

**FOREIGN AID EFFICACY AND IMPLEMENTATION DELAYS:
ASIAN DEVELOPMENT BANK (ADB) FINANCED PROJECTS IN PAKISTAN**

By

Ibrahim, UZMA

THESIS

Submitted to

KDI School of Public Policy and Management

in partial fulfillment of the requirements

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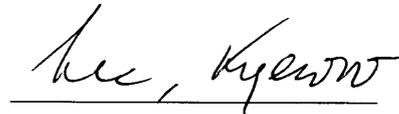
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Committee in charge:

Professor Kye Woo LEE, Supervisor



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ABSTRACT

FOREIGN AID EFFICACY AND IMPLEMENTATION DELAYS:

Asian Development Bank's (ADB) Financed Projects in Pakistan

By

Ibrahim, UZMA

Recent debate of aid effectiveness and results of empirical studies show that traditional assumption of aid enhancing development does not sustain true unless aid is utilized proficiently. To assess aid effectiveness in Pakistan, ADB financed projects in Pakistan were compared with ADB-wide aid recipient countries. Results show that Pakistan has worst 'Project Success rate' over the last two decades and highest percentage of 'Loans at risk' among all. Inside Pakistan, ADB financed active projects (as of Dec 2010) comprised of twenty three (23) loans amounting \$3.38 Billion (principal) with disbursement of \$ 890 Million (26.3%) out of \$ 3.19 Billion (Net loans). The difference between principal and net loan amounting \$190.0 Million (5.62%) was cancelled.

This thesis hypothesizes that the critical way of utilizing foreign aid proficiently is to implement aid-financed projects efficiently. To test this hypothesis and investigate the causes of poor results of aided projects in the context of Pakistan, ADB-financed projects approved and implemented during 1999-2010 are analyzed for their implementation efficiency. Out of 22 completed projects during the period, five were taken as a sample for a case study analysis to observe causes of its poor implementation. The results show indistinguishable reasons for the poor implementation leading unsuccessful projects. Given the resources (funds), lack of institutional capacity or 'absorptive capacity' of executing and implementing agencies is a due hurdle in achieving desired project results. Such institutional capacity can be associated to procedural delays at critical stages i.e. project start-up (long time taken for approval of project document and meeting of effectivity conditions by the government), weak

coordination among stakeholders, over ambitious project design and unrealistic project interventions, insufficient focus on implementation and monitoring mechanism, poor administrative arrangements with deficient qualified staffing, poor commitment/interest or ownership and accountability by government.

For successful project implementation, there is dire need to minimize above chronic delays. A complete and concise roadmap and timelines for all the activities should be prepared at the start of the project and meet accordingly with rigorous monitoring. To utilize aid effectively and to achieve developmental goals would not be helpful unless utilized in an organized manner using result based project management, building the local institutional capacities, and human resource management of the concerned agencies involved in project management.

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2012

DEDICATED TO

My Beloved Parents
.....for their love and never ending support

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All praise to ALLAH Almighty, Who granted me enough strength and courage to write this thesis. Peace and blessings be upon Prophet MUHAMMAD, who is forever source of knowledge and torch of guidance for human beings.

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Ibrahim, UZMA – Pakistan (Dec 2012)

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Over several decades Pakistan has remained one of the main foreign aid receiving country in the world, but the economic indicators does not reflect improvement in the economic performance. The purpose of this thesis is to analyze foreign aided projects in Pakistan, highlight the issues related to the implementation and urge for a better strategy to execute such projects in a resourceful manner.

Achievement of economic growth through foreign aid has always remained a debatable issue among economist over the past several decades. The concept of lending foreign aid was initiated after World War – II to reduce poverty but even after spending substantial number of years, poverty still remained as a harsh reality across the world. Many researches and policy analysts came up with variety of results on impacts of foreign aid on growth. Whether foreign aid can help a country to achieve its developmental goals or not is still questioned.

Economic growth or development of a nation is constrained due to its limited resources i.e. inadequate domestic saving and lower level of foreign exchange reserves. This saving and investment gap can be filled with the help of foreign aid that at least in part generate enough physical capital to facilitate economic, environmental, social and political development of the recipients and accelerate the economic activity (Rosenstein-Rodan 1940s, Chenery-Strout 1960s).

The deliberate objective of the foreign aid is to support at least in part to help facilitate economic, environmental, social and political development of the recipients but the results do not really tell much about the aid-implications, as effectiveness of aid varies among recipient countries depending upon the policies they adopt. Countries

which achieved economic growth after receiving aid include South Korea and Botswana (1960's), Indonesia (1970's), Bolivia and Ghana (1980's), Uganda, India and Vietnam (1990's). Countries where foreign aid did not work or was a complete failure includes Zaire (DPR Congo now), Tanzania, Ethiopia, Niger, and Zambia etc (Dollar and David 1998).

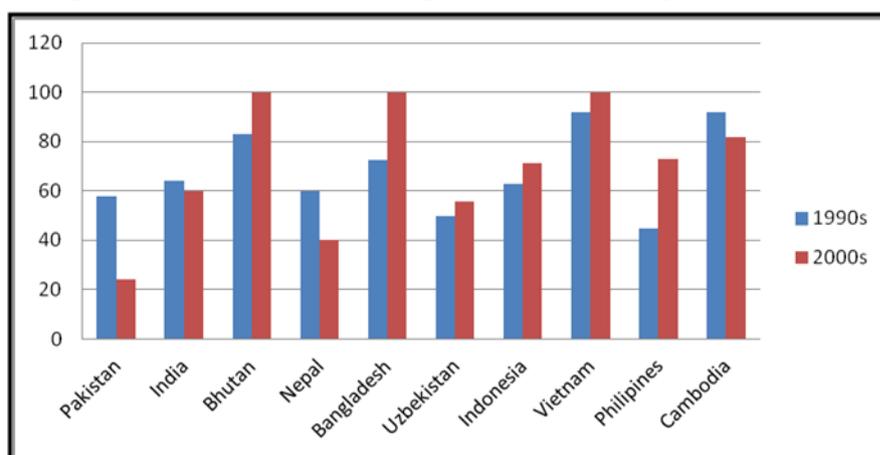
All aid is aimed for improving economic growth and reducing poverty for the nations. In addition to domestic saving, foreign aid supplements public investment and help to achieve productive growth. Foreign aid has remained very effective, somewhere in between or totally ineffective in different countries. Some nations could not achieve higher levels of growth despite receiving plenty of aid. Therefore, addition of capital might not be a decisive factor in aiming for higher growth, but the utilization of received aid.

Aid can be effective in promoting economic growth and reducing poverty if it is utilized along with the coherent/sound policy practices (fiscal, monetary, trade, financial, labor policies), better economic (property rights/rule of law) and political (democracy/civil rights) institutions (Boone 1995). Impacts of aid vary among economies across the world as it is largely dependent on the public institutions and economic policies of the recipient governments (Burnside and Dollar 1997).

Pakistan, like other capital-scarce nations relies heavily on international development aid from various individual governments (bilateral), and multilateral agencies. Pakistan is a major client with the Asian Development Bank (ADB) as its portfolio covers ten sectors and thirty subsectors. In the recent years, ADB has almost 80 active projects for Pakistan, which were three times larger than the World Bank, which has more international staff and three times more local staff than ADB in its resident mission.

In order to assess the aid effectiveness in Pakistan, ADB portfolio in Pakistan is analyzed and compared with ADB’s other aid recipient countries including India, Bhutan, Nepal, Bangladesh, Uzbekistan, Indonesia, Vietnam, Philippines, and Cambodia.

Fig 1 - Pakistan Country Comparison – ADB Project Success Rate



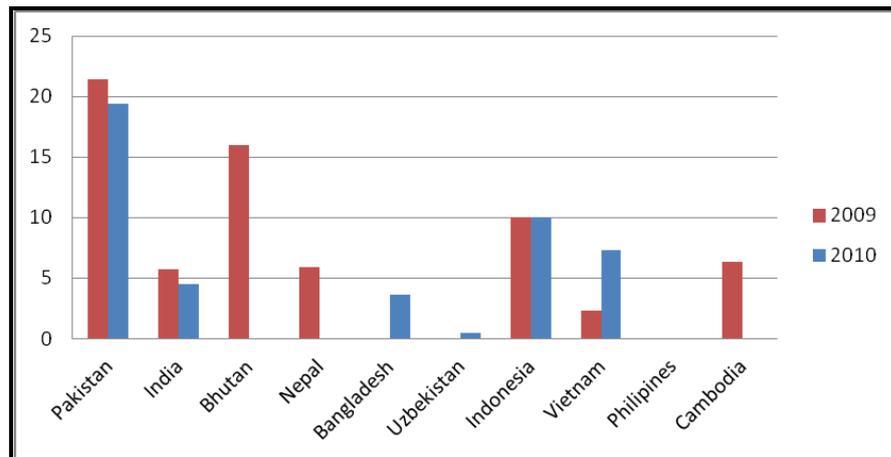
First analysis¹ of ‘*Project Success rate*’ (Fig-I) over the past two decades reflected that it was worst in Pakistan among all countries (excluding Uzbekistan and Philippines in 1990s). Moreover, in 2000s for other countries success rate has improved (except Nepal and India), whereas for Pakistan it severely declined.

Second analysis with respect to ‘*Project loans at risk*’ (Fig-II) showed that Pakistan has the highest percentage of loans at risk² as compare to other countries. In the year 2009, at risk ratio was 21% which has declined a little in year 2010 but still highest. In case of India, Bhutan, Nepal and Cambodia, the risk ratio has either declined or no project at risk. In Bangladesh, Uzbekistan and Vietnam the project risk ratio has risen in year 2010 whereas at-risk-project in Indonesia has remained same in these two years.

¹ A detailed ADB wide country comparison table is at annex-I

² Projects rated unsatisfactory or considerable worse.

Fig 2 - Pakistan Country Comparison – ADB Loans at risk (%)



ADB has contributed a lot through various modalities of aid in Pakistan to improve the living standards and welfare of the humans, but realizing the expected outcomes through appropriate utilization of aid is still questioned. The above analysis suggests that given aid is not implemented properly and the desired development results are not achieved.

Pronk's (2001) argument on assessing aid explains that improvements in economic institutions and policies in the developing countries are the key change. A coherent policy with national development goals would impact the project execution procedures and help improve the overall aid performance. Like all developing nations, Pakistan lacks good policies and institutions to implement foreign aid (projects) to achieve desired results. Some of the apparent issues hampering the performance include lack of coordination among stakeholders, bureaucratic decision making processes, and inadequate management capacity of the executing agencies to implement the projects. Overall institutional capacity of public sector is another key factor producing poor results.

To analyze the causes the poor results of foreign aided projects in Pakistan, case study analysis of ADB financed projects, approved between the years 1999-2010 and whose physical activities have been completed by the year 2010. There were 22 total numbers of closed projects in the period, out of which five were taken as a sample for empirical analysis to see effects of foreign aid and causes of its poor implementation.

In order to improve performance and achieve higher levels of growth, vigorous implementation of foreign aid is critical. It should be coherent with national development goals along with vigorous implementation at both individual and collective level i.e., partner donor, each government ministries, sponsoring, implementing or executing agencies. This leads towards a gradual strengthening of economic and political institutions. Thorough project management combined with the effective policy processes could result in better utilization of aid and a lot greater can be achieved. Otherwise foreign aid will remain ineffective and produce poor results - increasing debt burdens to economy.

So my hypothesis here is that development aid provided through the means of local projects can achieve sustainable development results if it is executed effectively and efficiently. Therefore this thesis studies:

- Are the ADB-financed projects in Pakistan implemented efficiently?
- Why ADB-financed projects are delayed in implementation? What are the factors which cause time and cost over/under runs and hamper the project performance and overall aid utilization?
- What effective measures can be taken to minimize these chronic delays, to overcome the implementation problems, and complete physical activities within time-frame?

The rest of study follows the sequence as: Chapter Two describes need of foreign aid in economic growth, its critical role, composition of foreign aid, and scheme of ADB portfolio in Pakistan. Chapter Three reviews the selected literature on foreign aid and its effectiveness with respect to implementation problems. Chapter Four describes methods of conducting analysis, development of hypothesis and basis for sample selection. Chapter Five presents the analysis of selected ADB-financed projects approved over twelve years as case studies. Chapter Six summarizes the critical issues at each project implementation stage, concluded with suggested measures to overcome the dismal delays and recommendations for effective project execution in future.

Chapter II **Foreign Aid in Pakistan**

Pakistan due to low resource mobilization domestically ‘capital-scarce nation’ relies heavily on international development aid. It has become a “donor driven” economy and certainly not “trade driven” one³. This chapter highlights the basic concepts of foreign aid, role of aid for Pakistan and its importance along with financial aid flows over the past years. It specifically demonstrates how the Asian Development Bank’s (ADB) assistance supports the poverty reduction agenda of the country using various modalities and funds with multi sectoral strategies. It also assesses the current portfolio health comparing indicators within country and ADB-wide. Project management issues related to handling foreign aided projects at each implementation stage of the project cycle and their implications have been presented.

2.1 What is Foreign Aid?

Foreign aid is ‘*the international transfer of capital, goods, or services from a country or international organization for the benefit of the recipient country or its population*’⁴. Aid provided to poor or developing countries has various objectives such as; aid provided as a moral or ethical responsibility to help the poor (Humanitarian aid), or to support strategic self interest of donor (Political) and to develop sound financial markets in benefit of both nations (Economic). The financial aid can be provided either through government (federal and local) called Official Development Assistance (ODA)⁵ which aims to promote economic development and welfare of the recipient, or through capital market and private grants (private flows).

³ Dr. Nadeem ul Haque, Deputy Chairman of the Planning Commission

⁴ Encyclopedia Britannica, Inc. Online 2012

⁵ Include grants and loans with at least a 25% grant element

2.2 History of aid in Pakistan

Being one of the largest aid recipients in the world, Pakistan receives almost US \$3.5 Billion⁶ development assistance annually from various governments, bilateral and multilateral agencies. The ultimate aim of the copious aid is to meet the national developmental goals, and through improved physical infrastructure, and enhanced human capital.

Pakistan receives various kind of aid i.e. *nation tied* aid to meet balance of payments shortage; *project aid* that is specific for a development project which cannot be transferred or shifted; *technical assistance* provided to enhance technical knowledge of entrepreneur and labour. Project loans (both concessional and non-concessional) are to finance the short term or long term projects depending upon the terms and conditions of the loan.

Table 1–Concessional and Non Concessional Loan Commitments for the year 2010
US \$ (Million)

Particulars	Concessional loans	Non-Concessional loans	Total
TOTAL	28,761	11,459	40,220
i) MULTILATERAL	16,633	7,117	23,750
ADB	6,698	4,888	11,586
IBRD		1,722	1,722
IDA	9,569	208	9,777
Other⁷	366	298	664
ii) BILATERAL	12,128	4,342	16,470
a) Paris Club⁸ Countries	10,191	3,768	13,959
b) Non Paris Club⁹ Countries	1,937	573	2,511

Source: Statistical Report 2010 - Ministry of Economic Affairs and Statistics, GoP

Some other forms include grant aid, commodity aid, and emergency relief which do not require the payment of principal and interest. See Annex-II for details.

⁶ An annual aggregate of foreign aid received over the years

⁷ EIB, IDB, IFAD, NORD. DEV. FUND, NORD. I. BANK, OPEC FUND

⁸ Austria, Belgium, Canada, Finland, France, Germany, Italy, Japan, Korea, Netherlands, Norway, Russia, Spain, Sweden, Switzerland, United Kingdom, United States

⁹ China, Kuwait, Libya, Saudi Arabia, United Arab Emirates

2.2.1 Foreign Aid Status 2010

During the fiscal year 2009-10 projected disbursements from the foreign aid were \$6,171 million, out of all 65.4% were from bilateral resources and 34.6% from multilateral sources in the shape of project aid and non-project aid. The total disbursements stood at \$3,667 million. The project aid accounted for 98% of the total commitments. Total disbursement for the project aid amounted only \$995.0 million (*28% of the total disbursement*). An amount of \$1,169 million was disbursed for non-project aid, (*32% of total disbursements*). The remaining \$1398 million (40%) was disbursed for non-project aid such as earthquake rehabilitation, Afghan refugees, Internally Displaced Persons and Tokyo Pledges.

The major difference in commitments and subsequent disbursement shows a large gap between economic resources available and its proper utilization raises a question of effective aid utilization. With limited resources how can aid give maximum benefits through improved mechanism?

2.3 ADB assistance to Pakistan

2.3.1 Foreign Aid flows

Pakistan become ADB member in 1966, and has received largest aid both in number of loans and volume of assistance (*amounting over \$19.8 billion as of December 2010*). Importance of ADB lending for Pakistan for poverty reduction agenda cannot be ignored. Being a largest development partner having highest number of projects undertaken as compared to other bilateral and multilateral donors.

2.3.2 Financial Resources

Financial resources of the Bank (except grants and technical assistance) comprise of Ordinary Capital Resources (OCR); and Special Fund (SF)/Asian

Development Fund (ADF) furnish funds on terms and conditions as presented in the table below:-

Table 2 - Financial Resources of the ADB

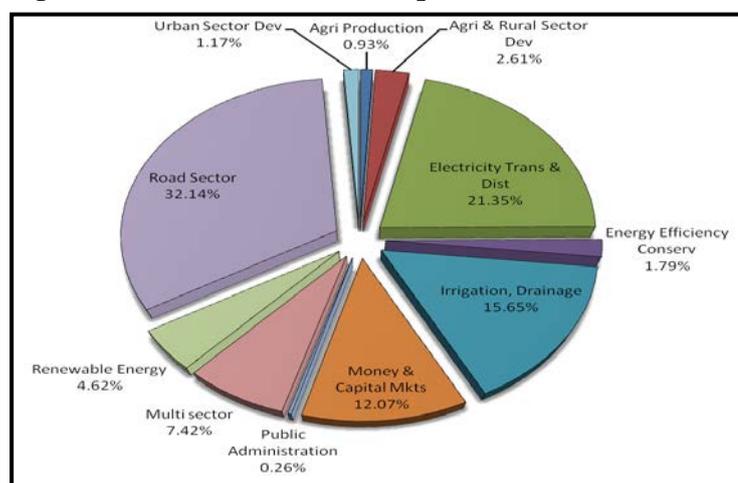
Type of Loan	OCR ¹⁰ Loan	ADF ¹¹ Loan (SF)
Maturity	15-25 years	Program Loans : 24 years Projects Loans : 32 years
Grace Period	3-5 years	8 years
Repayment Period	12-20 years	16-24 years
Currency	\$, ¥, €	\$, ¥, £, €
Interest Rate	LIBOR+0.20 BASIS POINTS	1% during grace period and 1.5% thereafter.
Commitment charges	0.15% p.a.	-

Source: Financial Resources of Asian Development Bank - Website

2.3.3 Sector wise Breakup

As of Dec 2010, ADB portfolio comprise of 30 developmental program and project loans with the total investment of \$3.3 billion largely in the sectors of energy (27.76%), road and transport (32.14%), others include capital markets, technical education, urban sector development, SME development, agriculture, public administration and decentralization etc.

Fig 3 – ADB Sector wise break-up of loans for Pakistan



Source: Author calculations based on ADB-LFIS data

¹⁰ Loans funded by market borrowings, capital subscriptions from member countries, and funds derived from ordinary operations. These loans have 12-20 years repayment period, with 0.15% commitment charges per annum and a variable LIBOR.

¹¹ Concessional funding through direct interest-free contributions from its donor members, having 16-24 years repayment period with 1.5% interest rate per annum.

2.3.4 Fund wise Break-up

Out of total 30 ADB assisted projects as of Dec 2010, 12 comprise of Ordinary Capital Resources, whereas 18 Asian Development Fund. In terms of number, OCR loans are less than ADF loans but in amount it comprises almost 70% of the total portfolio.

Table 3 – Fund wise ADB’s Active portfolio Break-up

US\$ Millions as of 2010			
Fund	Amount committed	Disbursement	Disb. %age
OCR	2,562.0	798.5	31.16
ADF	750.3	443.4	59.09
Total	3,312.4	1,241.9	37.49

Source: ADB Loan Financial Information System (LFIS)

For cumulative disbursement of the ongoing loans till 2010, ADF loan has 59 percent disbursement whereas OCR loan has only 31.16 percent. Overall disbursements of both types of loans are also not satisfactory standing at 37.49 percent only.

2.3.5 Portfolio Health

Pakistan has one of the largest portfolios inside the ADB both in terms of number of loans as well as the amount of total financing available¹². By the year Dec 2010, its total portfolio comprise of 40 active¹³ loans (\$4.2 billion) out of that 30 loans (\$3.3 billion) were ongoing. Its portfolio performance remains below the average of ADB-wide performance indicators with most ‘at risk’ projects.

¹² Quarterly Portfolio Performance Report – Asian Development Bank 2010

¹³ Physical activities of the project completed but loan accounts awaiting closure.

The portfolio health comparison inside Pakistan and ADB-wide is presented in the following table:-

Table 4 – Portfolio Health Comparison inside Pakistan and ADB Wide

Project Rating¹⁴	% of Total Portfolio	
	Pakistan	ADB-wide
Partly Satisfactory	16.7	5.1
Potential Problem Project	0.0	6.1
‘At Risk’ Project	<u>23.8</u>	7.5
Unsatisfactory	7.1	1.2

Source: ADB Quarterly Portfolio Performance Review (QPPR) report for Pakistan - 2010

The most apparent and important cause of the unhealthy portfolio is implementation delays at almost all stages. Project start-up delays (late approval of project document), during implementation (late establishment of PMU, delayed appointment of consultants or contractors, and slow disbursements etc) and after project completion delays (closing of loan financial accounts) lead to increased cost and postponed benefits.

2.4 Handling Foreign Aided Projects

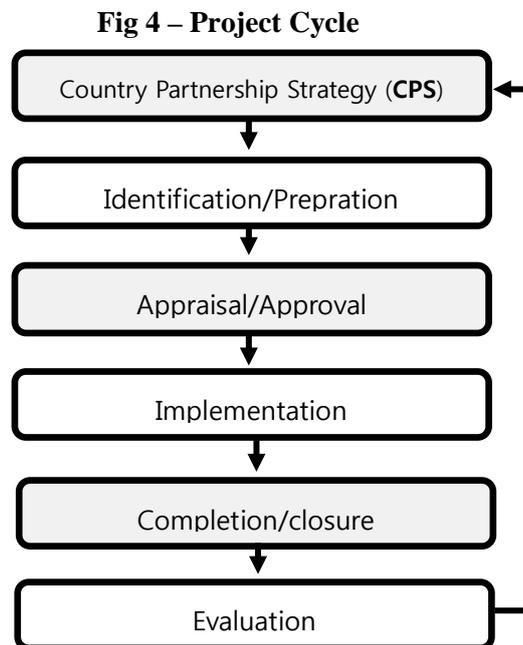
2.4.1 Project Cycle

Foreign aided projects are executed under certain implementation stages starting from overall program details for the country and then specific project preparation till completion and evaluation.

Government and the ADB along with all concerned stakeholders such as civil society, NGOs, private sector and other development partners devise a partnership strategy keeping in view the governments’ socio economic goals and ADB’s poverty

¹⁴ ADB’s internal rating mechanism done automatically through a monitoring system

reduction agenda. This partnership strategy paper is based on three to five years of mutual agreement on the achievement of developmental goals.



During second stage, field surveys, initial investigation or feasibility studies of projects are required. In Pakistan there is no special organization to investigate that, therefore projects are identified by respective ministries and departments, public sector corporations, NGO's, pressure groups and public representatives. In some cases ADB also provide technical assistance and grants to help identify projects for future implementation.

After the feasibility reports are submitted to government, Planning Commission appraises the projects whether they are technically sound, financially justified and viable for the economy. During project examination period, ADB also examines project feasibility with respect to technical, financial, environmental, economic, and management aspects and its potential social impact for the society. After careful examination of all the aspects and economic viability, a final decision is made whether or not to implement the project.

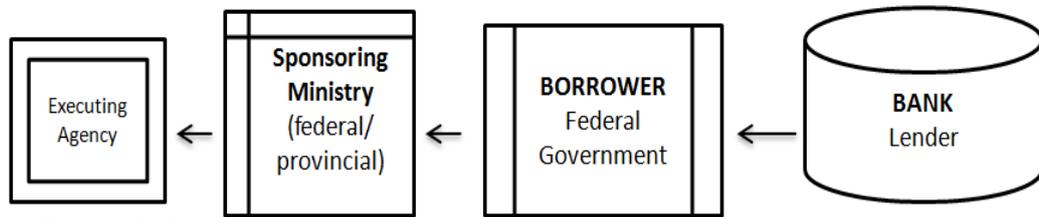
Once the project is approved by ADB board, both Bank and government work out on loan agreement and project proposals in consultation with the concerned stakeholders, it is sent to government for its authorization. Following the project authorization by the Cabinet Division, loan is signed. ADB legal counsel and project officer review the conditionalities which have to be fulfilled by the project authority and declare project effectivity (within 90 days period). This follows the project implementation period and upon completion of all physical activities, it comes to financial closure of the loan. Post evaluation reviews are conducted jointly by the Bank and executing agency. Processes/procedures followed by ADB and government of Pakistan during project identification and preparation period are presented at annex-III.

The project before its implementation takes three important stages including project approval by the board (Bank), signing (takes place within 90 days after approval) between donor and borrower, and affectivity (within 90 days after signing). This usual practice is significant for each project before its physical implementation is started by the executing agency. But in case of Pakistan this crucial stage is not taken with urgency and priority and most of the projects have to face chronic delays in this early stage, leading to project implementation delays over its life. This period fluctuates depending upon the policy conditions, and other details linked to each project.

2.4.2 Stakeholder Involvement

Project management is a complex process and involves efforts of various stakeholders during the project implementation period. Management process of foreign aided projects in Pakistan engage many stakeholders such as donor, federal governmental ministries, provincial government departments, sponsoring and executing agencies as well as the consultants and contractors etc.

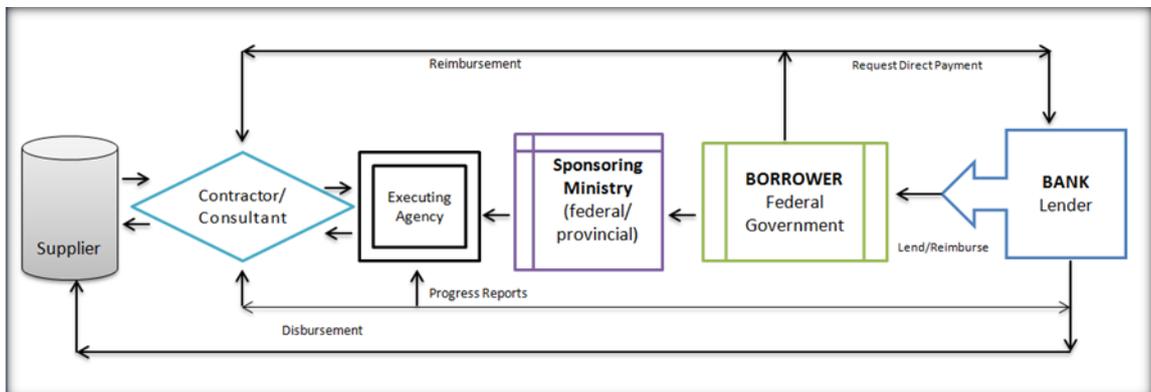
Fig 5 – Stakeholders involved during project implementation



Source: Author

Due to the involvement of many organizations, decision making and coordination problems arise and make it difficult to implement a certain project as per decided schedules. These inefficient time management and delays further enhance the cost of the project. A snapshot of handling official development assistance with various stakeholders is as follows:-

Fig 6 – Processes of Handling Foreign Aid among Stakeholders



Source: Author

2.4.3 Project Management Issues

Most of the development projects in Pakistan generally suffer due to issues such as delayed appointment of project team, transfers of team leader, lack of qualified professional and technical staff, a loose control over implementation schedules, lack of coordination between stakeholders, poor accountability, non compliance with the social and environmental safe guards, non-familiarity with the Banks’ procedures and

guidelines, and a complex decision-making process adds to the series of problems, critically affecting the project implementation. The project life cycle can be divided into four major phases for describing issues in more detail at each stage:-

A. Project Readiness Stage

Project readiness is before the project approval and signing period. Most of the projects suffer at this stage and some of the problematic issues such as lack of advance procurement action, reconciliation of project start; delayed preparation and approval of PC-1¹⁵ by Central Development Working Party (CDWP)/ Executive Committee of National Economic Council (ECNEC); inefficient process of consultants' appointment/procurement; inefficient system of appointment of key project staff and installation of Supervision consultants; projects components and their outputs are overly ambitious and unattainable; non-availability of counterpart funding i.e. allocation of sufficient funds for land acquisition and resettlement plan.

B. Project Implementation Stage

During the implementation stage, projects usually suffer due to delayed appointment of Project Management Unit (PMU) staff and frequent transfer of Project Directors and key PMU staff. In-efficient mechanism of procurements as per ADB's guidelines, and lose control over implementation schedules also add to the troubles. Lack of coordination among implementing agencies and contractors mainly due to involvement of many stakeholders becomes crucial to keep project implementation on track.

¹⁵ PC-I is essential for securing government counterpart funds and for project implementation timelines.

C. Project Monitoring and Evaluation Stage

During the project implementation period, monitoring and evaluation plays an important role to streamline the project activities as per schedule if they do not follow the track. But there is a lack of meaningful/strict project monitoring system as well as noncompliance with ADB's Procedures and Guidelines especially in the areas of environmental and social monitoring of the projects. No proper monitoring mechanism for consultant's contribution and its performance reviews. Due to all the above issues, follow up of the original plan of the project prepared by the executing agency duly approved by the CDWP/ECNEC is merely tracked.

D. Project Completion Stage

Once the project completes its physical activities, it comes to completion stage where unutilized loan amount is refunded to the Bank by project authority. Even at this stage project authorities face inefficient processing of the outstanding loan to the Bank which leads to adding interest charges as well as lowering the project rating.

Above all, ADB projects in Pakistan have faced serious implementation delays over the past several years, which have affected the pace of the projects throughout its life resulting in loan extensions and poor physical activities. These implementation delays lead towards un-attained goals, increase cost and time and most importantly affecting the development results negatively. The thesis will assess the related project issues and find causes of the important problems in order to take action against those stymied problems for a better project implementation.

Chapter III **Literature Review**

Foreign aid is supposed to spur the economic growth and help enhance transformation process of the recipient developing country. The volume of foreign aid received in a country tells an important linkage - higher the level of foreign aid presumed to enhance the growth in long run. The role of foreign aid is of extreme importance as intended to improve economic growth and achieve national developmental goals¹⁶.

Analyzing the theoretical linkages between foreign aid and economic growth provides a foundation for future research and allows researchers and policy makers to confirm this link through examining it empirically. The existing literature is divided into three parts; one studies the effects of foreign aid on economic growth of aid receiving nations where aid was effective, completely ineffective or effective under certain conditions. The other part investigates the unfulfilled conditions that lead to aid ineffectiveness or policy conditions that ensure aid effectiveness. The last part explains results of various research studies conducted to capture the effects of foreign aid on economic growth in case of Pakistan as well as efforts to align the national development policies with foreign aid.

Over the years, history shed light on three types of literature on aid and its effectiveness. The very conventional views expressed by Freedman (1958), Bauer (1972), Boone (1996), and Easterly (2008) that aid is merely helpful in economic growth. It only expanded the bureaucratic organizations, corruptions and enriches the elite. In many agriculture economies recipient countries fall in the trap of Dutch disease.

¹⁶ Such as improvement in physical infrastructure, enhance capabilities of human capital and achieve higher levels of economic growth.

Aid is 'neither a sufficient' 'nor necessary' condition for development as it is totally ineffective for the economic growth or wellbeing of its people (Thorbecke 2000). When government serves particular interest groups (Boone 1996) or rent seeking behaviour of some groups i.e. corruption, aid could not help to improve human development and poverty reduction agenda.

The second type of literature considers that though aid does not have same effects everywhere but on average there is a positive impact on growth. Development in the poor countries is hampered either by domestic savings or foreign exchange constraints on physical capital can be relieved by aid (Rosenstein-Rodan, 1940s Chenery-Strout; 1960s). Such insufficient capital formulation (saving-investment gap or low foreign direct investment) can be eliminated with the help of foreign aided capital investment in infrastructure lead towards economic development (Harrod-Domar 1940s, 50s).

The reasons why aid is effective in some countries and not in others gives an idea that what makes aid more effective and what cause its ineffectiveness. The shift in development strategies of the donors and recipients, a new approach for aid allocation and implementation has also evolved with passage of time. Economic growth of a country depends on technological advancement and productivity growth (Schumpeter, Solow, Schultz, Becker 60s, 70s) therefore; aid should be allocated for human capital augmentation such as research and development and education, which have spillover effects or positive externalities; better rules/institutions (Romer 1986) as well as technological development. Such transfer of income 'aid' stimulates the long-run productivity (Dalgaard, Hansen and Tarp 2000, 2004) but with increased project aid, effects on growth diminish with passage of time (Cassen et all 1986).

Later on during 1990s, and 2000s, aid supported policy reform and institutional

strengthening of the recipient countries being important factors for its effectiveness and achieving long term economic growth. Direct aid investments in building infrastructure, roads, irrigation, power, ports has strong positive effects on growth in short run whereas indirect aid for the education, health, democracy, and environmental protection has also positive but weak effects on growth taking place over a long time. Clemens, Radelet, and Bhavnani (2004) argued that though both kind of aid sooner or later effects the economic growth but it is more effective in countries with good policies/institutions and human capital.

These sound macro policies include fiscal, monetary, trade, financial, labor, etc (Burnside and Dollar 2000); good political institutions i.e. democracy/civil liberties (Isham, Kaufmann, Pritchett 1995); and economic institutions i.e. property rights/rule of law (Dollar and Collier 2000). World Bank (1998) highlighted that not all aid improves growth or help to reduce poverty level as its effectiveness solely relies on the sound economic management (policies and institutions) of the recipient governments. Burnside and Dollar (2000, 2004) states that aid is more effective when targeted to countries with sound institutions/policies and higher levels of poverty.

Economic growth of a developing country largely relies on institutional and policy distortions, foreign aid, and aid interacted with distortions. Foreign aid with respect to environment¹⁷ showed positive impact for countries with better environment (political stability, physical infrastructure, government responsibility, institutional capacity, human capital and effective coordination mechanism) have achieved improved results (Burnside and Dollar 2000 and Collier and Dollar 2002). Such effects of foreign aid can be much greater than direct effects of policies themselves have on growth.

¹⁷ Narrowly means sound monetary, fiscal and trade related policies.

Cross-country regressions by Dollar (1997) explained that aid is effective when provided to the countries having competent bureaucracy, trade openness, and strong rule of law. Aid effectiveness will enhance with the donors, who focus on poor countries having better policies and institutions than those distorted economies (Boone; 1996). One percent of GDP in assistance translates into a 1 per cent decline in poverty but favoring countries with sound economic management (Pronk; 2001).

Current aid allocations are inefficient with respect to reducing poverty as targeted to countries having less poverty and weak policy environments. Collier and Dollar (2000) compared aid allocations to the world with the allocation that could maximize the aid impact to reduce poverty. They argued that use of 'poverty efficient' allocation of aid would be very much effective for the policy makers and will lead towards poverty reduction in the low income countries.

The results presents that existing allocation of aid to world can lift 10 million people out of poverty annually but with efficient economic policies in the recipient countries, the number could be doubled. It is obvious that policies which are helpful to improve growth are equally effective in poverty reduction and in bad policy environment aid would be ineffective in inducing policy reform or growth. Therefore aid should be allocated to the countries having large amounts of poverty but with efficient economic policies.

For aid allocation, Burnside and Dollar (2000) also analyzed lending patterns of bilateral and multilateral donors and found that only multilateral donors lend aid with respect to income level, population, and policy environment of the country. The results indicate that almost one third of multilateral aid allocated is in favour of good policies. Until middle of 1990's donors did not consider better policy environment for allocating

aid but if do so, aid can help improve the policies of the recipient countries as well as overall growth.

Foreign aid through local development projects are powerful tool to stimulate the performance of individual sectors through employment generation, reducing poverty and improving growth levels. Such projects are intended for the development of entire public sector; and with improved institutions and policies, public sector can deliver services effectively. Hence, policies and institutions are the key for improvement.

Projects are complex in nature and implementing agencies need unique requirements in terms of management capacity to gain the desired outcomes. Williams (1995) analyzed quantitative and qualitative impacts of project delays causing increased cost. Three important implementation delays identified include changes to the design, document approval delays and extra (invalid) comments. Project extensions during the project timelines cause significant disruptions which should be avoided unless the extra resources are available to the project. Several mechanisms such as learning lessons from one project problems and exploring reasons to failure, adapting the changes, and revise the interpersonal structures throughout the organization for future project success have become essential (Williams 1995, 2003).

‘Coordination failure’ among donor and recipient mainly occurs because of strategic and historical considerations of aid allocations. In many cases it favors few priority sectors, while neglecting low priority but important sectors leading to aid fragmentation¹⁸ and increasing cost (Acharya 2006). The incomplete information about priorities among government levels, sectors, regions, and with other donors causes coordination problems and aid ineffectiveness (Akatwijuka 2007).

¹⁸ On average 26 multilateral and bilateral donors operates in each developing country.

It is mere responsibility of public sector to utilize scarce resources at maximum while coordinating with inter-organizations¹⁹ and intra-organizations²⁰ across governments to build strong relationships and achieve intended outcomes (Painter 1987; Head 1996; Bridgman and Davis 1998). Government can play a viable role in exercising authority (O’Grady 1985) and central in managing external and internal implementation and operation aspects (Mitchell and Shortell 2000). This will help establishing smooth decision making rules, active leadership, exchange of information, shared obligation, decision making process (Lie 2011) as well as in realizing the coherent policies and programs (Brown 2002).

Wepenhans (1992) highlighted project issues causing project failures and hindering performance at various implementation stages after reviewing 1800 projects in 113 countries with World Bank’s total lending of US \$138 Billion. The failure was associated to gigantic problems needed to be identified and addressed as cost of bearing such poor performance was higher for borrowers. The project factors and country factors associated to such failures are as follows:-

At borrowers side poor understanding of Bank’s policies, procedures and requirements along with poor capabilities and practices i.e. bidding process leads to take extensive use of time and resources. Another hurdle was project by project limitations, which are usually sector, region and project specific. The issues identified from one project with proposed solutions can be generalized and implemented to all projects.

¹⁹ Between various diverse natured organizations.

²⁰ Within an organization.

At the project level, the problems are poor coordination with stakeholders, lack of managerial and technical capabilities to implement project – project management authority has little or no experience of accounting, procurement, management and environmental impact assessment. Reduction in the scope of project, poor contractor performance, inadequate institutional and organizational structures, and to audit managerial decisions also results in poor project performance.

At country level, the problems are: macroeconomic policies and conditions, continuously changing development priorities, deficient regulatory environment, lack of organizational or institutional capacities of the local institutions, lack of ownership and commitment, financial constraints, and change in institutional environments. These problems have significant direct or indirect effects on the project performance. Borrowers were dissatisfied with portfolio management practices of the Bank: inexperienced staff in project management, excessive duration of headquarters review, giving more priority to lending and approval process then focusing on implementation. Once the project gets approved by the board, Task Managers have little or no time to cater the borrower's requirements in the project start-up. 'Project staff appeared more driven by pressure to lend than a desire for successful project implementation'.

Non-compliance on various covenants especially related to financial, accounting and audit covenants was a serious issue among borrowers, but any remedy such as stoppage of withdrawals was rarely exercised. Project conditions applied are not in-lined with the political realities of the borrowing country as well as insensitive towards the economic policies undertaken for structural adjustments. Country partnership strategy papers do not reflect anything related to lessons learnt and further strategy to cope those issues vis-à-vis follow-up on the implementation problems was also very low. Derivation of lessons from the past experiences with respect to project

design, methodology adopted, and implementation plan provides basis for future changes in the policy and practices but nothing such was specified at any stage.

There is also a lack of feedback provided to project staff from the senior/higher management or signals on good or bad performance. The incentive mechanism is very much desirable in bringing the change in attitudes and behaviors. Provision of timely feedback is important in order to identify and address general and thematic problems on various types of projects and keep on improving the concepts, designs, policies and procedures according to the changing environment.

Wepenhans recommended that benefits of the projects should be sustainable and on the ground. The Bank should focus more on implementation of the project then lending more. Local ownership of the project should be focused from loan approval to implementation. Borrowers should be committed to implement the loan, utilizing their full resources and handling the issues in timely manner. Both should focus on result oriented implementation of the project with rigorous monitoring and evaluation at each and every stage of the project to avoid time and cost over-runs.

Performance should be taken into account with extreme importance and an internal environment supportive of better portfolio performance should be established. 'One size fits all' approach is unrealistic therefore; prime focus of country implementation reviews should be to improve portfolio performance and address the project by project generic but important issues. Trainings on making financial statements, accounting and auditing arrangements and project management issues should be imparted to staff dealing project activities. Wepenhans proposed that 'faster completion of the negotiation, reduced elapsed time between approval and effectivity' and 'borrower's commitment and ownership' will lead towards project success.

In Pakistan state of aid utilization in an efficient manner is at early stages and a lot is still required to be done in order to define and align the national development policies with foreign aid. Since development is not much confined to government sector and new key players such as local organization, private sector and international development partners have their new specified role in development process.

Research conducted to analyze the relationship between foreign aid and economic growth in case of Pakistan include Chisti and Hasan (1992) concluded that foreign aid through grants has impacts on public investment but for loans the effect was insignificant. Rahim and Khan (1993) found negative relation between foreign aid and domestic resource mobilization but with positive impacts on growth. Khan (1997) showed that foreign aid and debt has negative effects on economic growth whereas Iqbal (1997) and Ghulam (2005) argued though official aid executed through public projects has strong impact on society and it helped improve the growth, and assisted poverty reduction but added to debt burdens (Ishfaq 2004).

Such mixed results about aid effectiveness explain that foreign aided development projects are not implemented properly and limited project performance refrain from achieving the national development goals. The portfolio performance is deteriorated mainly because of poor design, poor management and implementation. Most of the projects face severe problems during implementation. The loan cancellation rate is also high due to inadequate capacity of the executing agencies to implement ambitious projects. Seeking project extensions to complete physical activities is rising mainly because of time consumed at the project approval and effectiveness stage is much longer then estimated. Actual project completion time estimated at approval stage increased by almost two years or more. There are a lot of institutional constraints such

as shortage of counterpart funding, poor project management, technical deficiencies, and defective procurement techniques etc.

Keeping in view the institutional and technical deficiencies many international donor development agencies have been highlighting the need to streamline project processes in Pakistan. At international level, ADB provided a technical assistance (in 2004) to Pakistan to streamline procedures to reduce implementation delays of the development projects. It was a very effective study and somewhat very first attempt to highlight project specific issues. Although the study could not be completed due to its ineffective implementation and unnecessary delays but it did highlight some of the systemic and casual factors affecting project performance. It helped in identifying missing links in official procedures and time frames involved in project management practices in Pakistan. UNDP undertook a Preparatory Study regarding the formulation of a Foreign Assistance Policy Framework for Pakistan (2005). The study was useful in pointing out main procedural bottlenecks.

At national level, Ministry of Economic Affairs, Government of Pakistan organized international conferences under the banner of Pakistan Development Forum (PDF) with development partners on harmonization and aid effectiveness in development projects. The PDF 2010 Report was of great significance as it hinted on the futuristic need of framework of systems in project management. This call for reform for improved structure of governance in projects was supported by the development sector stakeholders.

Research done by Husain (2008) on ‘Business Process Review for Result Based Management’ raised the point that public investment needs careful implementation skills. Ikram (2011) continued the same debate in his work ‘Revitalizing Planning Commission’. Pasha (2011) has contributed his vision in his

Analytical Review of PSDP and this Planning Commission Report clearly sends the message that government is cognizant of need assessment in the sector. All these researches seem valid but how to proceed forward is the big question.

Pakistan being capital scarce economy relies on foreign aided development projects whereas effective utilization and proper implementation of these projects is the biggest challenge. The apparent delays during implementation, huge cancellation amounts, as well as cost and times over runs necessitate for an in-depth analysis of the real causes of the issues associated with the development portfolio in Pakistan. Being a largest development partner and multilateral donor, significance of ADB portfolio for Pakistan's economy cannot be ignored. Keeping in view the important role of its development schemes in Pakistan, this thesis investigates the causes of implementation delays with the help of project case studies. The results will highlight the systemic and causal project issues with improving project based interventions with the help of realistic solutions for effective aid utilization.

Chapter three discusses the results of evaluating the impact of significant implementation delays of foreign aided projects affecting the performance in Pakistan. The empirical investigations on impact of foreign aid in this chapter will provide further insights of these relationships. The chapter follows the sequence as, development of hypothesis, methodology of testing the hypothesis, reasons of conducting the case study analysis and the basis of sample selection.

ADB has assisted Pakistan to improve its critical economic and governance reform during the past few decades. Since its membership in 1966, ADB has provided funds through various modalities including project loans, program loans (budgetary support), Technical Assistance, and Sector loans. The detail of each loan is given in the Table-5 with respect to principal amount, amount cancelled, net loan amount and percentage disbursements. From 1966 till year 2010 out of total 16.72 Billion USD portfolio, 14.13 Billion USD was disbursed (2.58 Billion USD was cancelled because of various reasons associated to each project).

Table 5 - Total Portfolio and Disbursement

	Principal	Cancelled	Net Loan	% Disb
Project	6,599,484	1,523,111	5,076,373	76.92
Program	7,808,032	369,853	7,438,179	95.26
TA	154,030	114,227	39,803	25.84
Sector	2,161,419	580,884	1,580,535	73.12
Total	16,722,965	2,588,075	14,134,890	84.5

Source: ADB, LFIS database

Considering with respect to modalities, it is obvious that largest disbursement can be found with program loans (95.26%), whereas project loans (76.92%) , Sector (73.12%) and least disbursement was found in Technical Assistance loans (25.84%). Although ADB has provided various kinds of modalities over the years, but only Project Loans have been taken into consideration for the current analysis. Modalities i.e. sector loans, program loans and technical assistance were excluded having different terms and conditions associated with each. Details of each Project Loan with respect to its principal amount, amount cancelled, net loan and percentage disbursement in a detailed table as well as graphical presentation is presented at Annex-IV.

4.1 Hypothesis Development

ADB's active portfolio by the end 2010 (include all four types of modalities mentioned above) comprise of twenty three (23) loans amounting \$3.38 Billion (principal) with disbursement of \$ 890 Million (26.3%) out of \$ 3.19 Billion (Net loans). The difference between principal and net loan amounting \$190.0 Million (5.62%) was cancelled. Projects with such unsatisfactory performance may have various causes. However, the implementation delays can cause the most important and critical effects on the performance of the project.

To identify whether ADB-financed project in Pakistan also suffered from such implementation delays or not, the following hypothesis has developed.

ADB-financed projects in Pakistan suffered due to lack of

- i.* Good Preparation and Planning (initial delays)
- ii.* Ownership and Commitment (decision making delays)
- iii.* Qualified personnel and institutional capacity (management inefficiencies)

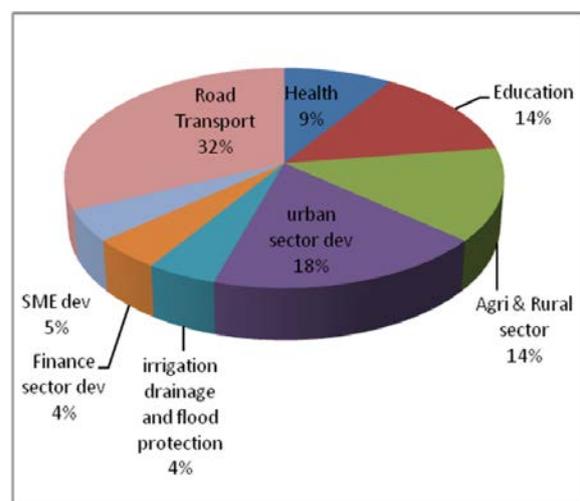
4.2 Methodological Framework

A test of the hypothesis is based on a Case Study analysis of ADB-financed projects approved during the last twelve years (1999-2010) whom physical activities were completed within that time-frame. The study will only focus on the ADB's project loans comprising of Hard Loans (short-term loans for fifteen to twenty-five years with no concessional element) and Soft Loans (long term loans usually for twenty four to thirty-two years with concessional elements).

Along with a case study analysis, in depth interviews were also carried out in order to obtain important information and feedback from stakeholders involved during various stages of project implementation. These include professionals from development sector, officers from federal and provincial ministries, and project directors who highlighted the real factors damaging project performance. Their observations and opinion helped finalize the number of harmful aspects and suggestions to improve portfolio performance for future development projects. Their view point of these stakeholders about the implementation processes and problems associated at all levels were given a due weighting in the analysis and conclusion part of this paper.

4.2.1 Basis for Sample Selection

There were twenty two (22) closed projects during that time frame include Road and transport, Health, Education, Agriculture and Rural Development, Urban Sector development, Irrigation drainage and flood protection, Finance Sector development, and SME development sectors.



The sample of five (05) projects was selected out of twenty two closed projects depending on the percentage share in the total portfolio. Some of the project loans were excluded from the analysis as they were cancelled without making any disbursement including Irrigation, drainage and flood protection sector loan. Process of selecting sample project incorporate two methods *i*) Sectoral Distribution (seven sectors), and *ii*) Fund wise Distribution (70% ADF and 30% OCR).

The selected five loans comprise of Four (04) sectors (Health, Education, Agriculture, and Road Transport) and include three (3) ADF (60%) and two (2) OCR (40%) loans, which represent the total portfolio fairly well in terms of both the number of projects and the amount in each sector. Specific detail of each project including its sector and fund wise share is presented below:-

Sr. No.	Sector	Total Projects	Sample Project	Loan No. (Type)
1	Health	2	1	1900 (ADF)
2	Education	3	1	2133 (ADF)
3	Agric & Rural	3	1	1787 (ADF)
4	Road Transport ²¹	7	2	1892 (OCR) 1928(OCR)

The sectors such as Urban Sector Development (4), Irrigation drainage and flood protection (1), Finance Sector development (1), and SME development (1) were not included in the analysis. Out of 4 of the projects from Urban Sector Development 3 projects faced advance closure due to non-compliance.

To identify implementation delays and their core causes in order to resolve and improve overall project performance, a detailed case study analysis is conducted against ADB-financed sample project in the following chapter. The results of this analysis will be helpful in recognizing the issues associated with ADB-financed projects and also to map out a way forward for future implementations.

²¹ Road and Transport Sector Loans are taken from province Punjab, and Sindh. (excluded KP because of security situation)

Each case study comprises of some basic information about project such as project title, its location, thematic area, sponsoring and implementing agency(s); main objectives/outcomes of the project; mode of financing (whether it is financed through OCR or ADF funds as well as their terms & conditions); implementation milestone dates; the net loan amount, financial releases such as projected and actual disbursements and cancellations; and lastly the important issues pertinent to each project appeared during project implementation.

5.1 Case Study Indicators

The case study analysis is conducted on the five indicators based on Projects' achievement of Milestone Dates; Financial Releases; Special Review Missions; Overall Performance; and Relevance of Project Design and Formulation. The detailed description against each indicator is as follows:-

Indicators	Detailed Description
Milestones dates	Milestone dates include the key date a project need to catch-up to ensure that its activities are on track such as loan approval, signing, effectivity, completion and closing.
Financial Releases	Financial releases include the actual disbursements against estimated disbursements each year and total disbursement of the project against the net loan amount estimated at appraisal.
Bank Review Mission	Special Review mission fielded by the Bank (how often and at what stage of the project) and what were the outcomes and measures taken against issues identified.
Overall Performance	The overall performance of the project to know whether physical outputs and projected outcomes at the project preparation stage were achieved or not.
Relevance of Project and Design	Relevance of the project with respect to government of Pakistan's poverty reduction agenda as well as Bank's country partnership strategy. The desired goals were attained or not, and effects of project design on overall project performance.

Information for the case study analysis was mainly excerpted from project completion reports from the executing agencies, evaluation reports compiled by the ADB, portfolio performance reviews conducted jointly by the ADB and Ministry of Economic Affairs and Statistics along with the informal interviews from pertinent stakeholders by the author.

CASE STUDY - I

Project (Loan No.)	Reproductive Health (1900)																																	
Location	Federal, NWFP, Balochistan, Sindh, Punjab provinces																																	
Thematic Area	Health, Nutrition, and Social Protection																																	
Sponsoring Agency	Ministry of Health																																	
Implementing Agency	M/O Health and M/O Population Welfare & Provincial Health Departments.																																	
Objectives/Outcomes	The project had a dual objective of:- (a) increasing the use of reproductive health services in 34 poor and underserved districts, and (b) strengthening the sector capacity for reproductive health services in the context of the government's restructuring process.																																	
Mode of Financing	Asian Development Fund (ADF), Special Fund (SF)																																	
Terms & Conditions	Repayment	Grace Period	Interest																															
	32 yrs	8 yrs	1% p.a during GP & 1.5% thereafter																															
Milestone Dates	Board Approval	Signing	Effectivity	Closing																														
	20-12-2001	20-03-2002 20-03-2003	20-06-2002 24-02-2004	31-12-2007 30-06-2008 18-08-2009																														
Net Loan Amount	US\$ 5,678 million																																	
Financial Releases (US\$ Million)	Principal Amount	Cancelled	Disbursement																															
	44,072	38,394	5,678																															
Profile of Disbursement	<table border="1"> <caption>Disbursement Profile Data (US\$ Millions)</caption> <thead> <tr> <th>Year</th> <th>Projected Disb</th> <th>Actual Disb</th> </tr> </thead> <tbody> <tr><td>2001</td><td>0.000</td><td>0.000</td></tr> <tr><td>2002</td><td>0.000</td><td>0.000</td></tr> <tr><td>2003</td><td>0.000</td><td>0.000</td></tr> <tr><td>2004</td><td>0.500</td><td>0.000</td></tr> <tr><td>2005</td><td>1.000</td><td>2.500</td></tr> <tr><td>2006</td><td>3.000</td><td>2.500</td></tr> <tr><td>2007</td><td>3.000</td><td>2.200</td></tr> <tr><td>2008</td><td>1.500</td><td>0.000</td></tr> <tr><td>2009</td><td>0.000</td><td>-1.500</td></tr> </tbody> </table>				Year	Projected Disb	Actual Disb	2001	0.000	0.000	2002	0.000	0.000	2003	0.000	0.000	2004	0.500	0.000	2005	1.000	2.500	2006	3.000	2.500	2007	3.000	2.200	2008	1.500	0.000	2009	0.000	-1.500
Year	Projected Disb	Actual Disb																																
2001	0.000	0.000																																
2002	0.000	0.000																																
2003	0.000	0.000																																
2004	0.500	0.000																																
2005	1.000	2.500																																
2006	3.000	2.500																																
2007	3.000	2.200																																
2008	1.500	0.000																																
2009	0.000	-1.500																																
Issues during implementation	<ul style="list-style-type: none"> - weak institutional commitment and capacity - lack of stakeholders coordination - late establishment of PCU - no project administration manual was prepared 																																	

Discussion on Project ‘Reproductive Health’ (1900)

1. Milestone Dates

The project was initially designed to implement within 6 years (July 2002 to Dec 2007). ADB Board approved the loan on 20 December 2001 but due to inability of the executing agencies to secure Government approval for PC-I Form²², loan signing took place on 20 March 2003, exactly one year later than the planned date. The loan becomes effective on Feb 2004 instead of 20 June 2003 (a delay of eight months) because of non establishment of PCU. Though the Project completion report (PCR) or any other project document does not explain why PC-I approval and establishment of PCU was delayed but it clearly shows the lack of Government commitment, lack of management capacity at federal and provincial level to put these into place.

Despite initial delays in the project the closing date of Dec 2007 was maintained. The PCUs and PIUs were established by early 2006 - four years after project approval, and less than two years before the closing date. With barely two years to catch up with the delays in implementation, project achieved 30% of its physical targets and spent only 18.8% of the estimated total project cost. The loan closing date was extended twice and loan account was closed on Dec 2010. Though the project has more or less same six years of implementation as planned at appraisal but project implementation was seriously jeopardized.

2. Financial Releases

A critical element for successful project implementation, PCUs was established after four years, therefore, many activities could not be carried out in time. At loan closing the project used only \$8.44 million (18.8%) out of of the \$45 million estimated; about 86% of the original loan was cancelled due to the implementation delays. The

²² PC-I is essential for securing government counterpart funds and for project implementation.

first disbursement was made on 28 January 2005 and the final disbursement on 18 August 2009. Disbursement was low in the first 3 years of project implementation (6% against an elapsed period of 62%), but increased somewhat after all the PCU was established by early 2006. Especially, starting from 2004 the pace of disbursement was faster than originally planned at appraisal.

3. Bank Review Mission

Despite numerous issues and pertinent delays in the very beginning of the project ADB did not call any serious attention to executing agencies. Only one loan review mission - an year after the loan declared effective was fielded (February 2005) to oversee project implementation. The second review mission (July 2006) could not be completed because of some personal emergency of one of the loan mission members. ADB's internal monitoring system did not trigger any warning until 2007, and then it was too late to compensate for the problems faced by project.

4. Overall Performance

The project achieved only 30% of its physical targets and could not perform well in almost all components. The PCR rated it 'unsuccessful' project as it was '*partly relevant, highly structured, ambitious, unrealistic, ineffective and unlikely to be sustained*' that leads to un-fulfilment of the policy objectives to be achieved through this project.

Most of the problems associated with the project could have been mitigated. Delayed approval of PC-I, non-establishment of PCU, unqualified staff etc were not new and already anticipated in the PC-I. Intermediate technical assistance could have provided by ADB to help set up PCU and train staff, or hired more qualified staff. Government could have coordinated with key stakeholders (executing/implementing

agency officers) to work-out preliminary activities and ensure the project requirements i.e. adequate counterpart funds, imprest account.

5. Relevance of Design and Formulation

Despite its significance and relevance to Poverty Reduction Strategy Plan (PRSP) of Government and ADB's Country Partnership Strategy (CPS), the project performance was considerably eroded due to its "*complex and ambitious design*" implementation structure with 52 entities involved in day-to-day work management. None of the project staff was hired according to project design. Quality of civil works was not upto the standards mainly because of the industry norm and failure of project monitoring and evaluation mechanism. Project design failed to ensure implementing capacity and none of government and ADB project staff initiate any action to remedy such perennial problems. Given institutional constraint, a simple implementation mechanism or project design could have been made. Necessary mitigation measures could have built in project design keeping in view the potential implementation risks.

CASE STUDY-II

Project (Loan No.)	Restructuring of Technical Education & Vocational Training System (2133)																															
Location	Balochistan Province																															
Thematic Area	Technical Education																															
Sponsoring Agency(s)	Education Department, Govt. of Balochistan. Labor & Manpower Department, Govt. of Balochistan. Provincial C& W Department for Civil Works.																															
Implementing Agency	Planning & Development Deptt. Govt. of Balochistan																															
Objectives/Outcomes	Improve quality and relevance of TEVT programs through more equitable access to better quality programs, with focus on females and rural poor, enhanced employability of graduates, and enhanced institutional efficiency of key TEVT institutions.																															
Mode of Financing	Asian Development Fund																															
Terms & Conditions	Repayment	Grace Period	Interest																													
	32 yrs	8 yrs	1% p.a during GP & 1.5% thereafter																													
Milestone Dates	Board Approval	Signing	Effectivity	Closing	Revised Closing																											
	14-12-2004	22-03-2005	22-06-2005 23-08-2005	30-04-2011	24 May 2010																											
Net Loan Amount	US\$ 22.9 million (17.5 ADB + 5.4 GoP)																															
Financial Releases (US\$ Million)	Principal Amount	Cancelled	Disbursement																													
	16,152	12,105	4,047																													
Profile of Disbursement	<table border="1"> <caption>Profile of Disbursement Data (Estimated from Graph)</caption> <thead> <tr> <th>Year</th> <th>Projected Disb (US\$ Millions)</th> <th>Actual Disb (US\$ Millions)</th> </tr> </thead> <tbody> <tr> <td>2004</td> <td>0.00</td> <td>0.00</td> </tr> <tr> <td>2005</td> <td>0.40</td> <td>0.60</td> </tr> <tr> <td>2006</td> <td>0.30</td> <td>0.30</td> </tr> <tr> <td>2007</td> <td>1.70</td> <td>1.70</td> </tr> <tr> <td>2008</td> <td>2.70</td> <td>1.60</td> </tr> <tr> <td>2009</td> <td>0.20</td> <td>0.10</td> </tr> <tr> <td>2010</td> <td>0.10</td> <td>0.10</td> </tr> <tr> <td>2011</td> <td>0.00</td> <td>0.00</td> </tr> </tbody> </table>					Year	Projected Disb (US\$ Millions)	Actual Disb (US\$ Millions)	2004	0.00	0.00	2005	0.40	0.60	2006	0.30	0.30	2007	1.70	1.70	2008	2.70	1.60	2009	0.20	0.10	2010	0.10	0.10	2011	0.00	0.00
Year	Projected Disb (US\$ Millions)	Actual Disb (US\$ Millions)																														
2004	0.00	0.00																														
2005	0.40	0.60																														
2006	0.30	0.30																														
2007	1.70	1.70																														
2008	2.70	1.60																														
2009	0.20	0.10																														
2010	0.10	0.10																														
2011	0.00	0.00																														
Issues	<ul style="list-style-type: none"> - Incoherent and unstructured implementation. - Weak institutional capacity and coordination problems among stakeholders. - Overambitious, unrealistic interventions with complex project design. 																															

Discussion on Project ‘Restructuring of TEVT System’ (2133)

1. Milestone Dates

The project was initially scheduled for the period of six years (June 2005-April 2011). The loan was signed on March 2005 and become effectiveness on 23 Aug 2005. Balochistan is an underdeveloped province with difficult social, cultural, political and economic conditions as well as weak institutional capacity of the government departments. The fundamental difference between expectations and implementation realities, such unrealistic and over ambitious natured project become difficult to implement.

Project was based on assumptions which do not fit the local culture. Weak capacity and lack of coordination between stakeholders, discrepancies between ADB project document (RRP) and government (PC-I), unrealistic cost estimates and overly designed civil works structures, incoherent and unstructured implementation lead towards slow and unsatisfactory progress. Considering project was ineffective and unlikely to be sustainable, government requested ADB to cancel un-utilized amount of loan and move the loan closing date forward, from April 2011 to May 2010.

2. Financial Releases

Keeping in view the complexity of project and weak implementation capacity of the executing agencies, project faced severe problems. Hiring of consultants and procurement was delayed mainly because of weak capacity of management’s to understand project design as well as unstructured implementation mechanisms. Poor inventory management of the procured equipment because of lack of trained staff to use them. Consultants/contractors also perform unsatisfactory due to weak management credentials. Only 24.8 percent disbursement (4.0 m out of 16.152m) could be made against elapsed loan period of 78 percent. Remaining amount of 12.2 million,

equivalent to 75% of the original loan amount, was cancelled, as expected that project may not accomplish its objectives. Therefore, disbursement targets could not be achieved due to slow physical progress.

3. Bank Review Mission

Both ADB and Government agreed on the need of the project but discrepancies in definition of project scope in the ADB project document (RRP) and government (PC-I), confusion about the implementation arrangements persisted during project life cycle. Given the weak implementation capacity of the executing and implementing agencies to recruit consultants to design and introduce reforms, ADB made no serious effort to work with the project staff to mitigate problems. High turnover of project officers administering the project at ADB also added towards issues. ADB's internal project performance monitoring system did not trigger any danger signs until late 2007 — letting project slip initially to 'at risk' rating, and finally to early closure.

ADB and Government had to conduct two joint semi-annual reviews (including at least one full review) of the project every year. ADB missions were, however, fielded only once a year from 2006. The heightened security risk in 2009 and UN security recommendations also restricted missions to the project area. Both ADB and government performance was rated '*partly satisfactory*' in PCR.

4. Overall Performance

The project was rated 'unsuccessful' as it achieved only 26 percent of the physical progress, presenting poor contract award and disbursement performance. The wide gap between the time elapsed and the physical progress was due to complex project design; overambitious and unrealistic nature of interventions; unfamiliarity of the executing and implementing agencies with ADB guidelines and procedures

(procurement guidelines were violated seriously); lack of coordination between executing and implementing agencies; discrepancies between ADB's project document (RRP) and government's project document PC-I; overdesign of civil works structures and unrealistic cost estimates; and frequent changes in project teams at ADB and resultant delays in approval.

5. Relevance of Design and Formulation

Support for the TEVT subsector was in line with ADB's country strategy and Government of Pakistan's PRSP. ADB and government expected different outcomes from the project. Government was interested in strengthening its TEVT network by improving infrastructure and equipment, while ADB was more concerned with policy reforms, curriculum, and management of TEVT institutions. Sensing disagreement, it was decided to terminate the loan agreement.

CASE STUDY-III

Project (Loan No.)	NWFP Barani Area Development (1787)				
Location	Kohat, Karak, Abbottabad, Haripur, Batagram, Mansehra, Kohistan, Bannu and Lakki Marwat, and Orakzai Agency of FATA				
Thematic Area	Sustainable Livelihood				
Sponsoring Agency	Planning & Development Department, NWFP				
Implementing Agency	District line Agencies of Works & Services, Irrigation, Agriculture, and Forest & NGO's				
Objectives/Outcomes	It aims to reduce poverty in remote areas of NWFP, particularly among small land holders and landless peoples, to improve the status of women in the traditionally conservative areas where access to opportunities have been limited.				
Mode of Financing	Asian Development Fund				
Terms & Conditions	Repayment	Grace Period	Interest		
	32 yrs	8 yrs	1% p.a during GP & 1.5% thereafter		
Milestone Dates	Board Approval	Signing	Effectivity	Closing	Account Closing
	28-11-2000	28-02-2001 14-06-2001	12-09-2001 04-02-2002	31-12-2008	30-06-2010
Net Loan Amount	US\$ 45.010 million				
Financial Releases (US\$ Million)	Principal Amount	Cancelled		Disbursement	
	60.533	15.523		45.010	
Profile of Disbursement					
Issues	<ul style="list-style-type: none"> - Project start-up delays of 14 months [Nov 2000 – Feb 2002] - Poor administrative arrangements 				

Discussion on Project ‘NWFP Barani Area Development’ (1787)

1. Milestone Dates

Project was designed for implementation period of almost 7 years (Jan 2002 to Dec 2008). The project suffered from start-up delays of 14 months from board approval to loan effectiveness (Nov 2000 to Feb 2002) because of delayed approval of PC-I document by the government. Establishment of offices and project accounts, and recruitment of staff were completed in May 2003. The project became fully operational in 2004, but due to earthquake in 2005 and its aftermath, project slipped its implementation plan whereas almost all project activities were completed on 31 December 2008. The loan was closed on 30 June 2010 due to some accounts resettlement issues.

2. Financial Releases

Disbursement was initially slow in the first 4 years (2002–05), but raised in the last 3 years (2006–08). Simple loan effectivity and disbursement conditions as well as retroactive financing facility helped successful completion of the project. Project achieved 75% of its disbursement targets (\$45 million out of \$ 60 million) whereas 25% of the loan was cancelled as one of the projects’ component ‘Rural Financial Services’ could not be launched due to lack of institutional capacity and high service delivery cost. The initial disbursement was made about 18 months after loan approval, and the final disbursement was made on 31 March 2010, 15 months late due to delayed submission of final claims by the EA. Poor administrative arrangements, and slower project implementation effected disbursement negatively. ADB also took on average 2.3 months processing time of withdrawal application, as imprest account and the statement-of-expenditure procedure were used for payments.

3. Bank Review Mission

To ensure project activities are on track, ADB carried out eight review missions, trained EA staff in disbursement and procurement guidelines, revised the civil works design standards, and strengthened the project offices. ADB's overall performance seem satisfactory but EA expressed displeasure over delays in disbursements due to systemic problems faced, no loan extension policy by Bank show lack of commitment to stand-alone community development projects. PCR rated executing agency performance '*highly satisfactory*' whereas ADB performance was rated '*satisfactory*'.

4. Overall Performance

The project completed 80 percent of the estimated cost surpassing appraised targets for all components except rural financial services component (\$17.5 million) which was not implemented due to lack of implementing capacity of the EA. The project's compliance with key social, financial, environmental, economic, and other implementation-related conditions was satisfactory. Simple loan effectivity and disbursement conditions and responsiveness to security crises and natural disasters helped successful project completion.

5. Relevance of Design and Formulation

Both primary and secondary objectives of the project, poverty reduction; gender and development were consistent with ADB's Country Partnership Strategy and Government's commitments on gender equality and rural development. Project impact showed that most appraised activities were relevant and helped increase agriculture productivity, water-use efficiency, and access to services. Most of the appraisal targets were generally accomplished or surpassed.

CASE STUDY-IV

Project (Loan No.)	Sindh Road Sector Development Project (1892-Pak)																																					
Location	Sindh Province																																					
Thematic Area	Roads & Highways																																					
Sponsoring Agency	Communication & Works Department, Government of Sindh																																					
Implementing Agency	Works & Services Department, Government of Sindh																																					
Objectives/ Outcomes	<ul style="list-style-type: none"> ▪ Improvement of provincial highways; ▪ Improvement and rehabilitation of rural access roads; and ▪ Implementation of the Poverty Reduction Pilot Program. 																																					
Mode of Financing	Ordinary Capital Resources (OCR)																																					
Terms & Conditions	Repayment	Grace Period	Interest																																			
	15 yrs	3 yrs	Libor based																																			
Milestone Dates	Board Approval	Signing	Effectivity	Closing	Revised Closing																																	
	19-12-2001	01-02-2002	01-05-2002 25-09-2002	30-6-2007	30-06-2009 16-07-2010																																	
Net Loan Amount	US\$ 63.044 million																																					
Financial Releases (US\$ Million)	Principal Amount	Cancelled		Disbursement																																		
	89.080	26.036		63.044																																		
Profile of Disbursement	<table border="1" style="display: none;"> <caption>Estimated Data for Profile of Disbursement (US\$ Millions)</caption> <thead> <tr> <th>Year</th> <th>Projected Disb</th> <th>Actual Disb</th> </tr> </thead> <tbody> <tr><td>2001</td><td>0.0</td><td>0.0</td></tr> <tr><td>2002</td><td>2.0</td><td>1.0</td></tr> <tr><td>2003</td><td>0.0</td><td>0.0</td></tr> <tr><td>2004</td><td>5.0</td><td>2.0</td></tr> <tr><td>2005</td><td>15.0</td><td>10.0</td></tr> <tr><td>2006</td><td>20.0</td><td>15.0</td></tr> <tr><td>2007</td><td>20.0</td><td>25.0</td></tr> <tr><td>2008</td><td>40.0</td><td>48.0</td></tr> <tr><td>2009</td><td>15.0</td><td>15.0</td></tr> <tr><td>2010</td><td>0.0</td><td>0.0</td></tr> </tbody> </table>					Year	Projected Disb	Actual Disb	2001	0.0	0.0	2002	2.0	1.0	2003	0.0	0.0	2004	5.0	2.0	2005	15.0	10.0	2006	20.0	15.0	2007	20.0	25.0	2008	40.0	48.0	2009	15.0	15.0	2010	0.0	0.0
Year	Projected Disb	Actual Disb																																				
2001	0.0	0.0																																				
2002	2.0	1.0																																				
2003	0.0	0.0																																				
2004	5.0	2.0																																				
2005	15.0	10.0																																				
2006	20.0	15.0																																				
2007	20.0	25.0																																				
2008	40.0	48.0																																				
2009	15.0	15.0																																				
2010	0.0	0.0																																				
Issues	<ul style="list-style-type: none"> - Inadequate capacity of executing agency to implement project - Lack of interest and commitment at part of Government - Slow decision making process - Slow disbursement initially - Overly optimistic schedules. 																																					

Discussion on Project ‘Sindh Road Sector Development’ (1892)

1. Milestone Dates

The project was initially planned for five years (June 02- June 07). Loan was declared effective after seven months of loan signing on part of delayed approval of PC-I by the government. Major activities were targeted to be completed by Dec 2006 but project authority had inadequate capacities and available resources in terms of project readiness, commitment to resolve major issue. Project was scheduled overly optimistic and completion periods for important milestones were inadequate. Despite its extensions for three years, not all components could achieve complete progress.

2. Financial Releases

At project completion, \$63.044 million out of total \$89.080 million was disbursed. Project disbursement delays attributed to currency exchange rate variations - the value of ADB loan becomes \$179 million which was \$150 million at time of appraisal. Other delays include procurement delays, late deployment of project staff and contractors and consultants, delays in processing withdrawal applications, processing of the loan extension request. Therefore, amount of \$ 26 million was cancelled as civil works of provincial highways could not utilize its targeted amount (\$26m out of total \$56m). Even after two years of project extension, disbursement targets could not be met.

3. Bank Review Mission

ADB fielded nine review missions during implementation and completion stages provide valuable suggestions to PMU on project planning, resolution of issues, social and environmental safeguards etc. As the matter of fact these interventions were made on the later stages then earlier - could be more effective if provided on the early stages of project. PMU rated ADB’s performance ‘*partly satisfactory*’ due to frequent

changes in its administration staff and delayed disbursements and procurements. ADB allowed three years loan extension and minor changes in scope to accelerate progress and improve results.

4. Overall Performance

Rated ‘partly satisfactory’ due to its heavy reliance on consulting services and poor performance of the consultants; some of its objectives were undermined. Related issues include late mobilization of consultants, lack of interest among prequalified contractors in the bidding process, delayed procurement of civil work contracts—mainly because of poor preparation and long review processes, contractual and legal issues raised by some of the contractors; and impractical unit rates resulting from long implementation delays and high inflation.

Main weaknesses of the project arose from insufficient ownership and lack of commitment from Government. Essential assumptions for success for institutional development and capacity building include strong commitment, consistency, dedicated resources, and continued encouragement for behavioral change. But inadequate staffing, long decision making procedures at critical stages, implementation delays and lack of monitoring and evaluation mechanism contributed towards poor performance.

5. Relevance of Design and Formulation

Road transport sector is considered as backbone of economic development in rural areas. Therefore project was relevant with GoP’s economic growth and poverty reduction strategy and consistent with the needs of national infrastructure development priorities. ADB prioritized the investment according to its Country Partnership Strategy to help improve rural network of roads.

It was assumed that Govt. of Sindh has sufficient experience and adequate resources to implement this project successfully. But low outputs of the project and

implementation delays throughout the project period concluded that government was not ready for implementation of the project with true commitment and enthusiasm. Lack of interest and commitment as well as slow decision making was obvious during the entire implementation period.

CASE STUDY-V

Project (Loan No.)	Punjab Road Development Sector (1928)																															
Location	Punjab Province																															
Thematic Area	Economic growth																															
Sponsoring Agency	Communication and Works Department, Government of Punjab																															
Implementing Agency	Communication and Works Department, Government of Punjab																															
Objectives/ Outcomes	(i) improving the rural access road network, increasing access to markets and social services for rural populations, and reducing rural poverty; (ii) improving important provincial highways to facilitate trade and provide better income and employment opportunities; (iii) supporting organizational reforms and institutional strengthening of the Punjab Communication and Works Department (CWD), including devolution and expansion of e-governance; (iv) preserving road infrastructure and improving assets management by increasing the planning and budgeting capacity at the CWD; (v) improving the process of road maintenance, creating a provincial road maintenance funding mechanism; and (vi) increasing private sector participation in road infrastructure development and maintenance.																															
Mode of Financing	Ordinary Capital Resources (OCR)																															
Terms & Conditions	Repayment	Grace Period	Interest																													
	15 yrs	3 yrs	Libor based																													
Milestone Dates	Board Approval	Signing	Effectivity	Closing	Account Closing																											
	31-10-2002	31-01-2003 26-03-2003	31-04-2003 26-06-2003	31-12-2008	02-09-2009																											
Net Loan Amount	US\$ 82.838 million																															
Financial Releases (US\$ Million)	Principal Amount	Cancelled	Disbursement																													
	185.757	102.919	82.838																													
Profile of Disbursement	<table border="1"> <caption>Profile of Disbursement Data (Estimated from Graph)</caption> <thead> <tr> <th>Year</th> <th>Projected Disb (US\$ Millions)</th> <th>Actual Disb (US\$ Millions)</th> </tr> </thead> <tbody> <tr> <td>2002</td> <td>0.00</td> <td>0.00</td> </tr> <tr> <td>2003</td> <td>1.00</td> <td>1.00</td> </tr> <tr> <td>2004</td> <td>3.00</td> <td>3.00</td> </tr> <tr> <td>2005</td> <td>10.00</td> <td>10.00</td> </tr> <tr> <td>2006</td> <td>10.00</td> <td>10.00</td> </tr> <tr> <td>2007</td> <td>13.00</td> <td>13.00</td> </tr> <tr> <td>2008</td> <td>45.00</td> <td>45.00</td> </tr> <tr> <td>2009</td> <td>6.00</td> <td>6.00</td> </tr> </tbody> </table>					Year	Projected Disb (US\$ Millions)	Actual Disb (US\$ Millions)	2002	0.00	0.00	2003	1.00	1.00	2004	3.00	3.00	2005	10.00	10.00	2006	10.00	10.00	2007	13.00	13.00	2008	45.00	45.00	2009	6.00	6.00
Year	Projected Disb (US\$ Millions)	Actual Disb (US\$ Millions)																														
2002	0.00	0.00																														
2003	1.00	1.00																														
2004	3.00	3.00																														
2005	10.00	10.00																														
2006	10.00	10.00																														
2007	13.00	13.00																														
2008	45.00	45.00																														
2009	6.00	6.00																														
Issues	<ul style="list-style-type: none"> - Procurement delays, late hiring of consultants/contractors - Lack of ownership, interest and commitment - Inefficient staffing and reduced scope of the project. 																															

Discussion on Project ‘Punjab Road Development Sector’ (1928)

1. Milestone Dates

The project was planned for five years (June 03 – Dec 08). It faced initial delays of 8 months from board approval to effectiveness because late establishment and mobilization of Project Engineering Cell (PEC). On project completion not much of the progress was achieved due to various factors contributing slow progress such as delayed hiring of consultants and procurement of civil works, insufficient staffing and government of Punjab’s lack of commitment in implementing the project. Though project activities were not completed but project closed on its original closing date (Dec 2008) due to non-extension policy of Bank and Government. Loan account closing took place 9 months later then physical activities were completed.

2. Financial Releases

On completion project utilized \$82.838 million of project funds out of \$185.757 million estimated at appraisal. The difference (56% of the original loan) was either through variations in the foreign currency exchange rate, or due to the reduced scope of the Project. Due to Government of Punjab’s lack of commitment and poor implementing capacity of project authorities, two main components ‘institutional reform’ and ‘capacity building component’ were dropped. Provincial Road component and Rural Access Road component could utilize 42% and 30.5% of the total cost respectively. The disbursement delays were mainly because of procurement delays; late hiring of contractors and consultants; and slow processing of withdrawal applications.

3. Bank Review Mission

ADB performance was rated ‘partly successful’ as some delays in the processing of procurement and disbursements were observed quite often. ADB fielded eleven review missions including two project completion missions, offered critical

recommendations; advised on planning, procurement, construction management, environmental mitigation measures, resettlement policies, and resolution of technical issues. The performance of monitoring team was not satisfactory as they did not keep track of project activities diligently. The issues project faced since beginning could have been rectified if ADB had intervened earlier.

4. Overall Performance

With reduced scope, the projected outcomes have partly been achieved. The initiative of institutional development support, capacity building, and institutional reforms subcomponents achieved minimal results and were less effective. Prolonged land acquisition issues, financing and materials shortfalls, and poor monitoring and evaluation reports. PEC, consultants and the contractors had limited capacities. Project also faced difficulties in retaining experienced staff due to low wages in high risk security situations. The main weaknesses of the Project arose from the Government of Punjab's lack of ownership, commitment and readiness. Decision making and approval delays by the government added to further implementation delays. Given all constraints and optimistic project schedule, progress remained behind during the entire period of implementation.

5. Relevance of Design and Formulation

The project investment was consistent with the sectoral priorities of the Government as Vision 2030 considers road infrastructure improvement as a key strategy for accelerating trade and economic growth. ADB Country Partnership Strategy also emphasizes the need of infrastructure and its improvement. The Project design was successful as its objectives, performance indicators, and targeted outputs were realistic. Even with reduced scope of the project these all objectives were somewhat achieved in consistency with national road transportation needs and development priorities.

5.2 Discussion on Key Findings²³

The case study on the sample projects have analyzed five core indicators to measure progress against each project i.e. achieving key milestone dates, financial releases, special review missions by the Bank, the overall project performance, and relevance of project design with government's and ADB's development strategies. The result against each indicator is as follows:-

1. Achieving Milestones dates

Achieving key milestone such as approval, signing, effectivity and closing dates faced serious delays. All projects suffer from initial delays (start-up delays) i.e. loan 1928 and 2133 face two month delays in signing and effectivity respectively; seven months in signing (loan 1892) whereas loan 1787 (14 months) and 1900 (2 years) also faced serious delays at early stage of the project. Initially slipped project milestones dates further lead towards implementation delays and at the end seeking extensions in loan closing (2133 – one year; 1900 – 2 years; 1892 – 3 years) to complete physical activities whereas loans 1928 and 1787 faced 9 months and 18 months delays respectively in closing of loan account due to resettlement issues between Bank and PMU. The reasons associated for such delays include delayed approval of project PC-I documents mainly because of delayed inter-ministerial approvals; establishment of PMU and recruitment of competent key staff; inadequate capacity of project authorities in terms of project readiness and commitment during implementation.

2. Financial Releases

Project disbursements were slow due to various reason associated to each project. As most of the projects were initially slipped, physical activities were difficult to

²³ Detailed results – stylized causes against each project and its reason are presented at Annex-VI.

maintain with the targeted as well as the financial releases. Out of five sample projects two projects 1892 and 1787 achieve 70% and 75% of the disbursement targets respectively. The other three sample projects could not even achieve half of its disbursement mainly because of delayed establishment of PMU (1900 – 18.8%), slow physical progress due to inability of project authorities to understand project design (2133 – 24.8%) delayed hiring of consultants/contractors to implement project (1928 – 44.5%) and inadequate institutional capacity to implement, major components were dropped (1787; 1928). Projected and actual disbursement profile against each project is presented at annex-V.

A more serious problem was the cancellation of a substantial proportion of the original loan amount due in particular to the lack of commitment and ownership of the projects or some components of the projects. For some projects the cancelled loan amount reached more than 70%-80% of the original loan amount. For those cancelled amount the government of Pakistan had paid commitment fees to the ADB until the date of cancellation.

3. Bank Review Mission

Analysis shows that projects which were reviewed properly by the Bank through review missions had better performance than others. If disbursement targets are taken as physical progress, the two projects 1787 and 1892 having highest disbursements among all projects were reviewed eight and nine times respectively during its implementation. Bank also provided valuable suggestion to PMU on project planning and resolutions of issues (1928). These missions were helpful in resolving the critical issues in timely manner as well as achieving important milestones. The remaining two projects of Health and education sector suffered because only one loan review mission was fielded

(1900) and no serious effort was made to work with project staff to resolve project related inefficiencies (2133) and finally the project faced advance closure.

4. Overall Performance

According to project completion report only one project 1787 was rated as '*successful*' - reviewed eight times and achieved 75% of its disbursement targets. Two projects 1928 and 1892 were rated '*partly successful*' whereas the other two projects 1900 and 2133 were rated '*unsuccessful*'. Some of the indistinguishable reasons for the unsuccessful projects include highly structured project design, over ambitious and unrealistic project interventions, partly relevant designs as per government institutional capacities to implement, lack of qualified staff for PMU, lack of coordination between multiple stakeholders, unfamiliarity of executing and implementing agencies with ADB guidelines and procedures, long decision making procedures and inter ministerial approvals (PC-I), poor monitoring mechanism, and insufficient ownership and commitment by government.

5. Relevance of Design and Formulation

All the projects were in line with ADB and government priorities, but problems associated with each lead to certain failures. Lack of institutional and implementing capacity of the government and implementing agencies (1900), difference expected outcomes by ADB and government (2133), lack of government interest and commitment (1892). Two of the projects (1787 and 1928) had comparatively better performance due to realistic project design; achievable objectives, and key performance indicators and milestones, projects could accomplish appraisal targets.

The present study describes foreign aid implications theoretically as well as a case study analysis of ADB-financed projects in Pakistan. The study also highlighted the causes for implementation delays on project performance and analyses its effects on foreign aid efficacy.

6.1 Summary of Results

The project performance was analyzed with the help of sample case studies of ADB-financed projects. It was observed in most of the cases, issues affecting project performance are identical. Some of the important characteristics include project start-up delays (long time taken for approval of PC-I by the government and meeting of effectivity conditions), weak institutional capacity of the project authorities and government, coordination problems among stakeholders, unrealistic project interventions, unstructured implementation mechanism, poor administrative arrangements with deficient qualified staffing, and lack of ownership, interest and commitment on government part. As per our hypothesis, ADB-financed projects suffered from three types of implementation delays: due to poor preparation and planning, lack ownership and commitment, and lack of institutional capacities. Whether case study analysis confirms the hypothesis or not, the details against each type of delay as well as its associated causes are discussed below:-

The results of case study analysis confirm the hypothesis that project lacks good planning and preparation before the project take-up. All projects have suffered from the the initial delays ranging from the period of two months (1928) to two years (1900) in loan signing and effectivity mainly because of delayed approval of project

PC-I document by the government - delayed inter ministerial approvals and establishment of PMU and hiring of key staff to run the project. These prolonged initial delays make project authorities to seek for project extensions for no less than two (1900) to three (1892) years. Despite essential project interventions in key sectors, poor administration and implementation does not produce the desired results. First of all in the very start of a project, delayed approval of PC-I clearly indicates that government lacks proper coordination to achieve project's critical milestone targets. Secondly, failure to meet project effectivity conditions such as establishment of project management unit and installation of important project staff shows governments lack of commitment to implement its development agenda.

There is lack of institutional capacity to work out project activities and ensure project requirements at federal and provincial levels. One of the reasons is either PMU does not have enough management capacity (1900, 1787) in terms of qualified personnel or the given human resource is not capable of understanding and implementing project requirements (2133, 1892). Heavy reliance on consultancy services and inability to hire consultants on time, lacking required credentials, and poor monitoring of the consultant performance produce terrible results. Inadequate capacity in terms of project readiness and commitment (1892) to resolve major issues and much higher expectations of the project interventions than the institutional realities of the agencies (2133, 1900) make a project difficult to implement. After project realization, important interventions of the project were dropped because of poor institutional capacity. In two projects 25% (1787) and 65% (1928) of the total loan amount was cancelled due to inability of the implementing agencies to implement 'institutional reform' one of the important project component. Poor administrative arrangements,

monitoring and evaluation mechanism and slow decision making process at critical stages produce poor results.

The imperative cause associated to all the project related issues was identified after case study analysis. Given the plenty of resources (funds), lack of institutional capacity or ‘absorptive capacity’ of executing and implementing agencies is a due hurdle in achieving desired project results. Such institutional capacity can be associated to procedural delays at critical stages, weak coordination among stakeholders, poor commitment/interest or ownership by government and project readiness, over ambitious project design, weak monitoring mechanism and accountability by political authorities and management. Detail of each issue highlighted, its underlying problem, stakeholder’s opinion and researcher’s recommendation for future policy implications are given below.

6.2 Findings and Recommendations

ADB financed projects in Pakistan faced issue of inadequate preparation and planning at the initial and very crucial stage of the project management cycle. The real problem exists during the preparation of project document (PC-I) by the line ministries, its timely completion and its approval from the competent authority. It was observed that the issue of ensuring the timelines has an extreme importance given the foreign aided nature of the projects. All five case studies undertaken have faced start-up delays and lately requested for loan extensions (once or twice) at the end to complete physical activities of the project. One of the reasons to this delay could be the difference in the financial calendars to implement project activities between government and donor as well some decision making or approval delays at government part.

To evade this, projects with complete design and feasibility study should be approved in the current budget. The Project document PC-I should comprise of a complete and concise roadmap or timelines for all the activities should be prepared at the start of the project and meet accordingly with rigorous monitoring processes to complete the physical activities on time. The same should be approved by the competent authority right before or after the project is approved by the ADB Board, so that project signing could be take place within specified period. Other effectivity conditions such as establishment of project management unit and availability of counterpart funds should be made. This will help not only avoid interest charges by the donor but also to achieve the development objectives of that project.

Another common issue, i.e., lack of interest and ownership from the government agencies also hampers the project performance. Project initiation and implementation is done by the different program authorities. This discontinuity of process between initiators and implementers at times make it really difficult to visualize the project design and its outputs. To resolve this issue, the project director and some other staff should be hired by the ministry who could largely be involved during the project design, formulation of the project and coordinate with the relevant stakeholders.

Poor management capacity is important factor effecting performance in almost all project case studies. Projects lack qualified professionals, who do not understand the project requirements. Organizational inability to hire consultants on time, poor performance of consultant due to lack of monitoring and accountability, poor administration and inability to implement project vigorously. To tackle this issue, project authorities should hire people with desired qualifications or in other case build individual capacities in the field of project management for effective implementation of the project. To retain project staff, incentives should be given for good performance and

penalties for poor performers. Government should collaborate with international donors for implementing institutional reform process, and seek more of technical assistance for building the institutional capacities of the government project authorities.

The study highlighted the drawbacks of donor driven project designs ultimately lead to project failures. Two projects were badly affected due to the over ambitious project design without realizing the practical realities of the existing culture. Out of 67 ADB projects feasibility study of almost 97% of the projects were done by the international consultants who cannot accurately identify the local culture specific aspects. It was noticed that all feasibility studies (PC-II Performa) are filled in with the information provided by the donors - no local wisdom or need analysis is taken into consideration. As a matter of fact, designs from local engineers and consultants are more practical and implementable than those of international.

Government agencies should focus on enhancing the expertise in developing and designing the project feasibility documents. Both donor and government should be involved in designing projects with direct input from the project beneficiaries. In the present set up of the public sector executing and implementing agencies development of project document - a specific expertise is rare or non-existent. There is need to build the capacity of involved government officials and improve their understanding on project processes.

Lastly, the reality which could not be disregarded is bureaucratic delays, and political constraints and interferences that halt the development process. Extensive time taken in the decision making at various stages of project implementation makes it difficult to meet deadlines. Though few but politically favored projects make it difficult to design a framework that operates on the standard practices for all projects. A third party monitoring firm should be hired to oversee the project progress and ensure

projects objectives are achieved at the maximum.

It can be concluded that most of the ADB projects face initial delays, lack of proper coordination and inter-ministerial approval delays and poor absorptive capacity to undertake and implement projects. Critical millstones are ignored due to poor institutional capacity of the executing agencies which are essential for keeping the project performance on track. For successful project implementation and to utilize aid effectively, government need to minimize such delays and enhance the institutional capacity of the concerned agencies involved in project management.

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APPENDICES

Appendices

Annexure-I: ADB wide Portfolio Performance Quality Indicators

Pakistan comparison with South Asian countries										(\$ million)
Country (no. of loans)	Pakistan (31)		India (67)		Bhutan (25)		Nepal (16)		Bangladesh (56)	
Year	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
Contract Awards/Commitments	1,178.9	833.3	1,657.1	1,856.0	75.6	8.9	94	98.0	1,209.4	458.1
Disbursements	1,093.3	799.1	1,339.8	1,699.0	31.0	41.5	73.5	80.1	1,068.0	469.1
Loans at Risk (%)	21.4	19.4	5.7	4.5	16	0	5.9	0	0	3.6
Project success rate 1990, 2000	58	24	64	60	83	100	60	40	72.34	100

Central and West Asia										(\$ million)
Country (no. of loans)	Pakistan (31)		Kazakhstan (05)		Tajikistan (07)		Armenia (05)		Uzbekistan (20)	
Year	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
Contract Awards/Commitments	1,178.9	833.3	700.5	122.5	40.5	2.8	117	22.7	137.8	149
Disbursements	1,093.3	799.1	542.5	90.3	67.1	37.8	119.9	22.3	125.9	81.8
Loans at Risk (%)	21.4	19.4	0	0	0	14.3	-	-	-	0.5
Project success rate 1990, 2000	58	24	71.43	33.33	66.67	100	100	100	50	55.5

Central and South East Asia										(\$ million)
Country (no. of loans)	Pakistan (31)		Indonesia (30)		Vietnam (55)		Philippines (11)		Cambodia (21)	
Year	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
Contract Awards/Commitments	1,178.9	833.3	721.9	890.8	1782	610	1314.1	13.1	30.8	44.3
Disbursements	1,093.3	799.1	732.7	965.8	1093.4	406.7	1317.5	31.1	61.1	53.5
Loans at Risk (%)	21.4	19.4	10	10	2.3	7.3	0	0	6.3	0
Project success rate 1990, 2000	58	24	62.65	71.43	92	100	44.68	72.73	91.67	81.82

Annexure-II : MEDIUM AND LONG TERM LOANS 2005 - 2010

Donor	2005	2010
i) MULTILATERAL	15,671	23,750
ADB	6,313	11,586
IBRD	2,238	1,722
IDA	6,865	9,777
Other	255	664
EIB	20	59
IDB	56	377
IFAD	126	186
NORD. DEV. FUND	16	14
NORD. I. BANK	15	7
OPEC FUND	22	22
ii) BILATERAL	13,273	16,470
a) Paris Club Countries	12,473	13,959
AUSTRIA	68	60
BELGIUM	68	31
CANADA	480	516
FINLAND	6	6
FRANCE	1897	2,011
GERMANY	1617	1,660
ITALY	216	98
JAPAN	5,233	7,011
KOREA	661	471
NETHERLANDS	107	106
NORWAY	42	19
RUSSIA	130	120
SPAIN	83	79
SWEDEN	156	151
SWITZERLAND	84	103
UNITED KINGDOM	14	9
UNITED STATES	1,611	1,507
b) Non Paris Club Countries	800	2,511
CHINA	607	1,762
KUWAIT	79	104
LIBYA	5	4
SAUDI ARABIA	43	519
UNITED ARAB EMIRATES	66	121
Grand Total (i) + (ii)	28,944	40,220

Annexure-III : Procedures/Processes during Project Identification and Preparation

Asian Development Bank (ADB)
Project Identification
Project Profile in Country Partnership Strategy (CPS)
Pre Project Profile Technical Assistance (PPTA) Fact Finding
Preparation for PPTA
First Internal Review - Staff Review Committee (SRC)
PPTA Approval
Consultants Contracts
Project Preparation
Inception Mission
Feasibility Study & Design Report
Consultative Meeting
First Draft Report and Recommendation of the President (RRP)
Regional and Sustainable Development Department (RSDD) - Compliance Memo
First Internal Review - Management Review Meeting (MRM)
Draft RRP and Comments on Loan Documents
Appraisal Mission
Second Internal Review (SRC)
Second Draft RRP/ Loan Document
Loan Negotiation
Board Circulation
Loan Signing
Loan Effectiveness

Government of Pakistan (GOP)
Project Identification
Budget Allocation for PC-II (feasibility study) Concept clearance by Executing Agency
Circulate Country Partnership Strategy to EA for project Preparation
Nomination of Planning team by Executing Agency
Draft Feasibility Study (PC-II)
PC-II approval by PDWP/CDWP and Establishment of PMU and appointment of staff
Technical Assistance Paper Signing
GoP Concurrence
Project Preparation
Participation of PMU staff in Inception Mission
Comments by Government/PMU
Participation by Government/PMU
First Draft PC-I
Departmental Review of PC-I
Planning & Development Department Comments Pre-PDWP
Comment of PDWP on draft PC-I
Revised PC-I, joint review of project and clearance, LARP & ESP, consultant selection, civil works/goods procurement methods with the aide memoire.
PDWP Approval
Pre-CDWP (Planning Commission's Comments)
CDWP Approval of PC-I and Concept Clearance by ECNEC
ECNEC Approval
Loan Signing
Project Staff in place & establishment of acceptable procedures.

PDWP/CDWP: Provincial/Central Development Working Parties
PMU: Project Management Unit
ESP: Environmental Safeguards Plan
LARP: Land Acquisition & Resettlement Plan
ECNEC: Executive Committee of the National Economic Council

Annexure-IV : Project Commitments and Disbursement Profile 1999-2010 (Graph)

Amounts in Thousands USD

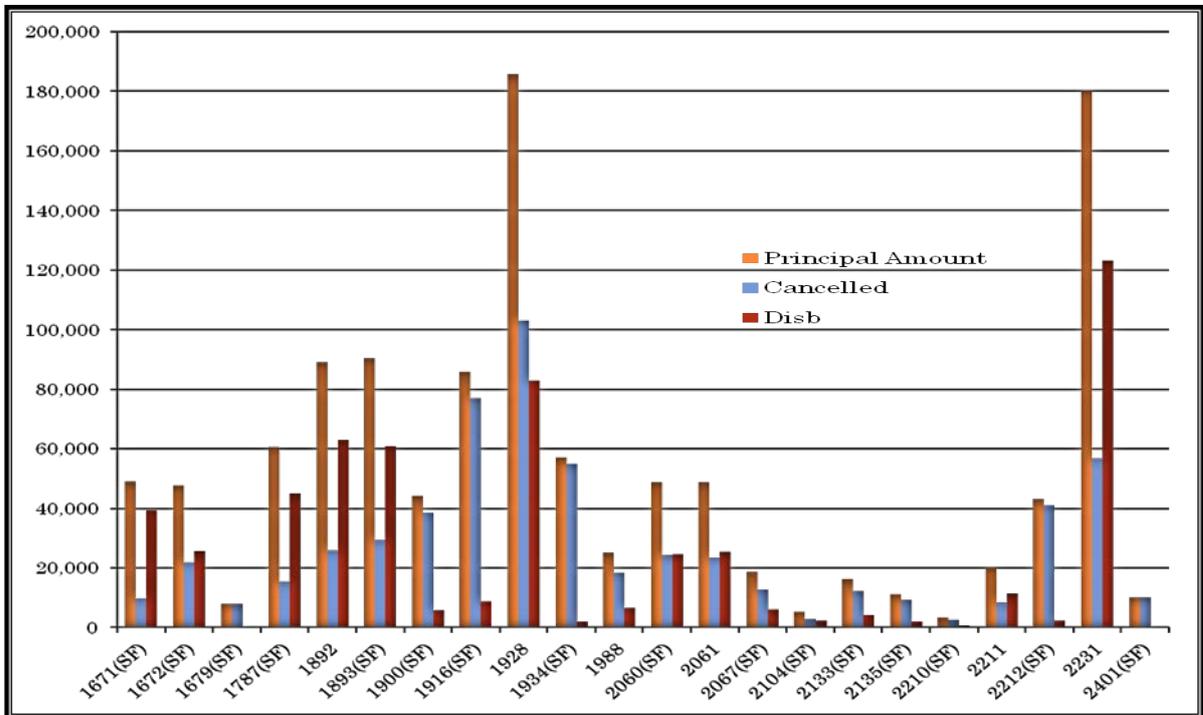
Sr. No.	Loan No	Loan Title	Sector (% total)	Principal Amount	Cancelled	Net Loan	%age Disb
1	1671(SF)	Women's Health	Health (9%)	48,957	9,671	39,286	80
2	1900(SF)	Reproductive Health		44,072	38,394	5,678	13
3	1916(SF)	Decentralized Elementary Education	Education (14%)	85,772	76,938	8,834	10
4	2133(SF)	Restructuring Education		16,152	12,105	4,047	25
5	2135(SF)	Restructuring TEVT		11,229	9,292	1,937	17
6	1672(SF)	Malakand Rural Development	Agri & Rural Sector Dev (14%)	47,554	21,851	25,703	54
7	1787(SF)	NWFP-Barani Project2		60,533	15,523	45,010	74
8	1934(SF)	Sindh Rural Development		57,125	55,046	2,079	4
9	1679(SF)	Punjab Irrigation	Irrigation (4.3%)	7,795	7,795	0	0
10	1988 (OCR)	Rural Finance Sector Project	Finance Sector Development (4.4%)	25,000	18,438	6,562	26
11	2067(SF)	SME Sect Dev Project	SME Dev (4.3%)	18,637	12,720	5,917	32
12	2060(SF)	Southern Punjab Urban Services	Urban Sector Development (18%)	48,767	24,282	24,485	50
13	2061 (OCR)	Southern Punjab Urban Services		48,833	23,492	25,341	52
14	2211 (OCR)	Rawalpindi Environment		20,000	8,526	11,474	57
15	2212(SF)	Rawalpindi Environment		43,183	40,955	2,228	5
16	2210(SF)	NHDP-Project 1	Road Transport (32%)	3,276	2,599	677	21
17	1892 (OCR)	Sindh Road Sector Dev Project		89,080	26,036	63,044	71
18	1893(SF)	Sindh Road Sector Dev Project		90,272	29,480	60,792	67
19	1928 (OCR)	Punjab Road Development		185,757	102,919	82,838	45
20	2104(SF)	NWFP Road Dev		5,192	2,904	2,288	44
21	2231 (OCR)	National Highway Dev Proj		180,000	56,883	123,117	68
22	2401(SF)	National Trade Corridors Proj		9,980	9,980	0	0
GRAND TOTAL				1,147,166	605,829	541,337	47

Note:-

SF: Loans from Asian Development Fund for social sector (soft loans)

OCR: Loan from Ordinary capital resources (hard terms)

Graph: Project Performance, Commitments and Disbursement 1999-2010



Source: Author calculation based on ADB, LFIS database

Annexure-V: Projected and Actual Disbursement Profile of Projects

US\$ Millions

Year	Loan No. 2133	
	Projected Disb	Actual Disb
2004	0.000	0.000
2005	0.400	0.600
2006	0.300	0.229
2007	1.700	1.729
2008	2.750	1.586
2009	0.250	0.041
2010	0.000	0.102
2011	0.000	0.000

Year	Loan No. 1900	
	Projected Disb	Actual Disb
2001	0.000	0.000
2002	0.000	0.000
2003	0.000	0.000
2004	0.500	0.000
2005	1.000	2.493
2006	3.000	2.534
2007	3.000	2.252
2008	1.500	-0.052
2009	0.000	-1.549

Year	Loan No. 1787	
	Projected Disb	Actual Disb
2000	0.0	0.0
2001	0.0	0.0
2002	0.2	0.5
2003	1.7	0.068
2004	6.5	3.5
2005	6.0	5.3
2006	7.0	8.7
2007	8.0	12.9
2008	16.0	14.0
2009	2.5	0.0
2010	0.0	0.2

Year	Loan No. 1892	
	Projected Disb	Actual Disb
2001	0.0	0.0
2002	2.5	0.8
2003	0.0	0.3
2004	6.7	2.0
2005	14.0	8.6
2006	20.0	18.5
2007	20.0	28.1
2008	40.0	48.2
2009	18.0	16.8

Year	Loan No. 1928	
	Projected Disb	Actual Disb
2002	0.00	0.00
2003	0.00	1.63
2004	3.00	0.42
2005	10.74	1.04
2006	10.30	6.33
2007	14.00	12.14
2008	43.70	46.94
2009	6.00	14.34

Annexure-VI : Stylized Causes against each project and its reason

Sr. No.	Delays/ Sectors	Achievement of Milestones dates	Financial Releases	Review Mission (Bank)	Overall Performance	Relevance
1.	Health (1900)	- delayed loan signing and effectiveness - loan extended twice	- only \$8.44m (18.8%) out of \$45m estimated - slow disb. in the first 3 years (6% against an elapsed period of 62%)	- one loan review mission in February 2005	- achieved 30% of its physical targets only	- relevant to PRSP of Government as well as ADB's CPS.
	Reason	- Inability of EA to secure govt approval - PCU, PIU was established after two years of loan effect	- late establishment of PCU, PIU (after 2 yrs)	-	- performance eroded due to its highly structured, complex design, with ambitious and unrealistic targets	-
2.	Education (2133)	- delayed loan effectiveness and advance closure	- only achieved 24% of disbursement targets (4.0 m out of 16.152 million)	- once a year from 2006; no mission was fielded in 2009	- 26 percent of the physical progress achieved against projected.	- relevant with CPS and PRSP but project design was partly relevant. - Govt. wanted to improve infrastructure and equipment, while ADB was more concerned with policy reforms.
	Reason	- late approval of PC-1 by government - slow and unsatisfactory physical progress	- lack of physical progress of the project.	- security risk at project areas in 2009.	- lack of coordination among stakeholder - discrepancies btw RRP & PC-I - frequent changes in project teams at ADB	- limited capacity of government to implement such project.

3.	Agri & Rural (1787)	- 14 months delay for loan effectiveness - project accounts, and recruitment of staff completed after 1.4 years of effectivity loan account closure after 1.5 yrs of project completion	- out of total amount 75% of the disbursement was achieved. - initially slow in the first 4 years (2002–2005), but picked up in the last 3 years (2006–2008)	- ADB ensured compliance with loan conditions and conducted eight review missions	- project completed 80% of the estimated cost and surpassed appraised targets except rural financial services component.	- consistent with CPS as well as the government’s commitments on gender equality and its strategies for rural development and agriculture sectors.
	Reason	- delayed approval of PC-1 by government - account resettlement issues	- late establishment of PMU, and project accounts, and recruitment of staff			
4.	Road Transport (1982)	- loan effectivity after seven months of loan signing - loan extended for two years	- out of 89.080 \$ million, 63.044 \$ million (70%) was disbursed.	- nine review missions and one project completion mission - frequent changes in ADB administration staff	- rated partly satisfactory due to its heavy reliance on consulting services, some of its objectives were undermine.	- objectives were consistent with the needs of national infrastructure development priorities in the province as well as ADB’s thematic objectives.
	Reason	- inadequate capacities of project authority in commitment to resolve major issues	- late deployment of project staff, construction delays, withdrawal applications processing time		- lack of coordination and communications among various stakeholders - long decision making procedures, and lack of monitoring mechanism	- government was not ready for implementation of the project with true commitment.
5.	(1928)	- No start-up delays - No extension policy by Bank and government	- accounted for 37.3% of the total project cost, at project completion verses 67.5% estimated.	- eleven review missions and two project completion missions	- limited progress was achieved and projected outcomes partly achieved	- consistent with the sectoral priorities of the govt, Vision 2030 as well as ADB’s CPS.
	Reason		- difference was either due to foreign currency variations, or reduced scope of the Project		- Government of Punjab's insufficient ownership of and lack of commitment	