studies expect road network to be congested in some years)*



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PROJECT PREPARATION

- Careful and explicit examination of the issue (*is the road really overloaded?*)
- Economic and financial costs of the problem (*increased VOC because of bad road conditions*)
- Explore options to solve the problem (*new road, road widening, etc.*)
- Feasibility of the proposed investments (*Economic Rate of Return of a new road, road widening, etc*)



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APPRAISAL

- Driven by IFI
 - more detailed
 - more comprehensive
 - driven by IFI demands
 - involves additional, IFI specific, project aspects



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IMPLEMENTATION

- Responsibility of client
- Separate Project Implementation Unit with staff seconded from various departments
- Assisted by consultants, in close co-operation with consultants supervising works
- Close monitoring by IFI



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EVALUATION

- Regular Monitoring during implementation
 - Supervision missions from IFIs
 - Regular reports from Project Implementation Unit
- Evaluation from IFI (ideally also from client)
 - Midterm evaluation
 - Final evaluation
 - Ex-Post evaluation



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ALTERNATIVE PROJECT CYCLE

1. Enthusiasm
2. Disillusion
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