THE UNITED REPUBLIC OF TANZANIA

MINISTRY OF FINANCE AND PLANNING

Public Investment Management –Operational Manual

Revised Edition

August, 2022

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

LIST OF ABBREVIATIONS

BCR	Benefit-Cost Ratio
BFs	Basket Funds
BLT	Build-Lease-Transfer
BOO	Build-Operate- and Own
BOOT	Build-Own-Operate- and Transfer
BOT	Build-Operate- and Transfer
BS	Budget Support
BTO	Build-Transfer-Operate
CA	Contracting Authority
CAG	Controller and Auditor General
CBA	Cost-Benefit Analysis
CDC	Commonwealth Development Corporation
CSOs	Civil Society Organizations
DPs	Development Partners
DSA	Debt Sustainability Analysis
DSCR	Debt Service Coverage Ratio
ESIA	Environmental and Social Impact Assessment
ESRI	Economic and Social Research Institute
FOB	Free On Board
FS	Feasibility Study
FYDP	Five Year Development Plan
GAMD	Government Assets Management Division
GAMIS	Government Assets Management Information System
GBS	General Budget Support
GoCI	Government of Cote d'Ivoire
GOPP	Goal Oriented Project Planning
GoT	Government of Tanzania
IDA	International Development Association
IFMS	Integrated Financial Management System
IFRC	International Federation of Red Cross
IM&M	Implementation, Management and Monitoring
IMTC	Inter-Ministerial Technical Committee
IPFA	International Project Finance Association
IPP	Independent Power Producers
IRR	Internal Rate of Return
kV	Kilovolt
LFA	Logical Framework Approach
LGAs	Local Government Authorities
M&E	Monitoring and Evaluation
M&M	Management and Monitoring
MDAs	Ministries, Departments and Agencies

MEMART	Memorandum and Article of Association
MfDR	Management for Development Results
MoFP	Ministry of Finance and Planning
MoU	Memorandum of Understanding
MSPBR	Medium Term Strategic Planning, Budgeting and Reporting Manual
MTEF	Medium Term Expenditure Framework
MW	Mega Watts
NAOT	National Audit Office of Tanzania
NESC	National Economic and Social Council
NPMIS	National Projects Management Information System
NPV	Net Present Value
NSAs	Non-State Actors
O&M	Operation and Maintenance
O&OD	Opportunities and Obstacles to Development
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OVI	Objectively Verifiable Indicators
OTR	Office of Treasury Registrar
PAS	Project Assessment Sheet
PBG	Plan and Budget Guidelines
PCR	Project Completion Report
PD	Project Document
PFS	Pre-Feasibility Study
PI	Public Investment
PIM	Public Investment Management
PIM-OM	Public Investment Management Operational Manual
PIP	Public Investment Plan
PMO	Prime Minister's Office
PMT	Project Management Team
PO -PSMGG	President's Office, Public Service Management and Good Governance
PO-RALG	President's Office, Regional Administration and Local Government
PPA	Power Purchase Agreement
PPP	Public-Private Partnership
RBM	Results Based Management
RSs	Regional Secretariats
SIPs	Sectoral Investment Plans
SPV	Special Purpose Vehicle
TDV	Tanzania Development Vision
TIC	Tanzania Investment Centre
UK	United Kingdom
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
URT	United Republic of Tanzania

WACC	Weighted Average Cost of Capital

DEFINITIONS OF KEY TERMS

Absolute Assessment: This is the assessment conducted through studying each project as an absolute case, without comparing with other projects. The results of absolute assessment are rated and clarified according to project potential.

Baseline Study: Refers to a survey that provides quantitative information on the current status of a particular situation. The purpose is to provide an information base against which to monitor and assess the progress and effectiveness during implementation and after the project completion.

Comparative Assessment: Entails the assessment done by comparing the importance of the multiple projects with common assessment criteria. The objective is to recommend the best choice of projects, or best allocation of the project budget.

Corporate Finance: This is a financing approach whereby the government provides concession agreement to a private firm to offer public goods/and service and charge a fee.

Cost Benefit Analysis (CBA): This is the methodology for appraising financial and economic value of investing in a project that gives an indication of whether the project will result in a net positive impact on society in both financial and economic terms.

Environmental and Social Impact Assessment (ESIA): Refers to a systematic examination conducted to determine whether or not the project or an activity has or will have any impact on the environment and society (adverse or positive).

Ex-ante Evaluation: This is the type of evaluation undertaken before starting actual implementation of the development project. The purpose is to determine the relevance of the project and improve the project design and implementation.

Ex-post Evaluation: This is defined as the type of evaluation conducted in some years after the project completion with the emphasis on the effectiveness and sustainability of the project outcomes. Usually carried out after two or three years depending on the nature of the project.

Externality: Refer to a cost or benefit of economic activity (PI project) experienced by un-related/uninvolved party that arises as an effect of another party's or (parties') activity

Impact: This is a long-term outcome of policy, programme or project that can be directly or indirectly attributed to the policy, programme or project.

Logical Framework Analysis (LFA): This is a project planning approach that

analyses incremental causal relations in project execution including risks and assumptions.

National Project Management Information System (NPMIS): This is a web-based system that serves as a repository of all public projects information/data. It facilitates the process of project initiation, assessments, approval, budgeting, reporting, monitoring and evaluation, termination and closure.

Preliminary Screening: This is a prior assessment of the project with the aim to scrutinize project documents for approval. It involves various criteria and methodologies.

Programme: This is a comprehensive scheme within a sector, comprising of projects. A programme sets some targets within a specified period of time, normally medium-term or long-term.

Project Appraisal: Means a systematic assessment of a project's viability to meet its objective through an examination of its financial, economic, social, environmental, technical and other aspects.

Project Completion: It is a final stage of the project implementation. At this stage assets acquired are handed over to the institution responsible for operation and maintenance.

Project Evaluation: This is the systematic and objective assessment of an on-going or completed project. It involves collection and analysis of information in order to understand the progress, success and effectiveness of the project.

Project Framework: Refers to a set of standard project management processes and tools used for initiating, planning, executing, controlling and closing a project.

Project Monitoring: It is defined as a process of tracking progress of the project implementation (construction and/or project activities). When the project is not implemented as planned, reasons for non- performance are analysed and countermeasures taken.

Project Planning: This is known as a step where a PI project is identified, formulated and designed. It is also a step where necessary environmental and social assessments are done. This stage includes project appraisal which is defined as an overall assessment of the relevance, feasibility, and potential sustainability of a series of interventions prior to a decision to undertake or fund them.

Public Finance: Refers to a financing approach from which the Government utilizes its revenue to spend on public investment project.

Public Investment (PI) Project: This is a scheme with specific purposes (mainly to attain public utility) within a certain period of time, usually medium-term or long-term.

Statutory Corporation (SC): means any corporate body (including a public corporation and a corporation sole) established by or under any written law but does not include any company incorporated under the Companies Act CAP 257 where the whole of the share capital of the company is owned by a statutory corporation or two or more statutory corporations.

Public-Private Partnership (PPP): Means a contractual arrangement between a Contracting Authority (CA) and private party in which the private party undertakes to perform for CA functions, assume substantial, financial, technical and operation risks and receives a benefit to performing on behalf of CA function. .

Result Based Management (RBM): This is a tool for monitoring and managing the implementation of PI projects whose core focus is achieving results by ensuring that its processes, products and services contribute to the achievement of clearly stated goals.

Risk Analysis: It is the process of identifying, analysing and assessing potential factors that could negatively impact projects. Risk analysis seeks to identify, measure, and mitigate various risk exposures or hazards facing an investment or project.

Special Purpose Vehicle (SPV): A company established for the purpose of implementing a specific PI project.

PREFACE

Public Investment Management – Operational Manual (PIM-OM) Revised Edition (2022) is a result of periodic review of Public Investment Management – Operational Manual (2015) which has been used to guide public investment management processes and practices across the public sector since 2015.

The revision of PIM-OM (2015) was necessitated by three (3) main reasons. *First*, the need to address policy, legal, regulatory, institutional and operational challenges observed with respect to management of public investment as well as enforcement of PIM-OM (2015), noted weak coordination among public entities implementing complementary projects resulting in low synergies, inefficiency and ineffectiveness. *Second*, the need to adapt to and accommodate various socio-economic, policy and institutional changes in relation to public investment management systems that have occurred over the past seven (7) years including; changes of the Public Investment (PI) project values and financing modalities for development interventions such as flagship projects; establishment of National Projects Management Information System (NPMIS); and institutional reforms at all Government levels particularly the dissolution, establishment of new and or merging of institutions relevant to PI management. *Third*, to align the manual with other PI management guidelines that have been developed and implemented since 2015 namely: TANROADS Investment Appraisal Manual (2015); Guidelines for Project Planning and Negotiations for Raising Loans, Issuing Guarantees and Receiving Grants in the United Republic of Tanzania.(2020); National Guideline for Developing and Financing Income-Generating Infrastructure Investments -- User Guide for Local Government Authorities (2021); Alternative Project Financing Strategy – APF (2021); and National Monitoring and Evaluation Framework for Development Programmes and Projects (2022). PIM - OM Revised Edition (2022) therefore repeals the PIM - OM (2015) in order to make better provisions for the more effective management of public investment.

In the context of this Manual, public investment entails public expenditure on various projects such as physical infrastructure (for transport, energy, ICT, irrigation, water supply, sanitation etc.) and social infrastructure facilities for delivery of services including health, education and public administration. These projects, in turn, create the productive capacities for the country's socio-economic development. Investment choices must be made judiciously and implemented efficiently to avoid wastage of meagre public resources.

The Public Investment Management - Operational Manual (PIM-OM) purpose is to strengthen Public Investment Management (PIM) in the entire project life cycle in order to ensure value for money. It does so by acting as a technical tool for guiding PIM practices, including PI project identification and screening, project planning and appraisal, budgeting and financing, implementation, and monitoring and evaluation. Additionally, it facilitates capacity building in project and program management,

enhances coordination of public investments, integration of projects into the national development budget and strengthening link to PPP arrangements. Moreover, it outlines a set of important technical approaches and tools for economic, financial and social analyses of projects.

The Manual is organised in two main parts. *Part I*: introduces the subject matter - background and context of the PIM in relation to national development frameworks and justification for developing the Manual. It then presents the current state of public investment management in the country in terms of the institutional set-up and the roles and responsibilities of the public institutions. *Part II:* provides guidance on project preparation, appraisal, financing arrangements and implementation as well as Monitoring and Evaluation.

Preparation of PIM - OM Revised Edition (2022) involved active participation of wide range of stakeholders including Government institutions and non-state actors. The Ministry of Finance and Planning thanks all stakeholders for their effective participation and contributions. The targeted users of the manual are technocrats who prepare proposals for development projects in MDAs, RSs and LGAs for financing through the development budget. Other key users include potential investors under PPP arrangements, Members of Parliaments, Development Partners (DPs), financial/economic analysts, private sector and Non-State Actors (NSAs).

The adherence to the guidance provided in this Manual is expected to improve PIM practices including ensuring: Effective coordination and adequate procedures for selecting and integrating PI projects in the annual Government budget; sufficient use of Public Private Partnership (PPP) as one of the key resource mobilizations approaches for Pl projects; improvement of technical capacity in identifying, monitoring and evaluating and making choice among competing public investment projects basing on objectives and transparent criteria. Therefore, MDAs, RSs and LGAs are urged to adhere to the guidance provided in this Manual in selecting, financing, implementing, monitoring and evaluating public investment projects. In doing so, the objectives of this Manual will be attained.

Emmanuel Mpawe Tutuba
Permanent Secretary Treasury and Pay Master General.
August 2022.

Part I: Background and the Institutional Setting of PIM in Tanzania

CHAPTER 1
INTRODUCTION

1.1 The Public Investment Management - Operational Manual (PIM-OM)

Public Investment Management - Operational Manual (PIM–OM) provides guidance to Government authorities responsible for making public sector investment decisions on how to manage public investments from the process of initiation, appraisal, financing, implementation, monitoring and evaluation, to ensure value for money and promote economic and social wellbeing postulated in the national development frameworks.

This Manual is the revised version of the PIM-OM launched in 2015, which its implementation witnessed various socio-economic and policy reforms in the public investment management systems. The reforms include: changes of the PI project values and financing modalities for development interventions such as flagship projects; establishment of National Projects Management Information System (NPMIS) to enhance efficiency and effectiveness of PIM practices; and institutional reforms at all Government levels particularly the dissolution, establishment of new and or merging of institutions relevant to PI management. These reforms necessitated its review in March 2022

The review of PIM-OM (2015) was initiated through the consideration of various documents namely: national development frameworks including the Tanzania Development Vision 2025 (TDV 2025); the Long Term Perspective Plan 2011/12 – 2025/26 and the Third National Five Year Development Plan (2021/22 – 2025/26); legislations including the Public Private Partnership (PPP) Act , CAP 103, The Treasury Registrar (Powers & Functions) Act, CAP 370 ; and various national guidelines including: TANROADS Investment Appraisal Manual (2015); Guidelines for the Issuance of Corporate Bonds, Municipal Bonds and Commercial Papers (2019); Guidelines for Project Planning and Negotiations for Raising Loans, Issuing Guarantees and Receiving Grants in the United Republic of Tanzania (2020); National Guideline for Developing and Financing Income-Generating Infrastructure Investments -- User Guide for Local Government Authorities (2021); and Alternative Project Financing Strategy – APF (2021); National Monitoring and Evaluation Framework for Development Programmes and Projects (2022).

The Manual shows the institutional arrangements, that is, the roles and responsibilities of various actors in public investment process. However, the bulk of the manual provides guidance on the procedures and tools used in the programming and evaluation of public investments i.e., the economic, financial and social analyses of public investment projects, project cycle, project selection criteria, financing, monitoring and evaluation and management of the National Project Management Information System (NPMIS) for public investment projects. It emphasizes on the

capacity strengthening needs for the country to accumulate expertise in public investment analytical techniques.

1.2 Context: PIM and National Development Plans

Tanzania Development Vision 2025 (TDV 2025) provides guidance and aspirations for the country's development agenda. The vision aspires Tanzania to become a semi industrialized middle-income country by 2025. In executing the Vision 2025, a Long-Term Perspective Plan (LTPP), 2011/12 - 2025/26 was prepared and implemented through three (3) phases of five-year development plans, each with a specific theme geared towards achieving the objectives of the TDV 2025.

The development goal is translated into implementable programmes and public investment projects aiming at achieving economic growth and social wellbeing of the people. However, the management of public investment projects has been hampered by inadequate: coordination and procedures for selecting and integrating the projects in the government's development budget; utilization of PPP financing modality; technical capacity in identifying, monitoring and evaluating; and making choice among competing public investment projects basing on objectives and transparent criteria.

1.3 Purpose of the Manual

The Government has prepared the PIM-OM to guide Ministries, Departments and Agencies (MDAs), Regional Secretariats (RSs) and Local Government Authorities (LGAs) on public investment management with a focus of achieving value for money outcomes through increased efficiency and effectiveness of public investments. Specifically, the manual is intended for the following:

(i) *To act as an instrument for enhancing coordination of public investments*: The manual presents a common point of reference for the coordination of all public investments, information collection and mechanisms for analysing costs and benefits of development programmes, and efficient ways in which public resources should be allocated;

(ii) *To elaborate procedures for integration of projects into the national development budget*: The manual covers the necessary procedures for selection and inclusion of PI projects in the development budget (e.g. in relation to the Plan and Budget Guidelines, budget cycle timing, consistence and progress reporting);

(iii) *To act as capacity building tool:* The manual will serve as a basis for enhancing capacity development across Government units in the areas of economic and financial analyses of public investments; and

(iv) *To act as a link to Innovative Project Financing and Public Private Partnership (PPP) Arrangements:* The manual also guides on how public investments can be linked to various financing options such as; (a) *the Alternative Project Financing (APF) arrangements* whereby projects are financed outside the National Development Budget using reliable, cost efficient and effective market

sources of finance; and (b) private sector participation in public projects, with PPP as one form of financing and procurement option.

1.4 Rationale for the Manual

In view of the constrained fiscal environment, the financing gap is widening with increased external and domestic borrowing that may result to the increased public debt and crowding out private sector borrowing. For this reason, public financial resources should be invested prudently and efficiently in development projects that yield maximum impact in core priority areas set in the national plans. This manual provides a mechanism for ensuring efficient allocation of public resources across various socialand economic sectors. Further, it will contribute towards enhancing the level of expertise in Government in the manner that the public investments are analysed, selected and included in the national budget as well as the ways the projects are implemented, evaluated and finally their information captured and stored in the National Project Management Information System (NPMIS) for various users. Furthermore, it intends to guide on the choice of PI projects as well as the need to invest in areas that leverage the private sector in order to attract the private sector investment through PPP arrangement.

1.5 Legal Frameworks Underpinning PIM Processes

Implementation and management of PI projects entails myriad of activities and processes implemented throughout the project life cycle. These activities among others include: project identification and approval of identified project at implementing agency level as well as other mandated national authorities (PO-RALG and MoFP); project planning and appraisal; approval of appraised project at various levels; project budgeting and financing including their inclusion into national development plan and consequent budgetary approval by Parliament; project implementation including acquisition of land site on which the project will be implemented, securing necessary permits, procurement of contractors and management of construction and other contracts; and operation and maintenance as well as management of assets (infrastructure or facilities) generated through public investment.

The principal legislation necessitating the formulation and enforcement of PIM-OM as well as other public investment guidelines is the Budget Act, CAP 439. Section 7(4)(e) of the Budget Act, directs the government and public entities to ensure that, “mechanisms for reviewing any new development project before implementation are established”. Other sections of the Act (e.g. sections 8, 9 12, 19, 23, 24, 25 and 49) provide directives and guidance for project planning, budgeting and approval and implementation including: alignment of all PI projects with national development priorities stipulated in the national development plans; review PI projects’ proposals for financing consideration and inclusion into the national budget proposal by the Ministry of Finance; National Assembly approval of PI projects budgets; expenditure appropriation for PI projects; PI project contracts initiation; and monitoring, evaluation

and reporting of approved PI projects.

Wide ranging nature of PI processes and activities signifies that PIM is inherently governed by a multitude of other legislations and corresponding regulations and guidelines, each addressing different aspects of PIM. Some other key legislations underpinning PIM include: Public Private Partnership (PPP) Act, CAP 103; Treasury Registrar (Powers and Functions) Act, CAP 370; Local Government Finance Act, CAP 290; Public Finance Act, CAP 348; Government Loans, Guarantees and Grants Act, Cap 134; Public Procurement Act, CAP 410; Land Acquisition Act, CAP 118; and Environment Management Act, CAP 191. In addition to these laws, there are corresponding regulations and guidelines including: Public Procurement Regulations of 2016; PPP Regulations of 2020; Environmental Management (Environmental Impact Assessment and Audit) Amendment Regulations of 2018; Guidelines for Project Planning and Negotiations for Raising Loans, Issuing Guarantees and Receiving Grants by the Government of United Republic of Tanzania, 2020; and Public Assets Management Guidelines, Revised Edition 2019.

Further, each legislation, corresponding regulation and guidelines address different aspects of PIM process. For instance, PPP Act provides guidance across all stages of PI projects implemented under PPP arrangement while Government Loans, Guarantees and Grants Act and its corresponding guidelines guide PI projects financed through loans, grants and guarantees. On the other hand, Public Finance Act and Local Government Finance Act guide financial management matters for PI projects implemented by all public entities and Local Government Authorities (LGAs).

Furthermore, PI implementation activities including; acquisition of land site(s) for project execution, procurement of contractors and consultants, assessment of project's environmental impact, and management of assets (infrastructure and facilities) generated through public investment are guided by Land Acquisition Act, CAP 118, Public Procurement Act, CAP 410, Environment Management Act, CAP 191, and Public Assets Management Guidelines of 2019 respectively.

1.6 Targeted Users of the Manual

The Manual will be used by Government Institutions responsible for making public sector investment decisions including technocrats who prepare proposals for development projects in MDAs (including Public Corporations), Regional Secretariat (RSs) and Local Government Authorities (LGAs) and all other stakeholders involved in preparation, financing, implementation, monitoring and evaluation of public investments. The users are expected to have some background in economics, finance, management, engineering, statistics, policy analysis and *inter alia*, thus, find the manual a useful reference. Other users of the Manual include the private sector and potential investors under PPP arrangement, Members of Parliament, Development Partners (DPs), financial/economic analysts, Non-State Actors (NSAs) and the general

public.

1.7 Projects Exemptions from the Manual

Guidelines and procedures laid out in the manual shall be applied to all public investment projects initiated and implemented by public entities such as MDAs, RSs and LGAs. However, there are projects which will be exempted from the provisions of the Manual, they include: -

i. Projects that are of national defence in nature or have national and security implications; and
ii. Projects undertaken as a response to emergency or a disaster (e.g floods, earthquake etc).

1.8 Layout of the Manual

The Manual consists of two major parts with a total of eight (8) chapters supported by annexes as follows;

Part I: Background and Institutional Setup of PI Management in Tanzania, has two chapters.

Chapter 1 introduces the subject matter - background and context of the PIM in relation to national development plans and justification for developing the manual; and *Chapter 2* presents the current state of public investment management in Tanzania in terms of the institutional set-up, the roles and responsibilities and skills required in PI management.

Part II is the mainstay of the Manual which carries the major *technical tools, procedures*, steps and principals involved in the analysis, selection, implementation, monitoring and evaluation of public investment projects in six chapters (Chapters 3-8).

Chapter 3 presents the approaches and methods of preparing public investment projectproposals and procedures for submitting the documents for budget requests;

Chapter 4 focuses on the technical approaches to investment analysis, including: inter alia, guidance on pre-feasibility and feasibility studies (FS), steps involved in Cost-Benefit Analysis (CBA) (e.g., valuing costs and benefits); Net Present Value (NPV); benefit/cost ratio; Internal Rate of Return (IRR); and analysis of risk, among other analyses;

Chapter 5 provides insights and guidance on project selection and financing as well as strategic link to PPPas a financing mechanism, PI projects financial management, especially appropriate financial resource allocation, disbursement and utilization;

Chapter 6 picks on the concepts used in project Management and Monitoring (M&M), including; monitoring; Results-Based Management; Results Chain and performance measurement; and monitoring and evaluation;

Chapter 7 among other things, provides principles of PI project evaluation such as independence, ethical, credibility, legal mandate, transparency and timeliness. The chapter guides on types of evaluation criteria, designs and the type of studies required to inform the evaluation process; and

Chapter 8 introduces the integration of climate change aspects in Public Investment Management.

CHAPTER 2

INSTITUTIONAL SETUP OF PUBLIC INVESTMENT MANAGEMENT IN TANZANIA

2.1 Introduction

This chapter presents classification of public investments, details on the roles and functions of organizations in PIM and public investment planning and approval processes. Moreover, it highlights on public investment project management annual flow, sources of PI projects resources, project management tasks and capacity building for requisite skills in PI management.

2.2 Classification of Public Investments

2.2.1 Classification Based on Cost of Investments

Public investment projects may be grouped into three categories based on the amount of investment outlay/cost. The categorization is based on Tanzania experience in implementing major development projects and programmes. This classification has acknowledged the implementation of the FYDP III which has different types of projects by costs. By this classification, projects are differentiated based on investment cost such that:

(i) Project Type I (large): costing more than TZS 500 billion
(ii) Project Type II (medium): costing between TZS 50 to 500 billion
(iii) Project Type III (small): costing not more than TZS 50 billion

2.2.2 Classification Based on Nature and Origin of PI Project

PI projects are classified into three categories, namely: infrastructure, non-infrastructure and acquisition of goods.

(i) **Infrastructure:** this category refers to PI projects that involve construction of new and/or rehabilitation of existing infrastructure/facility
(ii) **Non-Infrastructure:** this category entails PI projects that involve capacity enhancement, technical improvement and strengthening of public administration.
(iii) **Acquisition:** this category covers procurement of properties and goods including land, equipment, aircrafts, machinery, software, vehicle and vessel.

For effective coordination and management of PI projects, different levels of organizations are authorized to coordinate public investment projects depending on its category. Based on project origin, PI projects are classified as from sector Ministries, Independent Departments and Executive Agencies, Public Institutions and Statutory Corporations (PISC), Regional Secretariats (RSs) and Local Government Authorities (LGAs).

2.2.3 Classification Based on Criteria Other than Nature and Origin of PI Project

PI may also be classified based on other criteria such as level of priorities, financing possibilities, productivity and time it takes for the returns to start flowing and strategic outcomes/effects. For coordination and management PI projects can be placed in *clusters*. The proposed projects may be ranked based on the weighted importance in the context of the following four conceptual dimensions of choice:

Dimension 1: By national plans' priorities/ urgency: In this cluster PI projects are ranked according to national plans priorities or urgency. The ordering is such that, the most urgent national projects should come first.

Dimension 2: By financing possibilities: Public investment projects can be clustered according to financing options either domestic or foreign. They will be prioritized on the basis of availability of a financing window.

Dimension 3: By implementation duration and time it takes for the returns to start flowing: PI projects can also be classified according to the duration of the project (implementation period). In this category, three types are possible, that is, short, medium or long-term. A project would be classified according to"quick wins", i.e., how easily it can generate more output within a short-term Vs at less cost.

Dimension 4: By strategic outcomes/effects. In this dimension PI projects classification is based on among other factors, specific strategic goals such as equity and regional development as well as skills and technological gains.

2.3 Roles and Functions of Organizations in PIM

This sub-section highlights general roles of different actors/organizations in the PIM process.

(a) Ministry of Finance and Planning (MoFP)

At the national level, the MOFP will undertake the following roles:

(i) Macroeconomic and growth forecasting and planning;
(ii) Formulating and coordinating short-term, medium term and long-term national development plans, strategies, programmes and projects;
(iii) Coordinating sector plans for projects and programmes;
(iv) Assessing the impact of national development plans with the view to identify strengths and weaknesses;
(v) Formulating guidelines for appraising, implementing as well as monitoring and evaluating PI projects and programs;
(vi) Providing guidance, as well as technical and capacity building support to the actors in public investment management;
(vii) Reviewing, appraising and prioritizing projects that require public resources;
(viii) Maintaining the National Project Management Information System (NPMIS);
(ix) Coordinating the overall budget process;

(x) Mobilizing, allocating and disbursing resources for financing PI projects;
(xi) Managing fiscal and monetary implications of investment programmes and projects;
(xii) Managing debt and external financing of public programmes and projects;
(xiii) Provide guidance on proper management of Government assets acquired through implementation of PI projects; and
(xiv) To manage and coordinate national monitoring and evaluation activities for various PI projects.

(b) Prime Minister's Office (PMO)

The PMO is an overall coordinator of day-to-day Government activities and overseer of Public Investments.

(c) President's Office, Regional Administration and Local Governments (PO-RALG)

PO-RALG will undertake the following roles:
(i) Providing support and coordinating PI projects originating from RSs and LGAs and linking to MoFP;
(ii) Conducting preliminary screening of projects originating from RSs and LGAs including ranking projects by priorities;
(iii) Conducting projects monitoring and evaluation as per National M&E Framework for Development Projects; and
(iv) Maintaining database of projects financed by RSs and LGAs own source.

(d) President's Office – Public Service Management and Good Governance (PO – PSMGG)

PO – PSMGG is responsible for management of human resources in the public sector. The specific roles include:
(i) Ensuring good governance and accountability in the public investment management;
(ii) Ensuring availability of adequate and skilled human resources for effective public investment management;
(iii) Creating guidelines for strategic planning by MDAs, RSs and LGAs.

(e) Line Ministries

These are ministries responsible for supervising and guiding the Implementing Agencies. Specifically, they shall be:
(i) Providing policy and sector guidance on investment programmes and projects;
(ii) Preparing sector specific objectives and strategic plans;
(iii) Conducting preliminary screening of PI projects originating from the respective sector, including ranking projects by priorities;
(iv) Conducting monitoring and evaluation of respective sector PI projects as per National Monitoring and Evaluation Framework; and

(v) Managing NPMIS for PI projects in the respective sectors.

(f) Office of the Treasury Registrar (OTR)

OTR will have the following roles:

(i) Conducting preliminary screening of PI projects originating from the Public and Statutory Corporations (PSCs), including assessing their viability and bankability and different financing options;

(ii) Assessing if a proposed PI project is in line with the PSCs core functions and strategic objectives;

(iii) Managing a database of PI projects implemented by all the PSCs; and

(iv) Conducting monitoring and evaluation of respective PI projects implemented by PSCs if the intended objectives are being met and desired return to the Government is being achieved whether through dividend, contribution, other remittances or improved services.

(g) Office of the Attorney General

The office of Attorney General will have the following roles:

(i) Provide advice on any matter of a contract nature in PI programs and projects; and

(ii) Conduct vetting of PI project contracts with threshold of more than one (1) billion shillings as total project cost.

(h) Regional Secretariats

Regional Secretariats shall oversee public projects within regions mainly those implemented by the LGAs. The specific roles of RSs shall be:

(i) Participating in the preparation and administration of the projects implemented in regions;

(ii) Providing support to LGAs in creating and managing projects;

(iii) Managing PI projects database in their respective regions;

(iv) Implementing regional PI projects; and

(v) Managing projects finance according to public finance management regulations;

(vi) Conducting monitoring and evaluation of PI projects in respective regions as per National Monitoring and Evaluation Framework.

(i) Local Government Authorities

LGAs are a vital link between community and Central Government in the implementation of priority development programmes and projects. The roles of LGAs shall be:

(i) Initiating and implementing PI projects at LGAs level;

(ii) Reporting PI projects progress to RSs;

(iii) Managing projects finance according to public finance management regulations;

(iv) Managing PI projects database in their respective LGAs; and

(v) Conducting monitoring and evaluation of PI projects in respective LGA as per National Monitoring and Evaluation Framework.

(j) Parliament

As an oversight institution, the roles of Parliament shall be:

(i) Approving financial resources for implementation of public investment programmes and projects;
(ii) Providing advisory guidance to respective implementing authorities; and
(iii) Supporting projects implementation and demand for accountability.

(k) Implementing Agencies /Contracting Authority

Their key function is to implement the projects approved by MoFP. These agencies shall be:

(i) Providing day to day management of the projects;
(ii) Reporting projects' progress to the line ministries; and
(iii) Adherence to the National Project Management Information System (NPMIS).

(l) Development Partners

The role of DPs will be as follows:

(i) Supporting, financing and providing technical assistance for the implementation ofproposed PI programmes and projects; and
(ii) Aligning their support with the national development priorities.

(m) Private Sector

Private sector will play the following roles:

(i) Initiating and executing projects as per PPP arrangement;
(ii) Providing technical expertise for implementation of the projects; and
(iii) Mobilizing resources for implementation of the projects.

(n) The National Environment Management Council (NEMC)

The Council will play the following roles:

(i) To conduct, review and recommend approval for environmental surveys, investigations and audit on PI projects in the proper management and conservation of the environment; and
(ii) Enforce and ensure compliance of environmental quality standards for PI projects.

(o) Tanzania Investment Centre (TIC)

TIC will play the following roles:

(i) Initiating and supporting measures that will enhance the investment climate for investors;
(ii) Assisting all investors in obtaining all necessary permits, licenses and all other matters required by the law for a person to set up and operate an investment;

(iii) Provide and disseminate up-to-date information on benefits or incentives available to investors; and
(iv) Promote private sector participation in the provision of public services through public private partnership.

(p) Non-State Actors

NSAs will play the following roles:
(i) Participating in initiation of PI projects ideas; and
(ii) Supporting projects implementation and demand for accountability.

(q) General Public

The general public will undertake the following roles:
(i) Cooperate with the Government in the initiation and implementation of public investment projects; and
(ii) Participating in protection of public assets.

2.4 Public Investment Planning and Approval Processes

The formulation and approval of PI projects employs a combination of top-down and bottom-up approaches. Top-down approach is usually used where PI project(s) is implemented as part of implementation of national policy or sectoral programme, for instance construction of secondary school in particular ward as part of implementation of national education policy objective of having a secondary school in every ward. On the other hand, a bottom-up process is used in implementing PI projects that address specific needs of a particular locality usually beginning from grassroots level to the Central Government through Opportunities and Obstacles to Development (O&OD) approach.

In a nutshell, public investment planning and approval processes has essentially three components, namely: planning and budgeting process; approval process at the national level; and parliamentary authorisation. The processes are implemented sequentially, as follows:

2.4.1. Planning and Budgeting Process

PI planning in Tanzania has two levels, local and central government levels. At the local level the process starts with identification of projects based on the local conditions through participation of local people and entities to agree on PI projects that will address the constraints faced by the local community. For instance, if the constraint is lack of adequate water supply, then this is identified as a project, approved at grassroots (village), and forwarded to the ward level for consideration as per O&OD approach.

The projects are submitted to the LGA Council Management Team (CMT) for approval at the selection stage and thereafter forwarded to the Finance Committee and Full

Council for approval with amendments where necessary. The proposed projects are also aligned to the ceilings set by the PO-RALG. All PI projects and their corresponding budget requests (from LGAs in a particular region) are then submitted to the Regional Secretariat (RS) for review and compilation. This is followed by submission of PI projects to PO-RALG for scrutinization and inclusion into national budget proposal.

In the case of income generating PI projects implemented by LGAs, project planning, appraisal and implementation follows the guidelines issued by PO-RALG i.e, “National Guideline for Developing and Financing Income Generating Infrastructure Investments; User Guide for Local Government Authority”.

At the Central Government level, the projects originate from the respective departments within Ministries, Independent Departments and Public Institutions and Statutory Corporations. The Ministry of Finance and Planning (MoFP) is an overall coordinator and advisor to the Government on PI projects; therefore, all PI project will ultimately be submitted to MoFP for scrutiny and approval. However, channels through which PI projects are ultimately submitted to MoFP as well as levels of approval will differ depending on point of origin of PI project and whether the Contracting Authority (CA) in question is a Ministry, Independent Department or Public Institution and Statutory Corporation.

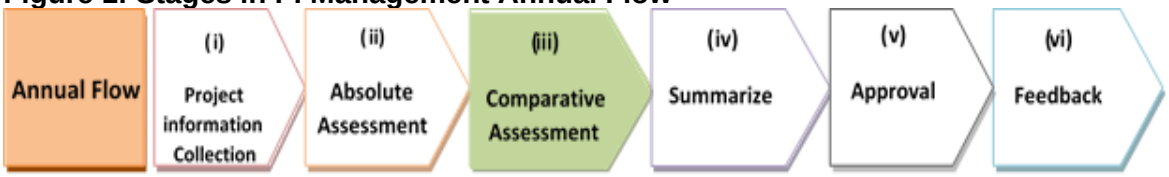
In cases PI project originates from the Ministry, upon finalization of internal approval processes, PI projects proposal and corresponding budget requests are submitted directly to the Ministry of Finance and Planning for review, approval and inclusion into the national development budget proposal. PI project originating from Independent Departments will be submitted first to their respective sector Ministry for scrutiny and approval and then forwarded to MoFP by their respective sector Ministry for final scrutiny and approval. On the other hand, for PI projects originating from Public Institutions and Statutory Corporations (PISC), there are two additional levels of scrutiny and approval. First, the Office of Treasury Registrar (OTR) which is responsible for monitoring the performance of PISC, second, the sector Ministry of respective CA. All PI project proposals prepared by PISC are therefore submitted to OTR for screening and review; then PI projects along with OTR analysis and recommendations are submitted to the sector Ministry for scrutiny and approval before being submitted to the Ministry of Finance and Planning for review, approval and inclusion into the national budget estimates.

PPP projects should be an integral part of PI management since PPP is merely a financing modality. For the case of PPP projects, they must be subjected to similar evaluation criteria like other PI projects including analysis of the comparator projects. However, project planning, appraisal, and implementation for all PPP projects implemented by MDAs, RS and LGAs. should follow processes and directives stipulated in Public Private Partnership Act, CAP 103 and PPP Regulations of 2020.

Box 1: Individual Public Investment Project Management Annual Flow

Projects must always be in accordance with PI budget schedule so that the appropriate budget for the project would be allocated. Annual PI project budgets will be allocated to projects which adhere to the guidance of this manual. The project cycle can vary by size and may need to be adjusted for the specific character of the sector or project. The annual flow management can be divided into the following six (6) stages, which are sequentially summarised in *Figure 1* and narrated in the subsequent subsections.

Figure 1: Stages in PI Management Annual Flow



(a). Collection of Project Information

This is a stage where PI project information is collected in order to conduct reasonable and accurate assessment. The MDAs, RSs and LGAs will prepare the projects based on guidance stipulated in this manual. MDAs, RSs and LGAs will prepare necessary documents related to the projects and arrange the projects by priority. The ranking will be according to criteria set by MoFP. The MDAs, RSs and LGAs projects will be submitted to MoFP and PO-RALG, respectively, ready for "absolute assessment".

(b). Absolute Assessment

Absolute Assessment shall be conducted by studying each project as an absolute case without comparing with other projects. After absolute assessment, MoFP will discuss the results with the project proponents (MDAs, RSs and LGAs), seeking thorough clarification of the project potential. The MoFP require as much improvement from the project proponents as possible at this stage; otherwise, it may become too late to make changes once the implementation begins. Once the clarification is provided by project proponents, MoFP would re-assess the projects, outline the assessment results and move to the next stage, whichis comparative assessment.

(c). Comparative Assessment (Compass)

Comparative Assessment shall be conducted by the MoFP. The objective of conducting comparative assessment is to find the best choice of PI projects for optimal budget allocation. The comparative assessment is done by comparing the importance of the multiple PI projects with common assessment criteria.

Comparative assessment results (final decisions on the projects) are communicated back to project proponents by MoFP. Specifically, in a Compass Workshop, all projects and their absolute assessment results will be listed and compared based on agreed criteria. The proposed projects will be ranked in the context of the following four dimensions.

Dimension 1: By national plans' priorities/ urgency.
Dimension 2: By financing possibilities.

Dimension 3: By productivity and duration before returns. Dimension 4: By strategic outcomes/effects.
(d). Selection of Project for Financing
The MoFP in collaboration with PO–RALG will make decision of which PI projects will be implemented under the next year's budget. The decision-making process differs according to the origin of the project. Decisions on project submitted by or through sector ministries shall be made by MoFP, while decisions on the RSs and LGAs' projects shall be made by the PO-RALG. The decisions will be communicated to the respective project proponents.
(e). Approval
MOFP will approve individual projects that will be included in the upcoming year's Government Budget and prepare the consolidated list and budget estimates for all projects (including new ones and ongoing) as part of development budget proposal for consideration by Cabinet and approval by Parliament as part of the budgetary process
(f). Feedback
Feedback involves the collection and dissemination of findings, conclusions, recommendations, lessons learnt from experience and evaluations throughout the project cycle. In the management of public investments, giving feedback should be a two-way traffic requirement among the actors in the PI management process. This process is part of project monitoring and reporting requirements which will be done through NPMIS that provides a step-by-step instruction for project initiation, appraisal, financing, implementation, monitoring, evaluation, reporting and closure.

2.4.2. Approval Process at the National Level

The process of approval of budget for PI projects goes through the Medium-Term Expenditure Frameworks (MTEFs). In each fiscal year, during September-December Plan and Budget Guidelines along with Annual Development Plan (ADP) Framework are prepared by MoFP in collaboration with MDAs, RSs and LGAs as per the Budget Act, CAP 439. The Plan and Budget Guidelines and ADP Framework include: policy and development programmes/ projects priorities as articulated in the medium-term national development plans (FYDPs) and macroeconomic policy framework; financial projections and national budget framework (estimated government revenues and expenditure for the forthcoming fiscal year).

Subject to the ceilings given by MoFP, MDAs and RSs then prepare and submit to MoFP and OTR the budget proposals which includes development budget requests for financing PI projects that have already been approved by the Ministry of Finance and Planning.

This is followed by MoFP engaging in a dialogue with Ministries, RSs and LGAs and Office of Treasury Registrar engaging in a dialogue with Public Institutions and Statutory Corporations to scrutinize submitted budget proposals. Later, they are

consolidated into Annual Development Plan (which contains list of all ongoing and newly approved PI projects) and submitted to the Cabinet through the Inter-Ministerial Technical Committee (IMTC). IMTC on its part, scrutinizes the consolidated budget proposal before submission to the Cabinet with appropriate recommendations. Cabinet deliberates the proposal before approving them for submission to the Parliament.

2.4.3. Parliamentary Authorization

Between March and April every year, parliamentary authorization starts with discussions of PI projects, and development budget proposals by the relevant Parliamentary Sector Committees. Between April and June rigorous discussions and final authorisations of sector budgets (MDAs, RSs and LGAs) are undertaken before the Minister responsible for Finance and Planning presents the Consolidated Plans and Budget Proposal in early June. This is followed by passing the Finance and Appropriation Bills by Parliament that enables Central Ministries, MDAs, RSs and LGAs to start implementing the proposed plans and budget.

The approval process is informed by timely issuance of budget guidelines, appropriateness of stated objectives, affordability, cost-effectiveness and absence of substantial negative side effectsas well as consistency with sectoral and national objectives. Figure 1 provides a summary of a proposed PIM decision-making process.

2.5 PI Projects Linkage to Budgetary Process

The stages in project cycle should be fully linked and aligned to Government budgetary process and Government funding in particular. Table 1 summarizes this linkage by showing each activity and associated timeframe as well as responsible institutions/actors. Taking into account that project evaluation cycle may run along a different timetable, it is important to continue strengthening project appraisal and selection processes and link these in an appropriate way to the budget cycle.

Table 1: Links with Government Budgetary Process

S/N	ACTIVITY	DESCRIPTION	RESPONSIBLE	TIME FRAME*
1	Initiation of Project ideas/thoughts	Proposal of a project that will require public attention and anticipate to draw resources from Government (sole finance and/or PPP arrangement)	All Public/ Private/ individual	Throughout the year
2	Brainstorming project ideas	Deliberation on ideas/projects thoughts to see if project meets criteria for public funding.	Key Stakeholders relevant to the sectoror area	Throughout the year

S/N	ACTIVITY	DESCRIPTION	RESPONSIBLE	TIME FRAME*
3	Communicate ideas to respective institution for further consideration	Channel their proposed agenda into Government machinery process through the respective authority (MDAs and LGAs).	All Public,Private/ individuals	Throughout the year
4	Initial appraisal	Scrutinizing ideas from 1-3 above and mainstreaming them into the government planning system	MoFP in Collaboration with respective MDAs, RSs and LGAs	July - August
5	Final Appraisal by the Government	Consultative meeting on investment plan proposals that are in line with Government priorities i.e., policy/strategy/programmes and plans	MoFP in Collaboration with respective MDAs, RSs and LGAs	August - September
6	Submit the proposals to the Plan and Budget Guidelines Committee	Review the plan and propose specific guidelines. Give direction to all MDAs and LGAs with regard to proposed agenda if the proposal cuts across all sectors	MoFP, PBG Committee	September-October
7	Government Approval of Investment Plan	Agree or disagree on proposed investment. If disagreeing then project goes to database for viable projects, for consideration in the future. If agreeing then proposal goes to next stage (8)	Cabinet	October - December
8	Linking Investment Plan (projects) with national Budget	Scrutinizing Investment Plan and mainstreaming the Plan into MTEF and other budget instruments	MDAs, RSs, LGAs, MoFP and PO-RALG	December-April
9	Approval by Parliament as an integral part of approval of the overall budget	Public acceptability of the intended PublicInvestment Plan.	Parliament	April -June
10	Implementation	Commencement of investment projects; taking into account project synergies and	Responsible institution	July onwards

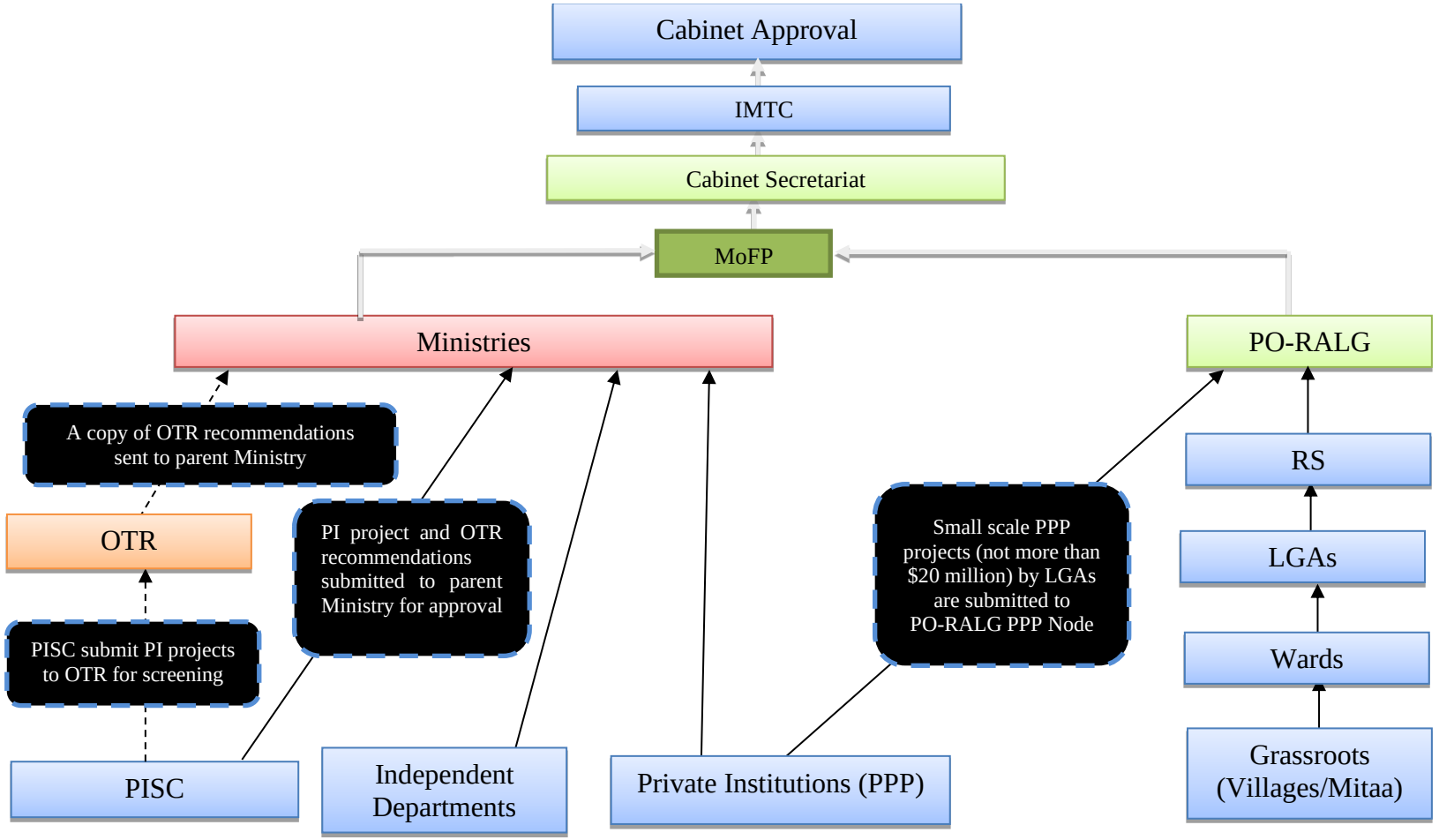
S/N	ACTIVITY	DESCRIPTION	RESPONSIBLE	TIME FRAME*
		Complementarities		
11	Monitoring and Evaluation	Follow up on implementation and track performance in order to advise on the way forward i.e. assessment of extent to which PI project goals, outputs, and activities areachieved; and producing informative quarterly and annual progress reports. Conduct evaluation two (2) years after project completion.	Line Ministry and MoFP	July onwards

**Time frame follows the Government budget cycle*

In the preparation of the fiscal framework and the annual budget, MoFP will establish financial envelop for critical public investment so that a sustainable investment program can be undertaken. As such, success in the implementation of public investment is a function ofgood decisions in choosing investments, adequate financing of the project and managementof the assets. Thus, MoFP should ensure recurrent funding to operate and maintain the installed public assets.

The Government will continue to finance the development projects through both domestic revenue and external sources from the Development Partners (DPs). While Development Partners' funds are mainly used to create assets, Government should meet operation and maintenance costs. MoFP should require the project proponents to furnish with reliable cash flow requirements in order to ensure coherence in the budgetary commitments, at least in the medium term.

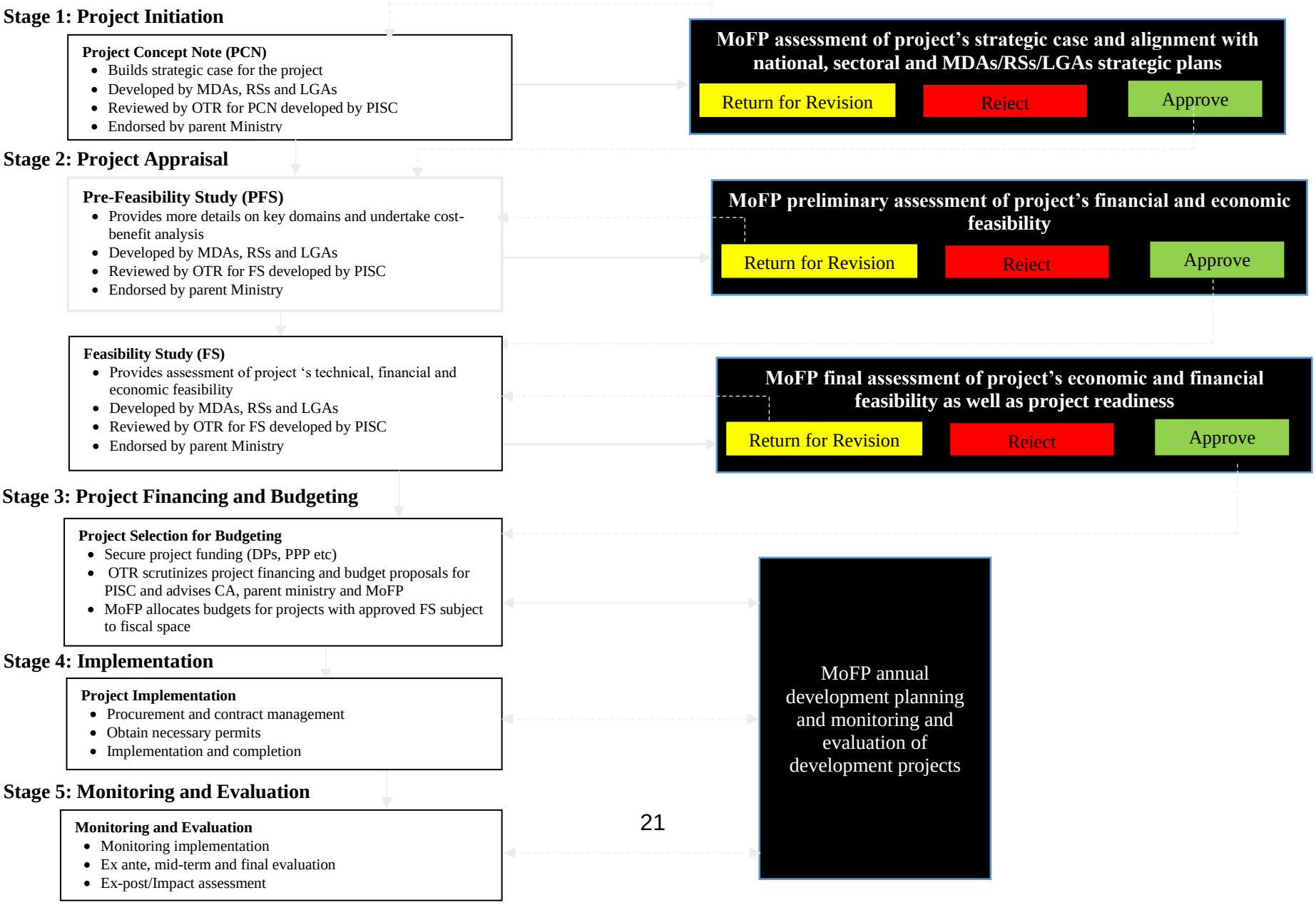
Figure 2: Institutional Arrangement for Project Planning and Approval Process



2.6 PIM Business Process Flow

Manual, Public Investment Management entails a multitude of procedures and processes which are often iterative, it also involves a number of stakeholders each with a different role to play in the entire process from project identification, appraisal and financing and budgeting all the way to project implementation and monitoring and evaluation. Effective management of PI projects will thus require; existence of a clear process flow, good coordination mechanisms, and proactive engagement of all stakeholders. Figure 3 provides a schematic outline of PIM business process flow delineating: critical PIM processes throughout project cycle; stakeholder(s) involved and their roles; key decision by actors across different stages; and coordination mechanism. Chapter 3 throughout to 7 provides further breakdown of each process outlining key subprocesses as well technical and methodological aspects.

FIGURE 3: PIM BUSINESS PROCESSES FLOW



2.7 Institutionalization and Operationalization of National Project Management Information System (NPMIS)

Effective coordination of public investment requires having in place a robust mechanism for managing data and records pertaining to all prospective, new and on-going development projects in the country. In the current digital environment this necessitated the need to develop the National Project Management Information System (NPMIS)

NPMIS is a web-based system that serves as a repository of all PI projects information/data. It provides a platform for data and information repository on public investment projects as well as managing the progress through all stages of the project cycle including implementation and post implementation evaluation. Thus, it facilitates the PI projects management at all levels (MDAs, RSs and LGAs). The System has been established vide Pay Master General's (PMG) Circular No. 5 of 2020/21. The institution responsible for national planning (Ministry of Finance and Planning) is charged with the responsibility of developing and maintaining the NPMIS.

2.6.1 Rationale for NPMIS

NPMIS has been established to address the previously encountered challenges in PI projects management. The challenges include: Lack of repository of all PI projects information/data; time availability of PI projects information/data; inaccuracy of data; and misalignment of PI projects information among various Government institutions and levels.

2.6.2 Components of NPMIS

The system allows the user (MDAs, RSs and LGAs) to register the project by filling all mandatory project detailed information as per concept note entry form and other key information that include attachment (Concept Note, Memorandum of Understanding) or any document relevant for decision making on the project viability. The necessary project information include: Project name, type, nature, origin, components, location and cost. Other important information includes: financing modality; project implementer; beneficiaries; coordinator; and stage of implementation. The System covers the following components:

(i) Project initiation and appraisal which include preparation and submission of concept note, feasibility study and detailed project proposal;
(ii) Project financing which includes budget ceiling and cash flow plan;
(iii) Project implementation which includes fund requisition, fund receiving, expenditure requisition and progress report;
(iv) Project monitoring and evaluation;
(v) Project extension which includes time and cost review;
(vi) Project termination; and
(vii) Project closure.

2.6.3 Benefits of National Public Management Information System (NPMIS)

The benefits of the NPMIS include:

(i) Increased efficiency in designing, planning, analysing, reporting, implementing and monitoring and evaluation of development projects;

(ii) Improved inter-institutional coordination through exchange and access to project information;

(iii) Increased access to financial resources from various Development Partners through documentation of bankable pipeline projects;

(iv) Provide systematic, accurate and consistent project information, since information is useful for Government and other stakeholders in decision making and review of the project goals to check if the tasks were accomplished as planned; and

(v) More informed policy dialogue on development planning (e.g., on national or strategic projects) and improved project design at all levels of the Government.

Guidance 2.1: Operationalization of NPMIS

MoFP shall develop and management of the National Project Management Information System (NPMIS). This among other things entails: development and continuous upgrading and improvement of the system in line with digital technology development; integration with other planning, budgeting and M&E systems; regular revisions of system's business flow process to reflect institutional changes; and reviewing and updating projects documents submitted by MDAs, RSs and LGAs through NPMIS.

Guidance 2.2: Registration of PI Projects through NPMIS and submission of Project documents

As per the requirement of the Treasury Circular No. 5 of 2020/21, all MDAs, RSs and LGAs initiating PI Projects, shall register such projects in the NPMIS.

In addition to the registration of newly initiated projects, MDAs, RSs and LGAs shall also submit to the NPMIS all documents (Concept Note, Feasibility Study and Progress reports) related to the ongoing projects.

CHAPTER 3
PUBLIC INVESTMENT PROJECT PREPARATION

3.1 Introduction

This chapter explains the approach and methods of preparing PI projectproposals and submitting appropriate documents for PI budget request. The chapter also presents types of proposal formats designed for PI projects that are newly planned, at the study/designing stages, or uncompleted projects that have been redesigned and expected to resume after being suspended.

3.2 Project Planning

This is a process of setting goals, developing strategies, outlining the implementation arrangements and allocating resources to achieve those goals. PI project planning is a dynamic process which involves analysis of a package of economic and social policies expressed with quantified targets and objectives to be achieved during a defined period. Project planning is the early stage of the project cycle, and it involves four levels:

(i) Strategic guidance, including identification of the vision, goals or objectives to be achieved;
(ii) Formulation of the strategy needed to realise the envisioned goals and objectives above;
(iii) Determination of resource allocation; and
(iv) Outlining the implementation arrangements which includes M&E.

3.2.1 Strategic Guidance in PI Identification

Public Investment Project planning should start with establishing a strategic case in relation to priority issues and areas stipulated in the national development frameworks. The PI identification involves identifying gaps to be filled/or market failure to be addressed as well as the priority level to be attached to the project. Likewise, under the PPP framework, unsolicited projects[1] should be fully aligned to the agreed national development frameworks as well as sectoral policies and strategies. The task of project identification is routinely performed during the planning process at the MDAs, RSs and LGAs.

Guidance 3.1: Strategic Guidance in PI Identification

All actors involved in PI identification (initialization) – MDAs, RSs, LGAs, and Private Sector - are required to show specific link of the proposed project to agreed national development frameworks as well as sectoral policies' priorities and strategies. This link will be one of evaluation criteria in subsequent stage in project evaluation and selection.

[1] Unsolicited proposal means a written proposal that is submitted to a relevant CA on the initiative of a private party for the purpose of entering into a public private partnership Agreement with public sector (as per PPP Act, CAP 103)

3.2.2 Strategy Formulation

In project planning, formulation of PI project implementation strategy is a pertinent stage. The strategy helps to determine the best and effective approach for undertaking the PI project in order to achieve the intended objectives and goals. This stage involves identification and analysis of different options through which project outputs can be delivered and determining the most cost-effective option.

3.2.3 Determination of Resource Allocation

Resource allocation is the process of assigning and scheduling available resources in the most effective and economical possible way. It is the management and delegation of resources throughout a project to ensure that it runs smoothly and successfully. Determining resources to be allocated in PI projects is important because it gives a clear picture on the amount of work that has to be done. Resource allocation helps the project management team in planning for project implementation.

3.2.4 Outlining the Implementation Arrangements

This stage covers the mechanism and modality for implementing PI projects. PI implementation arrangements provide the basis for un-packing the strategy and content for developing an action plan, capacity needed to implement an effective plan and related activities. Further, it introduces key monitoring and evaluation processes and tools and provides guidance on how to devise sound indicators. PI implementation arrangements should be designed to provide reliable data to be used in gauging performance, tracking efficient use of resources and feedback on implementation. This stage outlines the expected outputs (deliverables) of the strategy and required interventions to deliver the outputs. Furthermore, it spells out the specific methods and tools necessary to deliver the outputs.

3.3 Preliminary Screening

Government institutions and private sector initiating PI projects shall be required to prepare a project concept note for PI projects in order to allow preliminary screening of the project. Projects by Independent Departments (not overseen by OTR) should be scanned at sector Ministry before being submitted to MoFP; likewise, project concept note by PISC should be scanned by OTR before being forwarded to sector Ministry and ultimately to MoFP for screening and approval. Additionally, projects by RSs and LGAs shall be screened by PO-RALG before being forwarded to MoFP for screening and final approval.

3.4 Contents of the Project Concept and Criteria for Screening

The project concept note should show which gaps/or market failure the proposed intervention will address. Projects which are not financially attractive (profit making) should seek public financing. The projects attractive to the private investor, the investor should be identified to undertake the investment through Alternative Project

Finance (APF) or to engage in some form of Public Private Partnership (PPP). Further, implementers are advised to use community mobilization for projects conducted at the local level to reduce Government financial burden because it improves community engagement and ownership of programs implemented in their communities.

The project concept note should meet several criteria, notably, meeting needs consistent with sectoral and national objectives, i.e., the concept note should reflect objectives in national strategies and plans as well as Sectoral Investment Plans (SIPs) and ensure stakeholders participation. The project concept note should also provide: a brief review/analysis of socio-economic situation; benefits; risks and mitigation mechanism; coordination aspects; stakeholders analysis; activities/ interventions; size and scope; financing options; debt service capacity; profitability; and overall evaluation.

Guidance 3.2: Requirement for and basic contents of the Project Concept Note (PCN)

All MDAs, RSs and LGAs initiating PI projects are required to prepare Project Concept Note and submit it to all required entities for review and approval. Road development projects shall be exempted from this requirement and shall follow guidance provided in TANROADS Investment Appraisal Manual (2015).

Guidance 3.3: Basic contents of the Project Concept Note

(i) With exception of PPP projects and income-generating infrastructure projects implemented by LGAs, all other projects' concept notes shall follow outline prescribed in Annex A1 and shall include the following at minimum in establishing their strategic cases.

- Current situation and the way forward to project achievement and the goal;
- The next 3 - 5 years policy initiatives;
- Linkages to the priorities set by the Government, including sector's strategic plan and how theproject relates to the plans, strategies and performance measures;
- Why the proposed project is the preferred alternative and how it will address the needs of the relevant sector;
- The alternatives considered and the consequences of deferring the project; and
- Proposed project financing options and its justification (i.e., comparative analysis of different financing options).

(ii) PPP projects and income-generating infrastructure projects implemented by LGAs should follow outline, structure and content requirement stipulated in PPP Regulations of 2020 (Regulations 15 and First Schedule) and National Guidelines for National Guideline for Developing and Financing Income-Generating Infrastructure investments; User Guide for LGAs (2021) respectively.

Guidance 3.4: Review and approval of the Project Concept Note

MoFP shall review submitted project concept notes and make final recommendation on whether; the projects proceed to the next stage of project preparation (pre-feasibility study or feasibility study), project concept note needs revision, or project is rejected altogether. Review in question should also include an institutional and management analysis including: projects' complementarity and mutuality with other PI projects; and proposed coordination mechanisms with key project stakeholders

3.5 Project Framework

Public institution will be required to prepare a project framework for each positively rated project during the preliminary screening. The Project Framework shows how to express the project in a logical manner. The public investment project proposal should be arranged in this framework in order to allow comparable accurate assessment and evaluation. The project framework shall consist of two components, which are:

(i) *Narrative Summary*: This is a summary of the project that expresses logical link from the overall goal of the project, project purpose, activities, inputs and outputs. They areusually expressed in simple sentences so that the logical relations between the steps are clear; and

(ii) *Objectively Verifiable Indicators (OVI):* These are specific figures or conditions that express the guidelines of completion or achievement of the overall goal, projectpurpose and outputs as presented in the narrative summary.

The project proponent shall prepare both the narrative summary and objectively verifiable indicators during the project planning process.

3.5.1. Narrative Summary

The following are the logical components of the narrative summary.

Overall Goal

This is an indirect development effect the project is expected to bring about. It is the effect which is likely to be observed few years after the project is completed. It is a statement that describes the direction in relation to the development goal of the sector or the nation.

The following are examples of the overall goals derived from the statements of the project purpose above:

(i) Increased rice production at the irrigation area, in terms of the total amount and yield;

(ii) Cure to more patients within the district, with substantial reduction of referral cases to the regional hospital;

(iii) Electrification of “specified number” of rural households or a “specific percentage” of households in a certain District; and

(iv) Some projects may have more than one goal. In such cases, the project promoter must identify which one would have more priority than the other.

Project Purpose

This is the statement of the direct objective of a project, which is expected to be achieved at the completion of the project. The project purpose is the condition that must be cleared up to the stage when the project starts to operate and deliver goods or services it was designed for. Generally, no more than one project purpose is set up for a project. An important aspect when setting up the project purpose is to ensure that

the target beneficiaries and location are appropriately specified. Some examples of the statement of project purpose are:

(i) Completion of a water dam irrigation system along with the establishment of a water user association that will manage its fee collection and maintenance;
(ii) Completion of renovation of a district hospital, including installation of new medicalequipment, along with training for use and maintenance; and
(iii) Completion of electricity connectivity to all villages in a certain District.

Note that, a clear statement of the beneficiaries is required so that it is easy to identify its true effects towards achieving the development target. The purpose statement should be drawn from the original situation before the project starts as reflected in the feasibility studies.

Activities

These include a series of specific implementation intended to produce outputs of the project. Activities transform project inputs to project outputs. In the example above, activities include Construction, training and resettlement. Sequencing of project activities should carefully be done for smooth implementation of the project.

Inputs

These are resources necessary to pursue project activities which include personnel, facilities, equipment, material and other miscellaneous costs that are required specifically for the project use.

Outputs

Outputs are components of a product/service that build up to the completion of a project. Each output is defined by a different task, or “small projects in a major project” that are required to achieve the purpose in the end.

Depending on the nature and design of the project, there can be several project outputs. However, it is not advisable to target too many outputs for a single project. Generally, 3 to 5 outputs should be enough. Output should be linked to the statement of the purpose such that, the project purpose cannot be achieved unless all the project’s outputs are properly achieved.

The following are the four examples of outputs for the irrigation project of which project purpose was stated above: *Resettlement carried out; water dam construction completed;canal construction completed; and water users association formed*.

Note that some outputs must be attained from a specific activity before the start of other activities. In this example,resettlement of residents within the damming area must be completed before the dam is constructed.

3.5.2. Project Indicators and Means of Verification

Indicators

It is necessary that the project document shows a numerical or a definitive target as indicators for each summary level. That means, there should be project indicators for the overall goal, project purpose and outputs. The role of the indicators is to clarify the achievement level of each summary by providing the levels or degrees to which they should be achieved. Project indicators are specified in the planning stages along with the narrative summary as illustrated in Table 2 and 3.

Table 2: An Example of OVI for the Irrigation Project

Narrative Summary	Objectively Verifiable Indicators
Overall Goal	
Achievement of increase in rice production at the irrigation area, in terms of the total amount and yield.	• By the end 2030, annual rice production in District *xxxx* (where the irrigation project is located) has to increase to *xxx* tons (from *yyy* tons in 2025). • At the end 2030, rice production in the irrigated area averages *xx* tons/ha (from yy tons/ha in 2025).
Project Purpose	
Completion of a water dam irrigation system along with the establishment of a water user association that will manage its fee collection and maintenance.	• By the end 2027, the dam is filled with water with an estimation of *xxx* ha. • By the end 2027, *xxx* farmers in the benefit area of irrigation are potentially capable of receiving the dam water.
Outputs	
1. Resettlement of villagers in the potential dam site is completed.	• By the end 2025, all basic facilities for *xxx* villages designated to relocate should be completed. • By the end 2026, all families and infrastructure have completed their resettlement to the agreed locations.
2. The dam construction is completed	• By the end 2027, dam infrastructure is completed.
3. The canal construction is completed	• By the end 2027, all canal and sub-canal infrastructure is completed.
4. The Water user associations designed for this irrigation is established and ready for operation.	• By the end 2027, the Water user associations are established. • By the end 2027, conditions and fee/tariff are set up and communicated to all potential irrigation users.

Means of Verification

These are guidelines for information source where the indicators are found. It is important that, the sources of information remain the same since the planning stage to the completion ofthe project. Each indicator must be supplied with its means of verification. The means of verification should be:

(i) Reliable: It is necessary that the source of information is reliable and dependable. If the information is obtained outside of the organization, the project promoter must ensure reliability, including how the data are collected.

(ii) Obtainable: The source of information should be accessible. Data must be obtainable with relative ease.

(iii) Sustainable: The information must be obtainable from planning through completion stages.

Table 3: Examples of Indicators and Means of Verification

Objectively Verifiable Indicators	Means of Verification
Overall Goal	
By the end 2030, annual rice production in District *xxxx* (where the irrigation project is located) has increased to *xxx* tons (from yyy tons in 2025).	• Annual rice production data from the xxxDistrict Agriculture Office.
At the end 2028, rice production in the irrigated area averages *xx* tons/ha (from yy tons/ha in 2025).	• Annual rice production data from the xxx District • Agriculture Office.
Project Purpose	
By the end 2027, the dam is filled with water with an estimation of *xxx* ha.	• Project progress report. • Geographic and metrological data of the area duringthe period.
By the end 2027, xxx farmers in the benefit area of irrigation are potentially capable of receiving the dam water.	• Project progress report.
Outputs	
By the end 2025, all basic facilities for xxx villages designated to relocate should be completed.	• Project progress report. • Official document of relocation at LGA office.
By the end 2026, all households and village infrastructure have resettled to the agreed locations.	• Project progress report. • Households and village infrastructure relocation record at LGA office.
By the end 2027, dam infrastructure is completed.	• Project Progress Report. • Dam design sheet and inspection reports. Quality assurance reports.

Objectively Verifiable Indicators	Means of Verification
By the end 2027, all canal and sub-canal infrastructure is completed.	• Project Progress Report. • Canal design sheet and inspection reports. Quality assurance reports.
By the end 2027, the Water user associations are established.	• Water users Article of Association kept at the District water office.
By the end 2027, conditions and fee tariff are set up and communicated to all potential irrigation users.	• Updated water users' article of association. • Tariff sheet kept at the district water office.

The means of verification for the overall goal indicators cannot be sourced from the project document. The reason is that overall goal relates to impact brought about by the project. Generally, the impact is realized after the completion of the project.

3.6 Public Investment Project Proposals

The project proposal is the official document, which must be submitted to MoFP every time a new project (or extension) of the project is requested. Project Proposal document should be prepared for all non-infrastructure and acquisition projects as indicated in Table 4. The project proposal should contain the following:

(i) ***The project framework:*** This can be required for a new project or a project that was suspended but requesting for revival. The framework includes, among others, the project design, expected impact to the economy and/or society; and,

(ii) ***The request for budget***: This shows the total amount and the annual amount for the outer years of the projects.

The project proposal formats will vary depending on the types of projects. Project proposal formats are designed for PI projects that are: (a) newly planned project; (b) projects that arein the study/designing stage; and (c) uncompleted projects that have been redesigned to resume after they were suspended for more than 2 years. Annex A2 provides a sketch of example of the required formats and contents of project proposals with room for variations to suit project conditions i.e depending whether project involves technical promotion (capacity development) or acquisition of assets or properties.

CHAPTER 4
TECHNICAL APPROACHES TO INVESTMENT ANALYSIS

4.1 Introduction

This chapter deals with project appraisal and link to budgetary process for recommended projects. The chapter also provides guidance on; Feasibility Study (FS) and steps involved in Cost-Benefit Analysis (principles, identifying and valuing costs and benefits), Net Present Value (NPV); benefit/cost ratio; Internal Rate of Return (IRR); analysis of risk; financial appraisals; and measures like cost-effectiveness, value for money assessment and multi-criteria analysis.

4.2 Pre-Feasibility Study

The phase involves refinement of the elements described in the identification and preliminary screening phase covered in Chapter 3. In the chapter, it was emphasized that the preparation process includes description of objectives, identification of principal issues and setting up of a timetable for the different phases of development cycle. At the pre-feasibility phase (PFS), more details on the issues covered in the identification phase are provided, including outline of the full range of technical, institutional, financial and economic issues that are relevant to achieving the project objectives. It also involves analysis of technical, financial and social and economic viability of various options in order to identify the preferred option. This stage elaborates the category to which the project belongs and the nature of feasibility study to be carried out.

For all projects requiring PFS should be examined. The PFS should examine the potential or viability of the project using data and information gathered at the preparation stage. The PFS is a critical stage of the project cycle since it provides a comprehensive review of all aspects of the project before taking a final decision about its viability. It completes all steps for going into a detailed feasibility study. Based on the findings of the PFS, a project which is not viable at this stage is rejected and marked as such in the NPMIS (list of screened projects). If the situation changes, a project rejected at one round may be re-tabled for consideration after sufficient justification.

Guidance 4.1: Requirement for Pre-Feasibility Study for Projects:

(i) MoFP should require and review pre-feasibility for large and medium infrastructure projects as well as all PPP projects as indicated in Table 4. Road development projects shall be exempted from this requirement and should follow guidance provided in TANROADS Investment Appraisal Manual (2015)

(ii) The Pre-feasibility study for project should meet the MoFP assessment criteria which include: the project alignment with National development priorities; and approval processes and layer i.e project should be approved and submitted to MoFP by Accounting Officer of the respective sector ministry;

(iii) The pre-feasibility study should cover the following domains: market or demand analysis; technical or engineering specifications; environmental and social viability; manpower and administrative support; economic viability; and institutional and management analysis.

(iv) The Pre-feasibility study for PPP projects shall follow the outline, structure and content requirement stipulated in the PPP Act Cap 103 RE 2018 and Regulations of 2020 (Regulation 6 as annexed in Schedule 1 B) while for the other projects should follow the outline in Annex A3.

Assessment criteria for Pre-feasibility study are explained subsequently:

(i) **Market or Demand Analysis:** Assessment of whether there is current and future demand for the goods/services that will be produced by the project. In some projects, both domestic and external markets should be considered.

(ii) **Technical or Engineering Specifications:** This involves assessment of input parameters of the project, for example, quantities and prices of inputs; service delivery; appropriateness of the technology; size of the project; design and location.

(iii) **Environmental and Social Viability:** This should assess externalities of the project, including adverse impact on the environment and/or groups of people in the society, as per Environmental Management Act No. 20 of 2004. This domain should cover social appraisal or distributive and basic needs analysis.

(iv) **Manpower and Administrative Support:** This provides assessment of the manpower requirements both for construction and operation phases as well as the technical and administrative requirements versus the manpower supply;

(v) **Financial Viability:** This analysis integrates financial and technical variables estimated in the marketing, technical and manpower domains. It includes cash flow profile of the project, identification of all the receipts and expenditures, as well as description of the financial flows of the project. The data generated at this stage are integrated in the economic and social appraisal; and

(vi) **Economic Viability:** This analysis views the project from the entire economy's point of view. It establishes the extent to which the implementation would improve the economic welfare of the country. Economic analysis goes beyond

a mere market evaluation and the opportunity cost if the project will not be implemented. It requires use of appropriate techniques to determine economic prices of goods and services, foreign exchange, cost of capital and labour, etc.

(vii) **Institutional and Management Analysis:** analysis for institutional arrangements for efficient coordination and management of the project as well as management plan for project implementation, monitoring and evaluation and operation.

Guidance 4.2: Review and approval of the Pre-Feasibility Study

MoFP shall review submitted pre-feasibility study based on established assessment criteria and make final recommendation on whether; the projects proceed to the next stage of project preparation (feasibility study), needs revision, or project is rejected altogether.

The PFS bottom line is to provide sufficient information to form a basis for proper decision. The set of issues covered should: clearly outline major risks (including institutional and budgetary) and sensitivity of the stated domains; provide some comparison of alternatives (engineering, socio-economic costs and benefits) and therefore some recommendation on project alternative; preliminary estimate of project costs and benefits; and the regulatory requirements in which the project will operate. The PFS should also identify lacking information for Feasibility Study.

4.3 Feasibility Study

4.3.1 Requirement for Feasibility Study

The main requirement for conducting Feasibility Study (FS) is to examine the extent to which the project is able to meet the financial, economic and social criteria set for investment expenditures. Decision should be made based on guidance provided by the project selection criteria.

Guidance 4.3: Feasibility Study Requirements

(i) MoFP shall require and review feasibility studies for all large and medium infrastructure projects as well as all PPP projects. For the case of small projects Feasibility study should be conducted for projects with the following criteria: sensitive projects; high risk, commercial in nature; involve PPP financing modality; and cost above five billion shilling as indicated in Table 4.

(ii) The Feasibility study for project should meet the MoFP assessment criteria which include: the project alignment with National and sectoral development priorities as well as climate change and gender issues consideration.

(iii) Projects involving non-conventional procurement such as; Public Private Partnerships (PPPs) and bundled "resources for infrastructure" projects, should be subjected to the same appraisal process as other public investment. The costs and benefits of such projects should be compared against a public sector comparator project.

(iv) The CA shall review the feasibility study of pipeline projects in every three (3) years.

(v) The Feasibility study for PPP projects shall follow the structure and content stipulated in the PPP Act Cap 103 RE 2018 and Regulations of 2020 (Regulation 15 as annexed in Schedule 1 C) while for other PI projects should follow the outline in Annex A4.

(vi) Feasibility study for road development projects should follow methods, structure, content and guidance stipulated in the TANROADS Investment Appraisal Manual (2015).

The feasibility study can be limited to basic elements of formal project appraisal such as:

(i) The need for a project is well justified;

(ii) Project's objectives are clearly specified;

(iii) Broad alternative options to meet project's objectives are identified and comparatively examined;

(iv) The most promising option is subject to detailed analysis;

(v) Project costs are fully and accurately estimated; and

(vi) Project benefits are assessed qualitatively as likely to justify the costs.

Table 4: Requirement for Project Concept (PCN), Pre-Feasibility Study (PFS) and Feasibility Study (FS) for Different Categories of PI Project

Project	Project Document Required				
	Concept Note	**Pre-Feasibility Study**	**Feasibility Study**	**Detailed Project Proposal**	**Detailed Design**
Infrastructure [a]					
• Large					
• Medium					
• Small [b]					
Non-Infrastructure					
Acquisition					
PPP					

Note:

a- The roads development projects are exempted from Pre-feasibility study requirement and shall follow guidance provided in TANROADS Investment Appraisal Manual (2015).

b- For the case of small projects, Feasibility study should be conducted for projects with the following criteria: sensitive projects; commercial projects; involve PPP financing modality; and cost above five billion shillings.

4.3.2 Cost-Benefit and Cost-Effectiveness Analysis

The feasibility study should include satisfactory cost-benefit analysis or cost-effectiveness analysis. This section presents criteria for cost-benefit or cost-effectiveness, which should be used to evaluate projects. The criteria include Net Present Value (NPV), Benefit-Cost Ratio (BCR), Internal Rate of Return (IRR), Analysis of risk, etc. The main objective of the section criteria is to guide the process of appraising public investment projects.

The sector ministry will carry out a quick scan of the competing project(s) to determine the depth required for Cost-Benefit study or Cost-Effectiveness study for all projects. Among others, the nature of the project will determine which cost-effective procedure should be followed in carrying out cost-benefit analysis. These procedures should be applied flexibly, including their revision from time to time.

Basis of CBA – Identifying and Valuing Costs and Benefits

In the world of scarce resources, any allocative decision necessarily involves making choices between alternatives. As instructed above, all projects should be subjected to Economic Cost-Benefit Analysis (CBA), which is an economic appraisal tool for the comparison of costs and benefits associated with alternative public investment decisions. Thus, a CBA should always be an integral part of detailed appraisal stage prior to the project approval decision. This sub-section outlines what should be included in an elaborate/detailed economic CBA in order to avoid common problems in CBA, namely: (i) underestimation of costs – some projects have cost significantly more than expected; (ii) lack of sufficient options analysis including no definition of the counterfactual; (iii) double counting of benefits; and (iv) insufficient sensitivity analysis.

Defining the Benchmark

For each project to which CBA is required, the study should clearly identify and examine a benchmark or counterfactual for comparative purposes. This should include “doing nothing”, i.e., the status quo or “doing minimum”, depending on the nature of the project at hand. In most cases, the do-minimum is a better benchmark for analysis and should be required as a minimum for all projects. Further, where resources allow, it is important that realistic options are analysed against the benchmark to provide room for the most effective option that can be identified.

Identifying costs and benefits

Nevertheless, a comprehensive CBA should ensure that all relevant costs and benefits are included. Public investments are meant to serve the public interest and therefore consider broader indicators of effectiveness, which are less quantifiable and difficult to monetise.

Costs: The costs of a project should reflect the best alternative uses to which resources can be put or opportunity costs. Capital and operating costs should be included in the analysis. Costs estimates should also include negative externalities, e.g., water/noise pollution (see subsection below).

Note that, depreciation should not be included as this will amount to double counting. Depreciation, which is an accounting concept, simply shows allocated expenditure over the life span of an asset.

In valuing the cost items, the market prices normally reflect the best alternative uses to which the goods or services could be put or the opportunity cost. Therefore, markets prices should be used. However, when market prices fail to reflect the opportunity costs, e.g., due to market failure shadow prices should be used (and of course be justified). Most common areas where shadow prices will be needed include:

(i) *Shadow prices of Labour inputs*: this will vary by skill levels, geographic locationsin the country as well as by seasons. MoFP should coordinate the standardization of the conversion factor and require the application accordingly;

(ii) *Shadow price of public funds*: Due to distortions introduced by taxations, a premium must be attached to the nominal costs of the proposal in order to make private cash flows commensurate with public cash flows and account for the deadweight loss of taxation. The conversion factor should be established under the coordination of the MoFP and applied accordingly;

(iii) *Shadow prices for tradable*: Border prices (FOB) should be used for project inputs that are tradable; and

(iv) *Price distortions due to subsidies or taxation*: When the cost item is not tradable but subject of tax or subsidies, then CBA should correct for this distortion.

Benefits: Unlike costs, benefits are relatively difficult to identify and ascertain. It is important to note that, in identifying benefits, consideration should be given to the direct and indirect effects of the PI project interventions.

The values of benefits should always be based on willingness to pay when markets exit. Thus, the market prices should be used. However, when markets do not exist, other techniques should be used, including stated preference techniques such as contingent valuation as well as revealed preference techniques such as hedonic pricing and travel cost analysis. Otherwise, for other categories of project, the decision

should be on case-by-case basis.

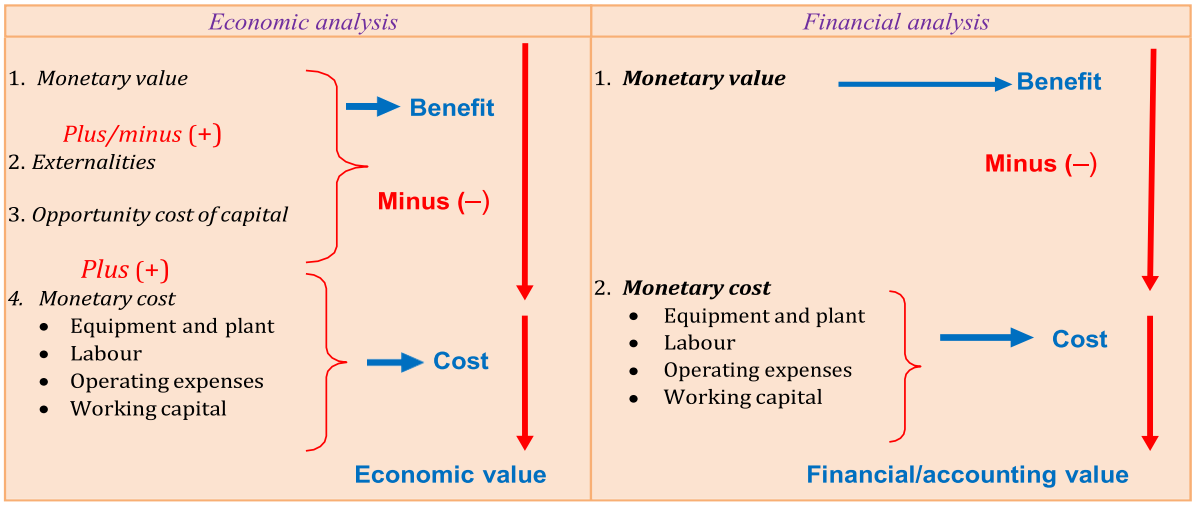
Note however that, if the efforts and resources required to quantify a particular benefit outweighs the advantages of including it, it should not be quantified. However, a qualitative assessment should be clearly made to back up the point.

Externalities Generated by a Project and Adjustment for Market Distortions

Externality

Consideration of externality is intended to inform project analysis that the evaluation criteria presented could be based on financial/accounting value and not economic value. The difference between the two is that economic value includes externalities (cost and/or benefit) generated by the project which is not internalized *(Figure 4)*. *Generally, economic externality is defined as a consequence of project activity which affects other parties without this effect being reflected in market prices*. Externality arises when social benefits (and social costs) diverge from private benefits (and private costs).

Figure 4: Externalities Generated by a Project



Economic value is a wider concept than financial value by the number of externalities. Therefore, for a comprehensive project appraisal the calculation of NPV, IRR, and BCR should include externalities generated by the project.

Common Externalities

As noted, externalities are essentially an issue of market failure – whereby some of costs and benefits of a project are not reflected in the prices. There are several situations in which externalities may exist. These include:

(i) ***Environmental Externalities:*** These comprise damages (destruction) of the environment or cost of mitigating the damages resulting from the project implementation. Costs associated with environmental externalities consist: pollution to water, air, and particulate pollution; and, soil erosion. Likewise,

some of the benefits are carbon sequestration, restoration of vegetation cover, etc. There are two ways to address the environment impact. These are:

(a) When the costs of mitigation measures are known, for example, to reduce emissions of carbon dioxide (CO_2), such costs should be included in the cost of the project (in the financial and economic analyses of the project); and

(b) Damage inflicted on the environment will not be completely reversed and therefore, there will be a permanent residual impact. The impact should be estimated/valuated and included in the economic analysis of the project;

(ii) ***Externality due to creation of monopoly:*** Some of the public investment decisions may lead to emergence of monopoly, for instance, when rights to a vital resource/input are assigned exclusively to one firm. This leads to divergence between social costs/benefits and the market price which should be adjusted when appraising the projects; and

(iii) ***Externalities due to fiscal operations***: Taxes and subsidies could be a source of price distortions in the economy. Evaluation of projects and calculations of the NPV, IRR, and BCR should use adjusted prices to correct the distortions. It is therefore necessary that, the analysts should carry out the conversion of the market prices into accounting prices in order to eliminate such distortions and reflect the costs of social opportunity of the resources.

Guidance 4.3: Adjustment for externalities and market distortions

(i) MoFP and coordinating Line Ministries should base their decision on financial and economic costs and benefits,which takes into account externalities and market distortions.

(ii) MoFP therefore shall require that rigorous CBA which presents the best estimates of socio-economic costs and benefits.

(iii) Environment and Social Impact Assessment (ESIA) should be carried in accordance with the Environmental Management Act No. 20 of 2004.

4.3.3 Decision Criteria in CBA

A. Conceptualization: Building Blocks of the Evaluation Criteria

The following aspects form the basis for the approaches employed in rigorous cost-benefitanalysis:

(i) *Time dimension and the need to discount future income and cost streams*

Project investment, unlike recurrent expenditure, has a time dimension which is an important factor in evaluation. The time dimension comes into consideration because project investments are, by their nature, associated with streams of future costs (e.g. maintenance costs) and benefits (e.g., revenues) hence defining the time value for money. To be able to say whether benefits outweigh costs, there should be a framework which allows comparison of costs and benefits during the life span of the project.

The cost-benefit analysis should start with the basic principle that the value of a Shilling received (or paid out) today, which is not similar to that received (paid out) at some future date. Therefore, future streams of revenues and costs must first be adjusted to a common denominator before they can be compared. The common denominator essentially expresses the project's net cash flows and net economic benefits either in terms of present or future values. When expressing the streams of costs and benefits in terms of future values, the flows must be compounded. However, when expressing the future values in terms of present values, the flows must be discounted.

(ii) *Compounding*

Interest rate plays a crucial role in conceptualizing future values or present values. There are two ways in which interest can be treated in project evaluation, namely:

(a) Simple interest, which is paid only on the principal; and

(b) Compound interest, which is paid on both the principal and interest as the money accumulates.

In most cases, project evaluation uses compound interest approach and is often compounded annually. However, there are projects in which interest is compounded semi-annually, quarterly, or even more frequently than quarterly. The higher the frequency of compounding, the large is the future value of the current investment.

For projects with a short life span, it is plausible to assume that the rate of interest will remain constant throughout the life of the project. Nevertheless, there are cases where it would not be plausible to use this assumption; and instead, a variable interest rate becomes more realistic. This will be the case when interest rates are expected to change in future and the expectations are reflected in the project documents/loan agreement. For Government finance sustainability, the rate applied for Debt Sustainability Analysis (DSA) should be used for compounding.

(iii) *Discounting*

Unlike the compounding process, discounting is intended to establish the present value of future flows. Discounting cash flows simply means valuation of future flows in today's terms. The discounting rate is the inverse of the compounding rate.

It is important to note that, given other parameters of the projects, the ***present value*** is determined by the level of interest rate used in the computations. In this context, the choice of interest rate to be used in the project evaluation is one of the critical decisions to make.

Guidance 4.4: Choice of Discounting Factor.

(i) *Fully Public Funded Project*: MoFP in collaboration with key stakeholders such as the Bank of Tanzania (BoT) shall establish the official discount rate applicable in projects appraisal of fully public funded PI. This official discount rate should only be revised when deemed necessary to avoid being influenced by the short-term market fluctuations.

(ii) Unless justified otherwise, the Government will use the same interest rate as is applied in the Debt *Sustainability* Analysis (DSA) adjusted to be consistent with the currency that the analysis is conducted in. Any PI actor developing a PI project proposal should use the rate specified by MoFP.

(iii) *For Public Investment involving Private Finance*: Public investment involving private sector participation (PPP or joint Venture) encompass cost of equity element in the discount rate estimation (Weighted Average Cost of Capital - WACC), MoFP in collaboration with other stakeholders shall prepare and circulate technical guidance on estimation of discount rate for such projects. This guidance should be used by any actor developing PI project proposal that involves private participation.

B. ***Net Present Value Criterion***

Net Present Value (NPV) is defined as the sum of the present values of the expected incremental positive and negative net cash flows over a project's anticipated lifetime. NPV can be negative, zero or positive.

Assuming that streams of costs and benefits have been adequately captured for analysis, the following criteria should be applied. If this assumption is not plausible, other criteria such as cost-effectiveness should be applied.

(i) Interpretation of the NPV Calculation Results

Scenario 1: Negative NPV of a project

This happens when present value streams of costs of the project (incremental investment of the projects) exceeds the benefit of the project. In this case, it is expected that investment costs will not be recovered, and there will be a decline in net real wealth to the investor or thepublic sector in our context. Projects with negative NPV should not be implemented.

Scenario 2: Zero NPV of a project

A project with zero NPV it means that there is neither a gain nor loss to the society. In this case, the incremental investment of the project will only recover the cost. Projects with zero NPV should not be implemented.

Scenario 3: Positive NPV of a project

This happens when present value streams of costs of the project (incremental investment of the projects) are lower than the benefits from the project. Only projects with positive NPV should be implemented. The project with the highest positive NPV is the one which maximizes the net worth of the society.

Guidance 4.5: Decision Rule for NPV

(i) Reject the project if NPV is less than or equal to zero.
(ii) Choose the project with the highest NPV in a situation where there are projects competing for limited resource.
(iii) When the choice is between packages of projects, that are not necessarily mutually exclusive, choose the package of projects with the highest total NPV.

(ii) Challenges *of using NPV*

There are several challenges and setbacks in using NPV as project decision criterion. These include:

(i) NPV cannot be used to compare project since it is an absolute figure and not a percentage. Therefore, the NPV of larger projects would inevitably be higher than a project of a smaller size. The returns of the smaller project may be higher than its investment, but overall, the NPV value might be lower; and
(ii) NPV only takes into account the cash inflows and outflows of a particular project. It does not consider any hidden costs, sunk costs, or other preliminary costs incurred about the specific project. Therefore, the profitability of the project may not be highly accurate

C. ***Internal Rate of Return Criterion***

Internal Rate of Return (IRR) is a discount rate at which the sum of all future cash flows is equal to the initial investment, such that an investment break even. IRR is a discount rate atwhich NPV equals to zero. In other words, IRR shows that investors can recover their invested capital and earn a rate of return equal to the discount rate.

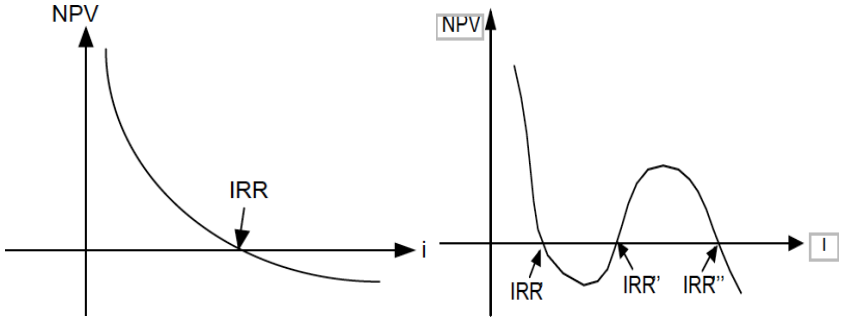
The IRR is a solution to a complex polynomial equation. It is the value where the NPV curve crosses the horizontal axis (Figure 5). Therefore, there is no guarantee that NPV curve willever cross (or will cross only once) the horizontal axis. Multiple IRR occur when the net benefits (benefits minus costs) alternates in signs from year to year. When this happens, it becomes difficult to use IRR as a decision criterion.

(i) ***Modified* Internal *Rate of Return Criterion***

In some occasions where IRR fails to generate the desired results for decision making, especially when there are multiple IRRs, the idea of Modified Internal Rate of Return (MIRR) is often used to address such a challenge. The idea is used in such a way that, project cash flows are modified then calculating IRR by using the modified cashflows. By modifying project cashflows and calculating Modified IRR, the multiple

IRR problem will be eliminated. The generated results can then be used to decide on the viability of the project. This criterion involves either discounting all negative cash flows and add them to the initial cost (Discounting approach) or compounding all cash flows (positive and negative) and then calculating the IRR (Reinvestment approach) or combining the two previous approaches where the negative cash flows are discounted and positive cashflows are compounded. However, this method involves different calculation approaches that poses a challenge on the reliability of the results and the approach to rely on for decision making. This method also gives a rate of return originated from modified cashflows of the projects. This hinders the reliability of the results since it does not use actual project cashflows.

Figure 5: IRR is a Solution to Polynomial Equation



(ii) Challenges of using IRR

There are several challenges and setbacks in using IRR as project decision criterion. Theseinclude:

(i) ***Non-existence of IRR or when it does, it may not be unique****:* non-existence of IRRs, or IRR in complex numbers, the analyst will need different framework to support a decision.

(ii) ***IRR can give wrong ordering of mutually exclusive projects, especially when projects are of different scale:*** The only information in IRR criterion is the level of IRRin relation to the opportunity cost of capital, such that one will be tempted to choose projects whose IRR is the largest relative to the opportunity cost of funds. Information about the scale of the project is ignored in IRR-based criterion since IRR is only expressed as a rate per unit of currency; and

(iii) ***IRRs are not additive in a package of related projects:*** large projects are often made up of components. There are cases where separate evaluation is required for project component options. Then, based on separate assessments, the decision has to be made over the conglomerate of projects. Under IRR framework, packaging of related projects based on their respective IRR is not possible because IRRs are not additive. Due to this weakness in using IRR, one cannot answer the question as to which is the best package.

Guidance 4.6: Decision Rule for IRR

(i) Reject all projects with IRR less than the opportunity cost of capital funds.
(ii) Select the project with the highest IRR for implementation among the mutually exclusive competing projects.

D. Benefit-Cost Ratio Criterion

Benefit-Cost Ratio (BCR) is the ratio of NPV of cash inflow (economic benefit) to NPV of cash outflow (economic costs). It is essentially an index of profitability.

Guidance 4.7: Decision Rule for BCR

(i) Reject a project if BCR is less than one, since the net present value of the stream of incomes (benefits) is less than the net present value of the costs.
(ii) Select the project with the highest BCR for two or more mutually exclusive or competing projects.

Challenges of using BCR

The BCR hides the magnitude of the numerator (net benefits) and the denominator (net costs)in a ratio and this may lead to incorrect decisions. Worthy candidate projects may be eliminated from the list simply because they have lower BCR relative to their competitors, when the eliminated projects may have significantly high NPVs compared to the selected project. Other weaknesses of BCR include, sensitivity to how costs are defined and wrong ordering of mutually exclusive projects, especially when projects are of different scales

Guidance 4.8: Choice of Project Evaluation Criteria

(i) Apply NPV as a decision criterion for public investment projects given technical advantages over IRR&BCR.
(ii) MoFP and coordinating MDAs should demand, whenever applicable, to be provided with theNPV of the proposed projects to guide their decisions.
(iii) Other criteria may be provided, but if they are in conflict, then decision should be based on NPV.

4.3.4 Sensitivity of Cost-Benefit Analysis

The objective of sensitivity analysis is to reveal how findings of CBA are affected by changesin uncertain factors and the underlying assumptions of the project. It helps to communicate to decision makers the extent of the uncertainty and risk of the project. In addition, it can be used to:

(i) Determine whether there is a need for more precise data and information on project component; and
(ii) Determine whether uncertainty can be limited by acting/investing more, for example, by redesigning the project components or strengthening project management measures.

In order to inform risk management strategies, models for sensitivity analysis should beguided by the following questions:

(i) Are there input variables in the model such that when they are correlated, they tend to dampen or enhance the influence each might have in isolation?
(ii) Can diversification help?
(iii) Are there other investments that could be made at the same time in order to minimize risks?
Can the value of the key variable be identified with more certainty by gathering more information and if so, is the information worth the cost of gathering?

Guidance 4.9: Requirement for sensitivity analysis

(i) MoFP and coordinating ministries should demand sensitivity analysis to an integral part of project appraisal.
(ii) MoFP should evaluate the model which generated data for NPV calculations, assess the reliability of the data used and explore the sensitivity of the outcomes.

4.3.5 Uncertainty and Risk Analysis

The feasibility of investment projects is subject to a partially or even fully undeterminable future. A large part of the *cost-benefit analysis* deals with data uncertainty. *Sensitivity analysis* is but a small part of dealing with uncertainty. It is important that a comprehensive risk analysis an integral part of project appraisal.

Guidance 4.10: Risk Analysis

MoFP and coordinating ministries should demand a thorough risk analysis of a project. This shouldbe an integral part in deciding which projects should be implemented.

4.3.6 Review and Approval of Project Proposal

After the feasibility study (in the case of infrastructure PI projects) and detailed project proposal (in the case of non-infrastructure and acquisition PI projects) has been finalized and approved by the parent Ministry of the project owner/promoter, the next step is the review by MoFP and subsequent approval. The Ministry of Finance and Planning will review the submitted proposal based on a number of established criteria, some of key issues to be considered in the review are outlined in Table 5. Based on the results of the review MoFP will either approve the project, recommend revision of the project proposal or reject the project. Project approval implies the project will be considered for financing and inclusion into the government's budget proposal for the upcoming fiscal year. As elaborated in Section 2.4.1, the list of all PI projects (newly approved projects and ongoing ones) will and their corresponding budget estimates will form part of government's development budget proposal. This proposal along with the recurrent budget estimates form part of the national budget proposal. The Cabinet will review the budget proposal and approve its submission to the national assembly, the Parliament will be deliberate and approve its funding as part of the national budgetary process.

Table 5: Issues to Consider in Evaluating Submitted Proposals

S/N	Focus area
1	Are the project objectives, needs/requirements justified as per the national priorities, sector strategies and programmes?
2	Are the project objectives, needs/requirements and scope of work clearly defined/stated?
3	Are project benefits clearly defined?
4	Is the project crucial and the only input to achieve the required outcomes under the sector strategies and programmes?
5	Is it not possible to achieve the desired requirements in the existing status quo?
6	Whether other alternatives have been explored and that this is the most cost-effective alternative for the project?
7	Is the project feasible as per the technical feasibility report including social and environmental impact assessment?
8	Whether costing information with detailed components, impact on recurrent/ operating budget, implementation and expenditure schedule been submitted?
9	Whether all the Funding sources or options have been explored?
10	Is the Government the only agency to provide/invest resources?
11	Is the design, scope of work and specifications reflecting value for money?
12	Is there a project implementation approach stated for efficient project delivery?
13	Is the project land acquired (title deed available/compensation done)?
14	Are there risks likely to cause: reduction in effective demand, delay in completion, non-responsive contracts, operative or maintenance failure or technological associated hindrances and mitigation measures clearly defined?
15	Are project key stakeholders effectively engaged?

Guidance 4.11: Review and approval of the Feasibility Study and Detailed Project Proposal

MoFP shall review submitted feasibility study or detailed project proposal based on established assessment criteria and approve the project for financing consideration and inclusion into the development proposal for the upcoming fiscal year. Based on results of the review the MoFP may also recommend revision of the feasibility study or reject the project

4.4 Detailed Design

It is important for PI project proposal acceptance before it is included in the budget; and development of a detailed project design is done. The detailed design will ensure that the project is accurately costed, ready for implementation. At this stage, the design task should be complete, with sufficient details including: the basic programmes; allocating tasks; determining resources and setting the operational functions; and above all multi-year costing to allow MTEF/budget programming.

In order to ensure credible budget frame, the project proponent should allocate sufficient resources to the designing stage to prevent significant and frequent design modifications in the subsequent phases. The project design should reflect various

opinions from key stakeholders to minimize public discontent expected during the implementation phase. However, when design modification or change is inevitable, the responsible ministry should discuss the matter with the MoFP.

4.5 Project Implementation, Monitoring and Evaluation

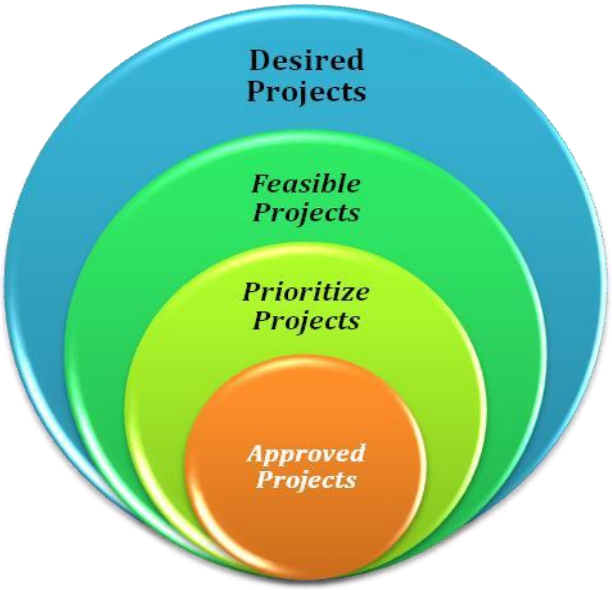
Implementing MDAs should seek formal approval of the project commencement from MoFP for projects which are fully financed through MTEF. In case of PPP project, the commencement approval will be sought from PPP Steering Committee as per PPP Act CAP 103. At this stage, formal approval will require the acceptance of funding proposals and agreements on contract documents, including tenders and other contracts requiring commitment for resources.

Regular monitoring of a project will be done by the implementing MDA which will then report to MoFP and other authority as instructed in the Medium-Term Strategic Planning, Budgeting and Reporting Manual (MSPBR) of 2007. For some projects mid-term and ex-post evaluation are useful for comparing targeted and actual performances. Details on monitoring and evaluation are provided in chapters six and seven.

4.6 Summary on Project Planning and Management

Following the project planning instructions given in chapter 3 and 4, it is apparent that, MoFP will have a list of all projects initiated by various project proponents. The list of the project will be stored in NPMIS, which show pipeline projects to prioritize project for, with varying details depending on the stage of planning and categorised by level of investment. Figure 6 shows the sequential project filtering in project planning process.

Figure 6: Sequential Project Filtering During Project Planning



The desired projects, which are projects in the long-range plan, will only need a brief title, description, location, and rough estimates of costs. However, in subsequent iterations of the investment planning process, more details will be needed and the estimates will be refined. Approved investment projects are prioritized based on state of preparedness, affordability, and resource envelope.

CHAPTER 5
PROJECT SELECTION AND FINANCING

5.1 Introduction

This chapter provides guidance on project selection and financing with focus on public projects in Tanzania. The chapter also presents detailed cases of project finance deals and concludes by giving guidelines to be used in project financing.

5.2 Projects Selection

With finite resources in general and at each period of time in particular, a decision should be made on which projects to undertake out of many potential alternatives. In the public sector, apart from the economic and technical criteria, consideration has to be made on social criteria. Further, both tangible and intangible characteristics need to be adequately considered. As a result, selecting projects for the public sector typically creates the need for a multi-criteria decision analysis approach.

There are a number of reasons as to why project selection process in the public sector is complex. First, public project investments involve large capital outlays, uncertainty and long-lasting impacts. Second, many stakeholders are involved, some of whom may have conflicting interests. Because of this, political factors related to a project often play a much more leading role than technical or other more rational considerations. Third, it is difficult to assess the value of a project, as it is affected by dynamic changes of the surrounding socio- economic environment. Apart from the public project selection criteria targeting at themaximization of net financial benefits or returns to stakeholders, decision makers also have to prioritize and select projects through social equity, economic and political criteria.

The task of project selection needs to focus on how to prioritize both clearing the pipeline of pending projects and selecting new projects. The former requires data on the condition of the pipeline projects and the funds that would be required to complete them. Overall, a mixed method that involves the use of financial and non-financial analyses is suggested. Different entities such as MDAs, RSs and LGAs can use criteria that are more relevant to them (*Table 6*).

Guidance 5.1: PI Project Prioritization

(i) The MoFP shall prioritize new PI projects by determining each project's score based on the elements enumerated in the Project Selection and Prioritization Matrix (Table 7).

(ii) The MoFP shall determine the weight and/or points for each element for a given PI project *a priori*. Ongoing PI projects that have had adjustment assessment shall have priority over new PI projects of similar nature.

Table 6: Project Selection and Prioritization Matrix

CLUSTER (Suggested weight range in parenthesis)	**ELEMENTS**	**Suggested Measurement and Weighting points**			
Economic: Project Feasibility (10% to 30%)	Project Fundability prospects	High	Medium	Low	
		30 points	20 points	10 points	
	Project personnel and equipment	Very Appropriate	Appropriate	Not Appropriate	
		20 points	10 points	0 points	
	Project duration	Below Benchmark	Same as Benchmark	Above Benchmark	
		20 points	10 points	0 points	
	Quality of Project Plan and schedule	High	Medium	Low	
		20 points	10 points	0 points	
Economic: Investment Analysis (10% to 30%)	Appropriateness of project size, method and technology	Very Appropriate	Appropriate	Not Appropriate	
		10 points	5 points	0 points	
	Financial Analysis [Profitability Index i.e., NPV/I_0]	Above 0.5	0-0.5	0	Negative
		30 points	15 points	0 points	-20 points
	Coherence between procedure and budget	High	Medium	Low	
		20 points	10 points	0 points	
	Future operation and maintenance	Low	Medium	High	
		20 points	10 points	0 points	
	Impact of the Project on Strategic Goals of the Enterprise *(in case of public enterprise related projects)*	High	Medium	Low	
		30 points	20 points	0 points	
Policy/ Political (10% to 15%)	Agreement with National targets/strategies and government policies	High	Medium	Low	
		30 points	20 points	0 points	
	Urgency	High	Medium	Low	
		30 points	10 points	0 points	
	Public Opinion Perception	Positive	Indifferent	Negative	
		10 points	0 points	-10 points	
	Degree of Political interest in the project	High	Medium	Low	
		10 points	5 points	0 points	
Social (5% to 15%)	Impact of the Project on Citizens/Society	High	Medium	Low	
		30 points	15 points	5 points	
	Contribution to Employment	High	Medium	Low	
		30 points	20 points	10 points	

CLUSTER (Suggested weight range in parenthesis)	**ELEMENTS**	**Suggested Measurement and Weighting points**				
Sustainable Development (5% to 10%)	Environmental Impact	Very Positive	Positive	None	Negative	Very Negative
		20 points	10 points	0 points	-10 points	-20 points
	Climate Change Considerations	High		Medium		Low
		30 points		20 points		10 points
	Contribution to Regional Local Development	High		Medium		Low
		30 points		20 points		10 points
Technical (5% to 15%)	Maturity of Implementation (the status/ availability of prerequisite factors for implementing the project such as relevant studies; resolved legal issues; reassurance of equity capital; land expropriation needs etc.)	High		Medium		Low
		30 points		20 points		10 points
	Human Resource (availability &	High		Medium		Low
	ability)	20 points		10 points		0 points
	Conformance to regulations and laws	High		Medium		Low
		20 points		10 points		0 points
	Probability of Project Success (which incorporates all project's risk factors)	High		Medium		Low
		30 points		20 points		0 points
	Potential of project failure or non- selection to increase legal liabilities	High		Medium		Low
		30 points		20 points		10 points
Others (including Factors Unique to the project) (5% to	Statutory Mandate	YES		NO		
		20 points		0 points		
	Existing and potential security threat					
	Domestic and global national security situation					

CLUSTER (Suggested weight range in parenthesis)	**ELEMENTS**	**Suggested Measurement and Weighting points**		
15%) **	Impact on Agency/program funding			
	Any Other Issue			

***The specific elements and weights point in this factor are to be established by the decision maker(s) based on the nature of the PI project in question*.

5.3 Budgeting and Financing

5.3.1 Drivers for Innovative Financing Options

Growth of the Tanzanian economy is driving demand for public infrastructure and facilitiesto provide social services. These include infrastructure in the energy sector (electricity, gas and oil) transport (airports, roads, railways, bridges and ports), education, health, as well as in sports and entertainment.

While the practice has been to finance projects viewed as PI projects using budgetary appropriation (development budget), such approach has been inadequate to meet the growing needs for funds. Following qualification of Tanzania being a lower middle - income economy in 2020, there is a notable decrease of grants and concession loans. The decrease attributes to a need for innovative financing for public projects which have been lagging behind.

Tanzania has recognized the need for innovation in financing public projects and involvement of the private sector in its Public-Private Partnership Policy of 2009. The policy acknowledges that:

> *"… The investment requirements to attain high growth and reduce poverty are enormous and cannot be met from the public sector and Official Development Assistance (ODA) alone in a timely manner. Hence, participation of private capital is key to resolving the prevailing budgetary resource constraints. To sustain progressive socio-economic development, Tanzania requires innovative tools for financing development programmes in order to expand its production frontier as well as to improve economic competitiveness" (PPP Policy, Page 2).*

5.3.2 Funding Modalities and Practices for PI Projects

As explained earlier, public projects can be financed by one or a combination of different modalities; namely public finance, corporate finance and project finance.

Public Finance Approach

Public finance approach involves the Government having high degree of control in financing irrespective of the source of funds. This approach has two broad categories namely: financing PI projects through domestic revenue raised from taxes and non-taxes sources; and the second approach involves financing PI projects through funds raised internally or externally through grants or borrowing.

Financing projects through budgetary appropriation is the most common approach, this is when the Government is using its own funds or funds for which it has discretion. In most cases, funds raised from taxes and non-taxes are channelled from the consolidated funds to the MDAs, RSs and LGAs for projects they are implementing. In other cases, upon approval of PI projects by respective entities (MoFP, PO-RALG and OTR), Public Institutions and Statutory Corporations as well as LGAs are authorized to use funds raised from their own sources to finance implementation of PI projects. Implementation of these projects in turn facilitate provision of services/ products to the general public (tax payers).

Another form of public finance is when government raises funds from internal and external sources through grants or borrowing and use these funds to finance PI projects. Internal resources often involve borrowing from domestic financial institutions and external resources often involve grants from bilateral and multilateral Development Partners (DPs). Resources being mobilised externally are often being channelled through General Budget Support (GBS), Basket Fund (BF), and Direct to Project Fund (DPF).

To bridge the gap between financing needs for PI implementations and domestic revenue mobilization, the government often resorts to public borrowing, this may either be through sovereign borrowing by the Ministry of Finance and Planning or direct borrowing by implementing agency from local Financial Institutions to finance PI projects. Financing of PI projects through borrowing or loans and Government Guarantee is governed by the Government Loans, Guarantees and Grants Act, Cap 134.

(a) Sovereign Borrowing

The Government borrows on concessional or non-concessional terms.

Concessional borrowing involves Government borrowing from Development Partners (Bilateral or Multilateral Financial Institutions) and Export Credit Agencies and use these funds to finance implementation of PI projects. Funds from concessional borrowing are always attached to specific projects.

Non concessional borrowing also known as commercial borrowing involves Government borrowing from commercial lenders (Local or External Financial

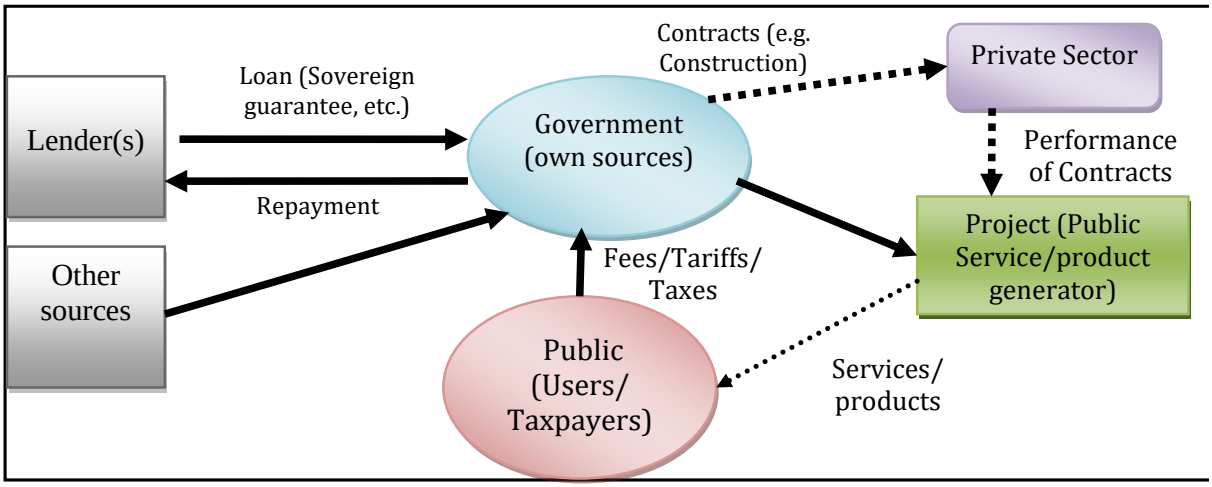
Institutions) to finance implementation of PI projects. Funds from non-concessional borrowing can either be attached to a specific project or pooled together to finance multiple projects and the proceeds obtained from these projects are used to service the loan. Non concessional borrowing also involves arrangements where the Government may borrow from external or domestic sources and thereafter passes on the loan to CA with the obligations to repay the same with or without interest (on lending) and the CA will remit cash proceeds from the project to service the loan.

(b) Direct borrowing

This is when the CA borrows directly from lenders (commercial banks, Investment Banks or Pension Funds) to finance implementation of PI projects. CA can borrow these funds against its assets or on Government Guarantee if the project is of strategic importance to the Government. Revenues generated from the project are used to service the loan.

The Government raises funds externally (from Development Partners), augment the funds with funds from its own sources and channel the funds to a project (*Figure 7*).

Figure 7: Public Finance



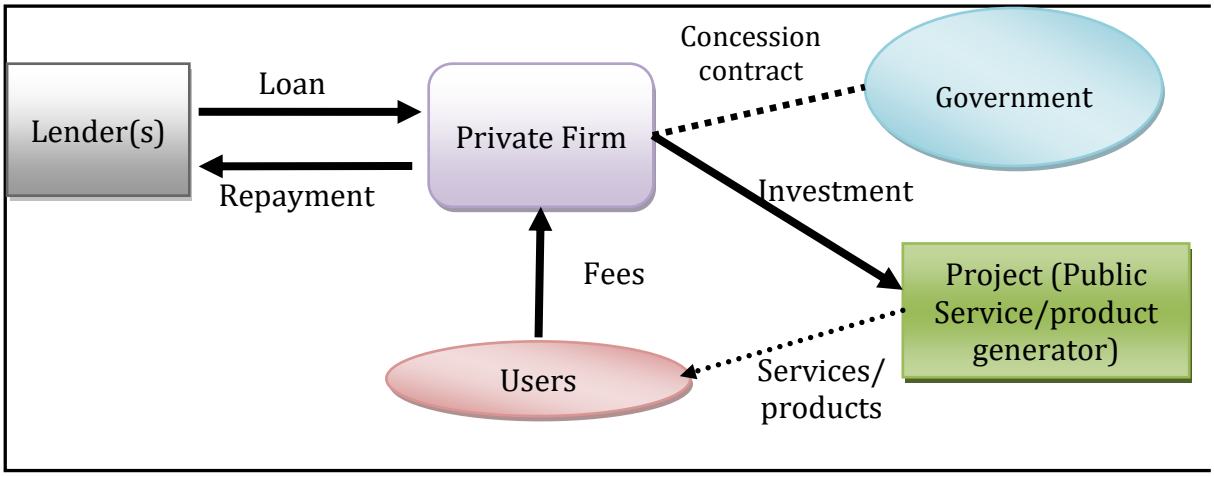
One of the channels in this approach uses sovereign debts raised specifically for a particular project or group of projects. Under this channel, the sovereign guarantee shows up as a liability on Government's list of financial obligations hence straining its balance sheet.

Corporate Finance Approach

In this approach the Government provides concession agreement to a private firm to offer the public service/good and charge a fee. With respect to borrowed funds, the firm guarantees to repay the lenders from its available operating income. The lender will analyse the firm's credibility by, among other things, looking at its total income from operations, its stock of assets, and its existing liabilities. To the firm, the debt is

an “on balance sheet” transaction and shows up as a liability in the balance sheet. Typically, the private firm pays a fixed sum or a percentage of revenue to the owner of the entity (Government) from which it operates. *Figure 8* illustrates a case of a public service being provided by the private sector.

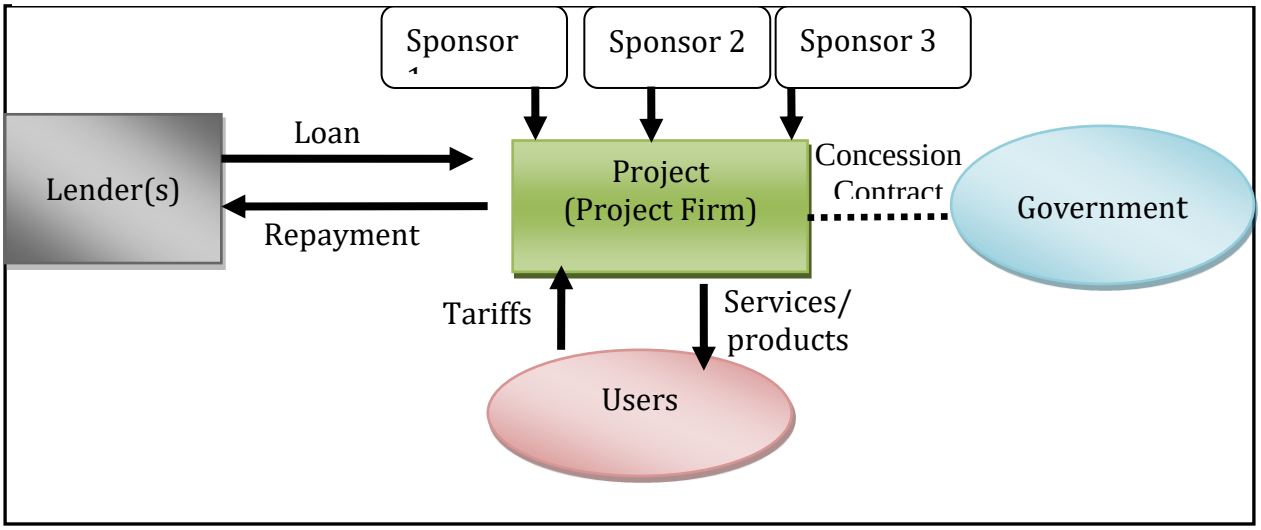
Figure 8: Corporate Finance



Project Finance Approach

In this approach, the project itself – rather than the project’s sponsors – is the borrower. A legal project entity (Special Purpose Vehicle–SPV) is set up on an *ad hoc* basis solely to serve a particular function underlying the project. SPV is financially and legally independent from the sponsors. This means that the lender (or an equity or mezzanine funds provider) relies primarily on the project’s cash flow for repayment, while the project’s assets, rights and interests are held as secondary security or collateral. *Figure 9* represents pure project finance case.

Figure 9: Project Finance



In addition to providing concession, the Government participation in project finance can also include provision of assets to the project firm as well as granting guarantee in accordance to Government Loans, Guarantees and Grant Act CAP 134 to lenders to the SPV. In the former, the Government effectively becomes one of the project sponsors.

5.3.3 Special Purpose Vehicles (SPV) role in PIM

Special Purpose Vehicles (SPV) are entities formed for a single, well-defined and narrow purpose. They are often a subsidiary of public and/or private entity whose assets/liability structure as legal status which makes its obligations secure and limited to it (i.e. separate from parent organisation). The Companies Act of 2002 (amended) provides for establishment of investment companies (SPV) as alternative governance structures for investments and projects by public and private entities alike. They may take form of company limited by shares or guarantee, partnerships, trusts and so forth.

SPV features and corresponding advantages have made them a desirable form of governance structure for PI projects especially those with commercial interest in addition to public services obligation mandate. Their desirability in PI project governance and operations stems from advantages brought about by their key features; these include: protection of project operations from local political risks; ring-fencing of project cashflows and safe-guarding of project's financial sustainability; offer protection of a project from operational or insolvency issues of parent organizations; they help public entities or private companies involved in PI projects to securitize assets, create joint ventures, isolate corporate assets or perform other financial transactions; provide access to investment opportunities that wouldn't have exist under traditional arrangements such as financing, risk sharing and raising of capital; and ensure proper management of the project by skilled/dedicated personnel as they are designed for independent ownership, management and commercial operations as opposed to inefficient and bureaucratic procedures.

The use of SPV as an alternative governance structure in PI projects often varies depending on the nature of project, project financing/implementation modality and nature and mandate of the Contracting Authority. There cases in which formation and use of SPV as a project governance structure is mandated by Law/Regulations and Guidelines. For example, in the case of PPP Projects, the governance structure is guided by PPP Act, CAP 103, PPP Regulations of 2020 and Standard PPP Procurement documents and PI project by LGAs financed through issuance of Municipal Bonds, the structure is provided by the Guidelines for Issuance of Corporate Bonds, Municipal bonds and Commercial Papers of 2019. In other cases, formation and use of SPV may be a condition precedent by lender/investor for financing a project or a discretionary decision by CA.

Guidance 5.2: Use of SPVs PI Project Governance and Management

(i) CA shall prioritize use of SPV in governance and management of PI projects that are commercial in nature, involve private capital or have been financed through debt which has to be repaid/serviced through project's operations.

(ii) CA in consultations with MoFP and other competent authorities shall ensure that selected SPV type and structure is the most relevant based on project's nature and financing modality and it also brings the most efficient outcome with respect to project management.

(iii) In the case of PISC, CA should consult and seek prior approval of OTR before incorporating SPV

Timing of SPV formation with respect to the PI project life cycle may vary from one PI project to another depending on: the nature of PI project, financing modality and sources(s), and structure and mandate of CA. Annex A5 outlines different features of SPV based on project's nature and financing modality and sources.

5.3.4 Involvement of the Private Sector in Funding Public Projects

A common practice in Public Private Partnership (PPP) arrangement is the use of concession agreements in managing such projects. Three commonly used types of concessions, albeit with different forms of contracts, are: Design, Build, Finance, Operate and Maintain (DBFOM); Build, Operate, and Transfer (BOT); Build, Own, Operate, and Transfer (BOOT); and Build, Operate and Own (BOO).

In DBFOM framework, the contractor will develop the infrastructure with its own funds and funds raised from lenders at its risk (that is, it will provide all or the majority of the financing). The contractor is also responsible for managing the infrastructure life cycle (assuming life-cycle cost risks) in addition to current maintenance and operations. To carry out these tasks, the contractor (a private partner in the PPP context), will usually create an SPV.

In BOT framework (with its Build-Transfer-Operate [BTO] and Build-Lease-Transfer [BLT] variants), the public delegates planning and realization of the project as well as operating management of the facility for an agreed period of time to the private party. The private partyis not the owner, but during the agreed period is entitled to retain all receipts generated by the operation. At the end of the period, the facility will be transferred to the public without any payment being due to the private party involved. BOOT framework differs from BOT in that, the private party owns the facilities. At the end of the concession term the facility is transferred to the public administration and, often, a payment for it can be established.

BOO framework has characteristics in common with BOT and BOOT. The private party owns the facilities (as in the BOOT case), but ownership is not transferred at the

end of the concession agreement. Therefore, the residual value of the project is exploited entirely by the private sector.

The Government has put in place the PPP policy frameworks. These are the Public Private Partnership (PPP) Policy (2009), the Public Private Partnership Act, CAP 103 R.E 2018, as well as the Public Private Partnership Regulations, 2020. Projects classified as PPP should, therefore, follow provisions and guidelines in these documents.

5.3.5 Public Investment Projects funded from Alternative Financing Sources

The Alternative Project Finance (APF) approach has been devised to complement the traditional sources of financing PI projects. mechanism for. The use of APF requires compliance to the existing legal and regulatory frameworks in order to ensure effective financing of PI projects. Currently, the legal and regulatory frameworks guiding the use of APF include: the Public Private Partnership Act, Cap 103; The Government Loans, Guarantee and Grants Act, Cap 134; the Capital Markets and Securities Act, Cap. 79; the Banking and Financial Institutions Act, Cap 342; the Local Government Finance Act, Cap. 290; The Public Service Social Security Fund Act 2018, the National Social Security Fund Act, Cap.50; the Companies Act, Cap. 212; and the Public Procurement Act, Cap. 410.

The use of APF is important since it creates more budget space and addresses the resource constraint in financing PI projects; promotes development of the capital markets, savings mobilization, and private sector participation in financing PI projects that are commercially viable; and raises public awareness about the various alternative financing instruments available in the financial market for development projects. APF's targeted strategic projects cover various sectors, including manufacturing, construction, energy, mining, water, health, education, agriculture and agro-processing, real estate and ICT development. APF options proposed to be implemented in Tanzania in PI projects include: Infrastructure Bonds, Medium Term Notes, Green Bonds, Municipal Bonds, Blue Bonds, Corporate Bonds, Royalty Backed Bonds, Micro-saving Bonds, Lease Financing, National Climate Fund, Development Finance Institutions (DFIs) and Social Security Equity Fund.

5.4 Budgeting and Project Financing Guidelines

5.4.1. Determination of Fund Channelling to PI Project

The project's priority in relation to the nation's objectives and the project's nature in relation to cash flows, riskiness, as well as commercial viability and its ability to service its finance sources are critical considerations in establishing how Government funds are to be channelled to a PI Project.

In concession, the Government or other authorized body grants to a private sector entity contract for the supply of public services. For this purpose, the two parties are referred to as the grantor and the operator, respectively. In this type of setting, the operator is to construct the infrastructure (in some cases take up or upgrades existing infrastructure) that will be used to provide the public service; and operates and maintains that infrastructure for a specified period of time. The operator is to be paid for the services over the period of the arrangement.

Guidance 5.3: Determination of Fund Channeling

(i) The CA should ensure that all commercially viable PI projects are financed through the Alternative Project Finance (APF), rather than relying on traditional financing;

(ii) The CA should set up a mechanism to ensure that availability of funds is guaranteed for the entire life of the project. That is, ensuring the projects are included in budgets and funds are appropriately disbursed.

(iii) The CA should ensure that all evaluation reports as outlined in this manual are considered.

(iv) The CA (the grantor) must ensure that the concession contract sets out performance standards, pricing mechanisms, and arrangements for arbitrating disputes.

(v) The CA (the grantor) should control, through ownership, beneficial entitlement or otherwise, a residual interest in the infrastructure at the end of the service arrangement. Consequently, the operator is obliged to hand over the infrastructure.

5.4.2. Project Finance Guidelines for PI Projects for PPP Projects

Implementation of PI Project classified as PPPs follows the provisions Public Private Partnership (PPP) Act, CAP 103 and PPP Regulations of 2020. Critical stages of project financing and implementation for PPP PI projects are as follows:

Phase 1: Preparation of Project Concept and Pre-Feasibility Study: In this phase, the Contracting Authority select the right project option (the best technical solution for the need), and to pre-assess suitability of the project as a potential PPP so as to avoid sinking resources unnecessarily into the full assessment and preparation of unworthy projects**.**

Phase 2: Feasibility Study: For the PPP identified projects, the next step is to assess whether the project and PPP project contract is feasible in order to mitigate the risk of project failure during tender or during the contract life of the project, and to further advance its preparation as a PPP.

Phase 3: Structuring and Tendering: In this phase, the contracting authority define and develop a PPP contract solution and tender process that best fits with the specific features of the project contract so as to protect and, if possible, optimize Value for Money (VfM).

Phase 4: Tendering to Award and Signing: In this phase, the contracting authority rigorously manage the process to select the best value proposal in competitive tendering as provided for in the PPP Law and Regulations; and execute the contract with the most suitable and reliable bidder. Once the preferred bidder has been and identified and the negotiations are concluded with CA, the preferred bidder (whether is single private company or consortium) incorporates Special Purpose Vehicle (SPV) under the Companies Act, CAP 212 which then sign PPP Agreement with CA. The SPV will be responsible for project execution from mobilizing financial resources to construction as well as operation and maintenance.

Phase 5: Contract Management Phase- Construction: During this phase, the Contracting Authority manage the contract so as to avoid or minimize the impact of risks and threats (in this case, during the Construction Phase) that are associated with changes, claims, disputes and other related risks. In this phase, it is especially important to monitor compliance with construction requirements.

Phase 6: Contract Management Phase-Operations (to finalization and hand-back). The aim of this phase is to proactively manage the contract so as to avoid or minimize the impact of risks and threats (in this case, during the Operations Phase) associated with changes, claims and disputes. This is especially true of monitoring the performance, and controlling the hand-back of the asset at the contract expiration date.

5.4.2.1. Processes of PPP Projects for LGAs

In part XI of the PPP Regulations of 2020 establishes a PPP Node at the ministry responsible for LGAs, which is to serve as an approving authority and support the implementation of PPPs by LGAs. The PPP Node provides guidelines and technical assistance for the processing, development, review, financing, implementation and monitoring of small PPP projects. Usually, LGA PPPs are regarded as small-scale PPP projects whose total project value/capex does not exceed US$ 20 million.

Approval Process

(i) The LGAs submit project concept note to the PPP Node for review and approval by the Minister for LGAs. Upon approval of the project concept note, the CA prepares a Feasibility Study/Pre-feasibility study

(ii) LGA submit FS/PFS to PPP Node for review and approval to continue with next stage. PPP Node seeks recommendations from PPP Centre and communicate these to the LGA.

(iii) Upon the approval of FS, LGA submits the Request for Proposal (RFP) and draft of PPP Contract Agreement to PPP Node for review and approval before PPP tendering.

(iv) After negotiation with the preferred bedder, the LGA finalize the Contract Agreement and submit these to the PPP Node for final approval (PPP Centre

provides recommendations and Attorney General provides legal opinion.

(v) LGA sign the contract with the private partner and private partner starts project implementation.

(vi) LGA monitors project performance of private partner as per the contract specifications (during the construction and operation stage).

5.4.2.2. Project Financing: Private Sector Perspective

Typically, PPP projects will employ project financing approach in fund mobilization. This will require identifying critical steps and inputs in financing a project that involves multiple sources of funds with different levels of risk exposure. The private partner is responsible for providing the funds for PPP investment (that is, for design and construction through to completion of the asset), except in circumstances in which appraised project shows that the government should act as co-lender or equity partner or, more commonly, provides part of the funds if the PPP is a co-financed project (in the form of public grant financing) to make it financially viable. Normally, the debt finance is provided using the "project finance" technique. Project finance is a non-recourse financing technique in which project lenders are paid only from the SPV's revenues without recourse to the equity investors.

Critical issues of consideration in project financing for PPP projects are: capital structure i.e. the share of project sponsors' equity invested into the project relative to debt raise to finance the project (debt to equity ratio); and credit enhancement measures such as debt guarantees by the Government. The choice of capital structure has a financing costs implication as well as project's risk exposure hence it's important that CA assesses the proposed capital structure and determines once that presents lower financing costs and risks. Debt guarantees on the other hand presents fiscal risks to the Government because they are contingent liabilities hence, they add to public debt.

A. Determination of Project Capital Structure and Share of Equity among Sponsors

Guidance 5.4: Determination of Project Capital Structure and Share of Equity among Sponsors.

(i) The CA has to ensure that participation in SPV is in line with the need to have the private sector play a major role in resource mobilization and risk sharing. The Government's risk should be limited to the assets and/or rights transferred to SPV.

(ii) Where the Government transfers some assets and/or rights to the project firm (SPV) which effectively entitles the Government to equity in the SPV, the CA should ensure that such assets and/or rights are appropriately valued, and the Government given corresponding level of equity in the SPV.

A. Debt Guarantees by the Government

Guidance 5.5: Debt Guaranteed by the Government

(i) An assessment of the project's cash flows and risk as well as capital structure should be done by the responsible CA to establish the risk exposure by the Government in providing guarantee to fund providers in a project.

(ii) In line with the need to limit Government exposure, guarantee should be first sought from multilateral and bilateral organizations with the Government's being a last resort. Prioritization of guarantee by the Government should be off take guarantees and indemnity guarantees.

(iii) Credit risk guarantees should be provided in line with the Government Loans, Guarantees and Grants Act Cap 134. The responsible CA should take measures to ring-fence project's cash flows including (if necessary) setting up an Escrow Account to be pledged in favor of the lenders.

5.5 Financial and Contract Management of Public Investments

The implementation of financial aspects of public investments involves three key aspects: (i) disbursement of funds; (ii) maintenance of proper financial records for control and accountability; and (iii) reporting on project's budget and financial performance. Contract management, on the other hand includes negotiating the terms and conditions in contracts and ensuring compliance with the terms and conditions, as well as documenting and agreeing on any changes or amendments that may arise during its implementation or execution. It focuses on ensuring that the respective roles and responsibilities set out in the contract are fully understood and fulfilled to the contracted standard. Where contracted standards are not fulfilled, the contracting public body should apply mechanisms established in the contract to rectify any under-performance.

With respect to funds disbursement, public projects with budgetary appropriations, funds release and transfer are executed through the *Mfumo wa Uhasibu Serikalini* (MUSE). In thecase of other parties involved in financing projects, funds are released directly to projects.

The main objective of the public investment financial and contract management is to ensure appropriate financial resource allocation, disbursement and utilization on public investments to guarantee attainment of the intended goals efficiently and effectively. Thus, the projectsare completed timely (minimum delays in project completions) within the budget (minimum additional resources) and in the desired quality. Financial management shall ensure financial stability in public investment such that goals are achieved in a balanced manner over a long horizon. Based on the analysis and expected budget allocation for publicly funded projects, initiative must be taken in budget formulation to revise proposals to ensure that due amounts are adequate to meet targets.

Financial Reporting

Project implementers must ensure that financial reports are prepared and disseminated regularly and in accordance to accounting standards and reporting requirements stipulated in public financial management regulations and guidelines.

Guidance 5.6: Project Financial Reporting

Individual Financial Reports for projects shall be prepared on quarterly basis, among other information, they should cover the following items:

i) Project cost;
ii) Amount disbursed before the Current Year;
iii) Amount disbursed in the Current Year;
iv) Amount due;
v) Annual budget; and
vi) Payment duration.

For each item, narratives shall be given in relation to the corresponding budgets and targets. In addition, the same information shall be prepared and presented for at least two years in the future or half of the life of the project whichever is longer. Thereports shall be consolidated at MDA, RS and LGA level and at the national level by the MoFP.

Disbursement and Utilization of Funds

As noted earlier, funds release and transfer for with budgetary appropriations are executed through MUSE. Funds are also disbursed directly to projects by other parties involved in financing the project.

Guidance 5.7: Disbursement and Utilization of Funds

MoFP or the project financiers shall ensure funds are disbursed to the project from fund providers timely and in the budgeted amounts. Such disbursed funds shall be utilized according to existing guidelines in relation to the disbursed funds. Any material discrepancy shall be reported in the Project Financial Reports.

Agency and Financial Monitoring

Prudential Financial management practices involve monitoring the financial affairs of a project. This involves the use of internal auditors to review the financial affairs of each project.

Guidance 5.8: Agency and Financial Monitoring

Each MDA, RS and LGA shall cause an internal auditing of public investment projects to be carried out at such intervals as deemed appropriate.

CHAPTER 6
PROJECT IMPLEMENTATION AND MONITORING

6.1 Introduction

This chapter highlights on the approaches to managing PI projects' implementation once financing has been secured as well as Management and Monitoring (M&M) and Results-Based Management (RBM). It also describes about the project implementation, monitoring, management of Government assets, designing of monitoring system and project adjustment.

6.2 Project Implementation and Contract Management

For most PI projects, critical part of the project implementation involves either construction of infrastructure and/or facilities, and procurement of goods or services as well as operation of constructed facilities and provision services. This implies significant part of project implementation involves procurement of goods, services and contractors and management of these contracts in a manner that ensure value for money and efficiency.

Broad Groups of Activities in Contract Management

Contract management covers three broad groups of activities:

(i) Pre-award activities: These include justification for the project (including risk assessment), developing project team and developing contract strategies and plans (including management and exit strategies) form part of what has been presented inthe preceding chapters. Some of the outputs of pre-award activities feature in the contract as substantive terms or are included as annexure.

(ii) Securing contractor and contract award: Being public investments/projects, the process of securing contractor and contract award shall be guided by the existing laws and regulations – the principal one being the Public Procurement Act, CAP 410 and its Regulations.

(iii) Post-award activities: These are broadly viewed as contract management activities and are grouped into three broad areas:

  a) Management of service delivery.This is concerned with ensuring that the service is being delivered in accordance with the agreed performance and quality levels set out in the contract.

  b) Management of the relationship with the parties to the contract focusing on maintaining and developing an open and constructive relationship.

  c) Contract administration which deals with the formal management of the contract.

Key activities in formal contract management include: changes within the contract; contract administration; assessment of risk; review of contracting entity's performance;

and effectiveness with respect to aspects related to the contract and contract closure. Specifically, contract management relates to the key processes covering such broad issues as:

(i) Pre-award contract processes, understanding and timetables;
(ii) Risk identification and management;
(iii) Documentation (clarity, understanding and comprehensiveness);
(iv) Change control procedures;
(v) Communication (between and among the contracting entity, the contractor suppliers,customers/clients and other stakeholders);
(vi) Contractual relationships;
(vii) Customer satisfaction; and
(viii) Business continuity and transition issues.

Contract Management Guidelines

Guidance 6.1: Project Management Team

Each project shall have a core team to manage it. Members of the team should possess the necessary technical skills, knowledge and experience as well as having the appropriate level of authority. Broad factors be considered when assembling the team include:

i) The nature of the project;
ii) The nature of the working environment and the management style of the team;
iii) Communication internally and external; and.
iv) Depending on the size and complexity of the project, the project team may, from time to time, utilize other individuals internal and external to the MDAs, RSs and LGAs on ad hoc basis. Such individuals may include representatives of the end users, whether internal or external if not already in the core team.

Guidance 6.2: Contract Management Plan

Each project shall have a contract management plan drawn up in advance of contract award. The plan shall set out how the obligations of all the parties are to be carried out effectively and efficiently including the contract management success factors. These are the conditions that should be met if the contract is to be managed successfully. These include:

i) The arrangements for continuous service delivery that is satisfactory to both customer and provider;
ii) Demonstrable satisfactory delivery progress;
iii) Ensuring that the expected benefits and value for money are being realized;
iv) The co-cooperativeness and responsiveness of the provide;
v) The obligations under the contract are clearly known to all parties; and
vi) Potential unforeseen issues to be addressed in advance.

Guidance 6.3: Service Delivery Management

The MDAs, RSs and LGAs shall have in place a mechanism for ensuring that the actual service provided is in accordance with the agreed standards and costs/prices. This shall include developing performance measures to cover all aspects and suitable to the requirements of the contract. Such measures should be set out in the contract documentation to ensure the contractor is fully aware of both the measures and the measurement methodology before any contract is awarded. Such measures:

i. Should provide clear and demonstrable evidence of the success (or otherwise) of the relationship; and
ii. Are not over-specified; are, as far as possible, readily obtained from the direct performance ofthe contract; and are focused on issues which impact most heavily on the contracting entity.

Guidance 6.4: Contract Closure

i. When a project contract comes to an end whether in accordance with the contract or as a result of early termination, the Project Management Team shall firstly, ascertain internally that there are no outstanding matters and, secondly, secure agreement from contractor(s) that, apart from agreed ongoing liabilities, the contract(s) has ended.
ii. Contract closure shall draw on the project's initial and continuous risk assessment that focus on the possibilities for performance failure and consequential early termination of the contract. Appropriate counter-measures should be considered and set out in the contract documentation. At the closure of a project contract, a post-contract project report shall be prepared based on a formal post-contract review. Among other things, the review should focus on the lessons that can be learnt from the management processes and procedures followed during the contract implementation.

6.3 Approaches to Management and Monitoring (M&M)

There are three main approaches to M&M used in development projects. These are:

(i) The logical framework approach (LFA) which is the most common and widely used;

(ii) The Goal Oriented Project Planning (GOPP), which is a close derivative of LFA; and

(iii) Results-Based Management (RBM) or managing for results.

Suffice to note that, even within each approach, there are often differences in the use of terminologies and many adaptations have been made as different users put the approachesinto practice. Given, the need for governments and Development Partners to ensure value for money in development projects, the third approach (RBM) has been the most favoured, particularly when it comes to managing development projects.

6.4 Results-Based Management (RBM)

As a management strategy, RBM ensures that its processes, products and services contribute to the achievement of clearly stated results. It is also a broad management strategy aimed at achieving important changes in the way institutions operate, with improving performance andachieving results as the central orientation. RBM achieves these aspirations by defining realistic expected results, monitoring and evaluating progress towards the achievement of expected results, integrating lessons learned into management decisions and reporting on performance. RBM is also known *as Management for Development Results (MfDR)* since it emphasizes on development rather than organisational results. Key components to RBM are:

(i) Instantaneous Planning and M&E;

(ii) Constant learning by doing;

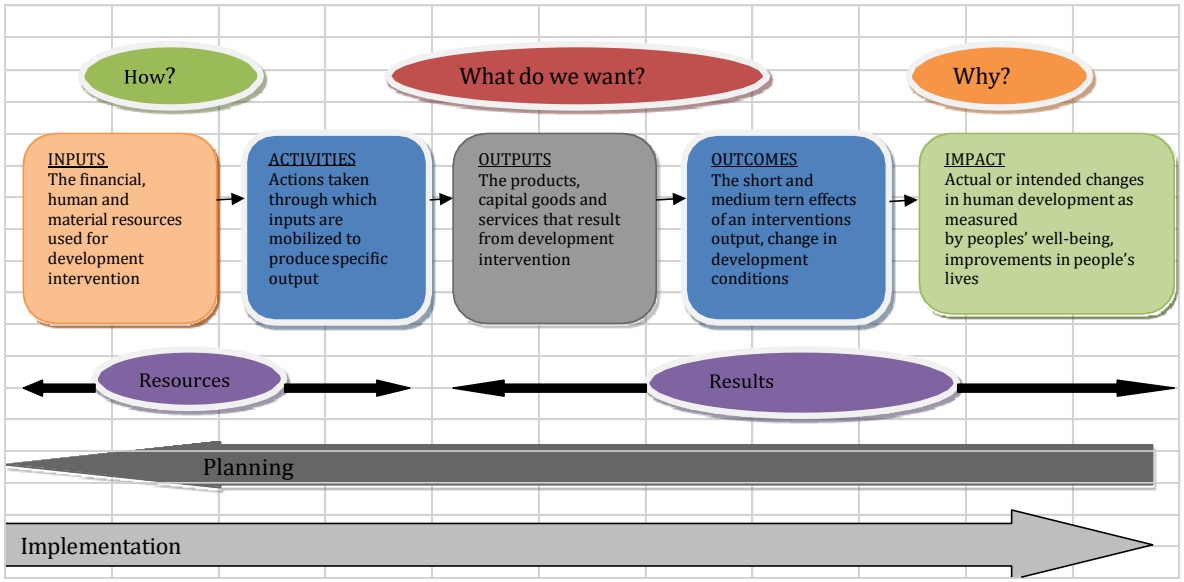
(iii) Risk management (mitigation), and accountability (results achieved, action and behaviour); and

(iv) Measures to promote a culture of results orientation.

Key concepts used in RBM include the following:

(a) ***Result:*** A describable or measurable development change resulting from a cause-and- effect relationship. Different levels of results seek to capture different development changes. These results are linked together to form what is a known as a ***results chain***. Figure 10 shows the concept of results chain schematically.

Figure 10: The RBM Results Chain



(b) **The results chain:** A causal relationship for an intervention that stipulates the necessary sequence to achieve desired objectives, beginning with inputs, moving through activities and outputs, and culminating in outcomes, impacts, and feedback. The results chain answers the question what, why, and how from different stakeholders;

(c) **Inputs:** Are resources that must be invested in order for activities to take place. They include the financial, human and material resources used for implementing PI projects;

(d) **Outputs:** These are short-term development results produced by activities. These mayinclude the products, capital goods, and services that result from PI projects. These may also include changes resulting from the interventions which are relevant to the achievement of outcomes;

(e) **Outcomes:** These are actual or intended changes in development condition that interventions are seeking to support. They can be immediate, intermediate or long term;

(f) **Impact:** this refers to the "big picture" or higher objective/change being sought and represents the underlying goal of development work/intervention. An impact statement explains why the work is important. Hence, it is the higher-order objective to which PI programmes and projects are intended to contribute;

(g) **Indicators:** These are signposts of change along the results chain which are used to track intended results. It should be noted that:

(i) In setting the indicators, it is useful to ensure that there is sufficient ownership,and that the process is transparent. Thus, the process needs to be participatory;

(ii) A variety of indicators, both quantitative and qualitative should be set; and

(iii) The fewer the indicators, the better.

RBM Processes

In instituting RBM processes the PI project officer will undertake the following steps:

(i) Define realistic results based on appropriate analysis and identify problems to be addressed and determine their causal and effect relationship. The emphasis should be on formulation of clear and measurable results as well as identifying performance indicators for each expected result and specify exactly what should be measured along a scale or dimension;

(ii) Identify clearly projects beneficiaries and design the same in order to meet their needsand priorities. This step is part of the broader process of stakeholder analysis. It thus involves identification of key stakeholders and beneficiaries, involving them in identifying objectives and in designing interventions that meet their needs;

(iii) Monitor progress of expected results and resources spent, using appropriate indicators. This stage involves managing and monitoring progress with appropriate performance monitoring systems drawing from results achieved;

(iv) Use results information to make effective management decisions. This is essentially using performance information coming from performance monitoring and evaluation sources for internal management learning and decision-making as well as for external reporting to stakeholders. It also involves improving management practice based on lessons learned;

(v) Identify and manage risks; and

(vi) Report on results and resources used.

6.5 Project Implementation

In practice, project implementation begins with tendering and contracting process. Usually, once a project is selected for financing and all procurement procedures have been undertaken with all relevant contracts pertaining to the project been signed and tender awarded to the contractor the project becomes ready for actual implementation. The implementation is usually supervised by the respective MDAs, RSs, and LGAs. All public procurement and disposal by tender are conducted in accordance with the basic principles set out in the Public Procurement Act, CAP 410 and its Regulations, in a manner that maximizes completion and achieve economy, efficiency, transparency and value for money. The institutions involved in public procurement include the procurement management units in MDAs, RSs and LGAs.

Putting in place a good project implementation plan is a key to successful project monitoring and delivery. Pertinent aspects include among others:

(i) Implementation, which begins upon contract signing. Implementation is preceded by “planning stage” which is concerned with the detailed planning activities required for implementation (detailed design, tendering, etc.) once a decision to proceed is made;

(ii) Agreeing on resources required to carry out project activities and deliver outputs. Agreed resources are then used to carry out project activities and

deliver the planned project outputs (leading in turn to the achievement of the project's goal);

(iii) Information is gathered on the progress of project activities and physical implementation of outputs (monitoring) and information is provided to the PI project implementing agency on the financial implementation of the project (accounting);

(iv) Prudent financial monitoring and reporting is essential for budgeting of public investment, so that:
- Sector investment programmes can be prepared and updated; and
- MoFP can determine the fiscal space for new investment projects and set sector expenditure ceilings.

(v) The boundaries of the implementation stage are flexible according to the project cycle; and

(vi) Systematic and regular information flows from project implementers to management and decision makers.

6.6 Project Monitoring

This is a continuous process by which stakeholders obtain regular feedback on the progress being made towards achieving the goals and objectives of the project. Monitoring is more than just tracking progress or reviewing implementation progress. It also involves reviewing progress against achieving defined targets.

Monitoring helps to answer questions on whether the tasks or planned activities are being completed as intended, whether they are being conducted within the timeframe specified and whether the budget is being spent as planned. Monitoring also shows whether any adjustments are needed in the management and implementation of the given tasks as well as a need for revision of the work plan based on unexpected and valid circumstances.

In order for the project monitoring to achieve the intended results, it should adhere to thefollowing principles and characteristics:

Principles

A number of principles for monitoring can be identified:

(vii) Professionalism (knowledge, ethics, etc.);

(viii) Continuity (systems, expertise);

(ix) Ownership (by all stakeholders) – reflected in how mainstreamed M&E are, throughout the project cycle; and

(x) Commitment (to utilize M&E systems and findings by all units).

Characteristics of successful M&E

(i) Clearly defined scope of M&E;

(ii) Intensive utilization of M&E information provided by the system;

(iii) Information that meets standard for data quality and evaluation reliability;
(iv) Resilience of the system even when there are changes in Government administration;
(v) Effective and intensive utilization of M&E findings in project cycle;
(vi) Clearly defined objectives, activities, responsibility, time frame, and means ofverification; and
(vii) Indicators are outcome-based; baseline and indicator targets, indicator review process clearly specified.

6.5.1 Monitoring and Evaluation System Components

According to international expertise in monitoring and evaluation operations, the precise components of monitoring and evaluation differ from country to country and institution to institution. Generally, monitoring and evaluation components provide details on performance indicators, performance reports, performance reviews, evaluations, logical frameworks, action plans and implementation costs, and data systems. It is important that government teams responsible for monitoring and evaluation follow the National Monitoring and Evaluation Framework on development programs and projects to ensure that all components are taken into account.

6.5.2 Monitoring Logical Framework (Log frame)

A logical framework or log frame is a matrix that shows the conceptual foundations upon which the project's M&E system is built. The matrix specifies what the project is intended to achieve (objectives) and how this achievement will be measured using indicators.

A log frame should be prepared for all newly approved projects to enhance monitoring and accountability. In preparing the log frame, the PI officer should understand the differences between project inputs, outputs, outcomes and impact, since the indicators to be measured under the M&E system reflect this hierarchy of activities. Table 8 provides guidance on the content and layout of project monitoring logical framework.

Table 7: Logical framework (log frame) – Classification of key Activities

Project Monitoring Logical Framework (log frame)			
Objectives (What we want to achieve)	**Indicators (how to measure change)**	**Means of Verification (where/how to get information)**	**Assumptions (What else to be aware of)**
Goal The long-term results that an intervention seeks to achieve, which may be contributed to by factors outside the intervention	**Impact indicators** Quantitative and/or qualitative criteria that provide a simple and reliable means to measure achievement or reflect changes connected to the goal	How the information on the indicator will be collected (can include who will collect it and how often)	External conditions necessary if the goal is tocontribute to the next level of intervention
Outcomes The primary result(s) that an intervention seeks to achieve, most commonly in terms of the knowledge, attitudes or practices of the target group	**Outcome indicators** As above, connected to the stated outcomes	How the information on the indicator will be collected (can include who will collect it and how often)	External conditions not under the direct control of the intervention necessary if the outcome is to contribute to reaching intervention goal
Outputs The tangible products, goods and services and other immediate results that lead to the achievement of outcomes		How the information on the indicator will be collected (can include who will collect it and how often)	External factors not under the intervention which could restrict the outputs leading to the outcomes
Activities The collection of tasks to be carried out in order to achieve the outputs		How the information on the indicator will be collected (can include who will collect it and how often)	External factors not under the direct control of the intervention which could restrict progress of activities

6.5.3 Types of Project Monitoring

PI project officer will be required to conduct monitoring of the following aspects:

(i) **Results Monitoring (track effects):** PI project monitoring merges with evaluation to determine if the project is on track (outputs, outcomes and impact) and whether there may be any unintended consequences (positive or negative);

(ii) **Process (activity) Monitoring:** This tracks the use of inputs and resources, the progress of activities and the delivery of outputs. It examines how activities

are delivered especially with respect to efficiency of both time and resources;

(iii) **Compliance Monitoring:** This ensures project compliance with: government regulations; grant and contract requirements; local government regulations and laws; ethical standards; and expected results. For example, project officer may monitor the construction process to ensure that construction adheres to agreed national and international safety standards in construction;

(iv) **Context (situational) Monitoring:** tracks the setting in which the project operates, as it affects identified risks and assumptions, but also any unexpected considerations that may arise. This type of monitoring includes the operating environment as well as the larger political, institutional, funding, and policy context that affect theproject;

(v) **Beneficiary Monitoring:** This tracks beneficiary perceptions of a project. It includes beneficiary satisfaction or complaints (feedback) with the project, including their participation, treatment, access to resources and their overall experience of change;

(vi) **Financial Monitoring:** Accounts for costs by input and activity within predefined categories of expenditure. It is often conducted in conjunction with compliance and process monitoring. This is an integral part of public finance management of a project; and

(vii) **Organizational Monitoring:** Tracks the sustainability, institutional development and capacity building in the project. It is often done in conjunction with the monitoring processes of the larger implementing organizations. For instance, an MDA may use organizational monitoring to track communication and collaboration with respect to project implementation among LGAs.

6.5.4 Project Auditing

The Public Finance Act, CAP 348 and Local Government Authority Finances Act, CAP. 290 and their corresponding Regulations provide the internal audit unit of CA: with the roles of examining and evaluating the adequacy and effectiveness of the project internal controls; risk management control; and governance.

External audit of the PI projects will be conducted by the Controller and Auditor General (CAG). The CAG is mandated to carry out financial audit of all public resources (finances) through the National Audit Office of Tanzania (NAOT) as the supreme audit institution of the United Republic of Tanzania. The mandate of this office is enshrined under Article 143 of the Constitution of the United Republic of Tanzania, 1977. Further, the powers and mandate of the CAG are clearly stipulated in Sections 11 and 12 of the Public Audit Act, CAP. 418. The Constitution explicitly states the mandate, powers, functions and responsibilities of the CAG, as the controllership of funds from the Consolidated Fund and auditing of the use of such funds. In addition to financial audit, the National Audit Office of Tanzania (NAOT) Office is also mandated to carry out performance audits of any government entity involved in the management of PI projects as well as special audit of individual specific

identified projects.

6.5.5 Project Implementation Progress Reports

Project progress reports are the official documents for ongoing projects, which must be submitted periodically on continuous basis (usually quarterly). All project progress reports from MDAs, RSs and LGAs shall be submitted to the Ministry of Finance and Planning (Department responsible for National Planning) through the National Project Management Information System (NPMIS). However, Independent Government Departments, Executive Agencies, RSs and LGAs will route their reports through their responsible ministries for reviewing before submitting to MoFP. The main objective of these reports is to provide the implementation status of the project and inform, among others, financing decisions.PI project officer will prepare monitoring reports and submit to the project contracting authority for the planning and budgeting purposes.

6.5.6 Project Completion

This is the final stage of PI projects implementation. For infrastructure or physical facilities PI project completion allows for creation, handing over and corresponding recording of assets created through the project. It also marks the commencement of delivery of public services or goods associated with particular PI. Project completion stage encompasses assessment whether planned works/tasks have been completed satisfactorily within the specified contract period, cost and quality. The practice of project completion and handover typically consists of two activities:

(i) *Administrative Completion*: This involves collection and archiving of project data and information for generation of project completion report. It also records assets generated through PI into Government assets register; and

(ii) *Contractual Completion:* This entails verification of delivery of all project outputs as per contractual agreements. In case there are notable deviations in scope, design and costs from initial contract specifications, CA should clearly document reasons for these deviations and preventive measures undertaken.

Guidance 6.5: Preparation of Project Completion Report

(i) MDAs, RSs and LGAs should prepare and submit Project Completion Report (PCR) to the MoFP through NPMIS.

(ii) The report should provide details on operational, technical and financial aspects of project implementation and outline registered achievements, challenges and lessons learned in relation to project's results matrix (planned outputs and outcomes).

Guidance 6.6: Reporting on Project Deviations

CA should document details on reasons for deviations in terms of project scope, design and costs compared to initial contract specifications and preventive/corrective measures undertaken.

6.7 Management of Government Assets

Public Investment project usually end-up with creation of new assets, thus proper management of such assets as per Public Procurement Act of 2004; Public Finance Act, 2001, Public Assets Management Guideline, 2019 and other Legislation is essential in ensuring sustainability of the attained outcomes. Therefore, Contracting Authorities (CA) should record assets generated from PI projects into their respective assets register upon completion and handover of such assets.

Furthermore, to ensure proper management of such assets from acquisition to disposal, CA should adhere to Laws as well as Public Assets Management Guideline and Government Circulars issued from time to time. For example, Treasury Circular Na. 7 of 2018/2019 guidance on management of motor vehicles and assets upon winding up of the project as well as Treasury Circular Na. 2 of 2021/22 guidance on utilization of Government Assets Management Information System (GAMIS) for keeping assets information to ensure accuracy and increase efficiency in management of assets acquired through Public Investment.

6.8 Design of Monitoring System

A monitoring system provides the information needed to assess and guide the project implementation plan while ensuring effective operations, meeting internal and external reporting requirements and informing future project programming. Monitoring should be an integral part of project design as well as project implementation and completion.

There are four key components that form the foundation upon which a monitoring system is built. The components play a critical role in monitoring planning while answering the following questions:

(i) What does the project want to change and how? (A causal analysis framework);
(ii) What are the specific objectives to achieve this change? (Especially with respect tolog frame);
(iii) What are the indicators and how do we measure them? and
(iv) How will the data be collected and analysed? (Data collection and analysis plan).

6.9 Project Adjustment

Prospects of outcomes of public projects can change in the course of projects' implementation owing to some reasons including unforeseen circumstances and technical issues. These changes may necessitate use of control instruments through the funding approval or monitoring process, whereby the project sponsor(s) may recast the project or even stop disbursements as a control mechanism. It has been argued that, this is one of reasons funding must be done in instalments and in tandem with updated cost-benefit analyses. The projects sponsors will act upon receiving, reading and understanding the reports showing viability of funding

continuation thus being accountable for the delivery of the projects' benefits.

One way monitoring can be reinforced is by using funding process to make monitoring process active. Monitoring has to focus not only on financial reports but also physical visits to verify the pattern of achievement of the expected outcomes. Project management team will submit reports to respective authorities, which may do auditing as deemed necessary to produce information that will guide funding decision for the next instalment. It is at this stage where sponsors make a decision to proceed as it was planned or to adjust the project in line with the results from a comparison between the project plan and implementation outcomes. Among the outcomes that can lead to projects adjustment are: costs overrun; underperformance; possibility of costs variations owing to uncontrollable factors and prices fluctuations; and other unforeseen circumstances that can jeopardize achievement of the intended objectives.

6.8.1 Indicators of Possibility for Project Adjustment

To assess whether there is a need for project adjustment or not, PI project efficiency mustbe considered. The key diagnostic indicators in efficiency evaluation which help judging whether an adjustment is necessary and possible include:

(i) Estimated costs and benefits, which are updated to reflect material changes in circumstances;
(ii) Consequences of changes in estimated costs and benefits included in operating budgets; and
(iii) Mechanism which prevents continuation of expenditure on a project when its (net of sunk costs) benefits are not positive.

Implementation of project adjustment is possible if funding review has sufficient flexibility toallow changes in the disbursement profile in line with the changes in the project circumstances. As noted earlier, there is a possibility for adjustment only if monitoring is active, involving financial reports, physical visits and verifications. Otherwise, the basis for adjustment will not be available.

6.8.2 Informing Project Adjustment Decision Making Process

In order to make decision on the project adjustment, some important information must be available. In the course of the project implementation therefore, the following processes should be done and the information obtained to be managed accordingly:

(i) *Public investments rationalization*: The Government has to do rationalization process of the public investment programmes. The purpose should be to assess projects during some specified time interval as a way to enable reprioritization and rearrangement of the ongoing projects. Rationalization process will inform on the proper actions to be taken, like the project's continuation, deferment or cancellation as it may be deemed necessary;
(ii) *Preparation of public investments periodic reports*: Project's implementation

agencies have to prepare periodic reports which will inform evaluation agencies about the status of the projects. Those reports have to include cost-benefit analysis updates. If there have been changes in the benefits or costs, actors responsible for these changes must be identified. This is important in making decision as to whether the project has to be adjusted or not; and

(iii) *Setting decision criteria*: As an integral part of project rationalization process, it is important that average outcomes of the similar projects are established, including that of the cost overrun of the major projects in inflation adjusted terms. The reason why this information is needed is that, decision making needs to be based on the average real conditions, i.e., to avoid biasness in projects adjustment.

Guidance 6.7: Public Investments Rationalization Process

It is the role of MoFP to oversee annual PI projects rationalization in order to enable reprioritization and rearrangement of the ongoing projects. The project rationalization shall assess:

(a) PI management practices;
(b) Adherence to strategic objectives of the project;
(c) Key risks; and
(d) Flexibility and benefits to the end users.

6.8.3 Roles in Project Adjustment Decision Making

The decision on project adjustment should be made after some processes as noted in 6.5.2 above. For that reason, roles of the key actors for project adjustment are as guided here:

Guidance 6.8: Periodic Reports to Inform PI Adjustment Decision

Projects implementing agencies shall prepare periodic reports as guided in this manual and any other reports including cost-benefit updates, which MoFP may require in order to undertake project rationalization.

Guidance 6.8: Project Adjustment Decision Procedure

i. CA shall prepare cost-benefit updates.
ii. Evaluation Agency shall conduct assessment of:
    a) PI management practices;
    b) Adherence to strategic objectives of the project;
    c) Key risks; and
    d) Flexibility and benefits to the end users.
iii. The resolution on project adjustment will be reached in a joint meeting between the MoFP and the implementing agency.

6.8.4 Monitoring and Evaluation Tools and techniques

In order to make sure that the planned goals are achieved, these instruments are employed in the monitoring and evaluation process. These include: checklists such as

project documents, progress reports, action plans, and cash flow plans; questionnaires, which include structured and non-structured questionnaires; and a logical framework, which among other things, shows objectives, indicators, and means of verification. **Furthermore,** monitoring and evaluation teams have to use various techniques in undertaking the process including verifications, controls, reviews, rapid appraisal, case study, census and research.

CHAPTER 7
PROJECT EVALUATION

7.1 Introduction

This chapter presents the PI project evaluation context, principles, key questions and types of evaluation. The chapter details on: evaluation criteria and guidance; economic and financial values; and absolute and comparative assessment. Further, it elaborates on studies to inform evaluation process, key elements in designing, evaluation process, analysis, monitoring and evaluation guidelines.

7.2 Context of Project Evaluation

Project evaluation is a systematic and objective assessment of an on-going or a completed project regarding its design, implementation and results. Evaluation is a rigorous and independent assessment by design and methodology and it involves: extensive analysis; an up- front activity not just a back-end activity (linear logic); and integrative in understanding, learning and corrective actions, i.e., with “multiple lenses”.

The aim of evaluation is to determine the relevance and achievement of objectives, developmental efficiency, effectiveness, impact and sustainability of the project. The project evaluation process involves collection, analysis and use of information to answer several questions about a project. Analyses done for project evaluation comprise, *inter alia*, those related to the rationale for the project costs, implementation process, outcomes or impacts,and the need for the project.

Project evaluation provides credible and useful information and lessons to decision making. Through project evaluation the financiers, managers, beneficiaries and other stakeholders of the project learn from experience and are enabled to make necessary interventions for improvement. Project evaluation frameworks tend to focus more on how things have been performed and what difference they have made. Evaluation is generally intended to measure progress of pre-established objectives and the impact generated.

7.3 Principles of Evaluation

Evaluation is important for learning, validating results and decision making. It enables project managers to make informed decisions and plan strategically. Evaluation may target a project, an outcome or a thematic area on one or cross-cutting themes. In the public sector, evaluation is done in order to assess impact of PI projects and should abide with the following principles:

(i) Independence – no imposing of restrictions;
(ii) Ethical - no conflict of interest;
(iii) Credibility – removing bias, maximizing objectivity, meeting minimum quality

standards;

(iv) Clear focus at the on-set (rationale, decisions to be based on it);

(v) Legal mandate;

(vi) Transparency (in order to enhance credibility and utility of the evaluation);

(vii) Timeliness – design and completion in order for the findings to be useful; and

(viii) Based on strengthened data collection and processing systems.

Guidance 7.1: Monitoring the Adherence to Evaluation Principles

(i) MoFP shall oversee adherence to evaluation principles for PI projects at national level.

(ii) MDAs shall ensure adherence to evaluation principles for PI projects that are under their respective mandates.

(iii) OTR shall ensure adherence to evaluation principles for PI projects implemented by Public Institutions and Statutory corporations (PISC).

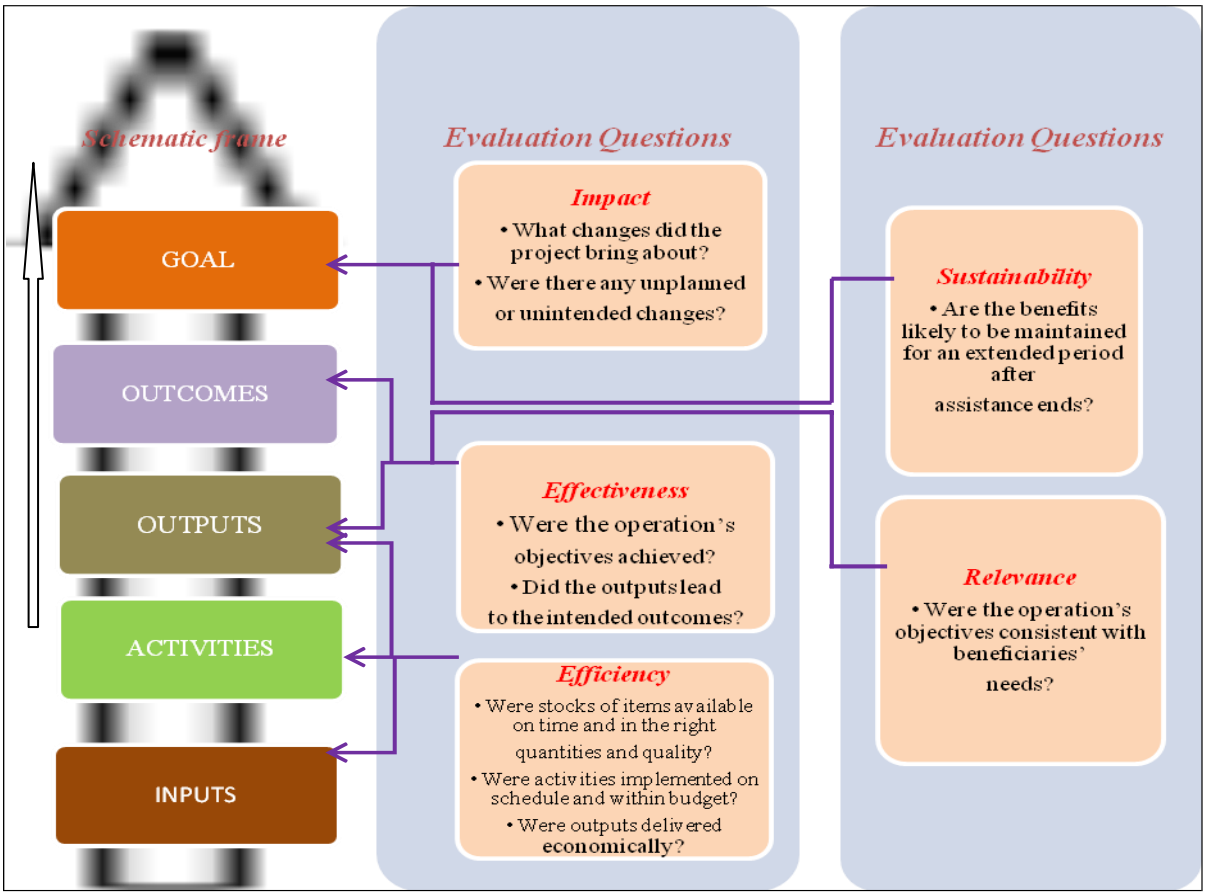
(iv) PO - RALG shall oversee adherence to evaluation principles for PI projects implemented at RSs and LGAs levels.

(v) RSs and LGAs shall ensure adherence to evaluation principles that are under their respective mandates.

7.4 Schematic Evaluation Framework and Key Questions

There are a number of evaluation types, which can be categorized in a variety of ways. The approach and method used in an evaluation is determined by the target audience and purpose of the process. *Figure 11* summarizes schematic frame of evaluation and key questions that are answered in the process.

Figure 11: Schematic Evaluation Framework and Summary of Key Questions



The set of questions on efficiency are intended to underscore cost considerations in the project implementation. They cover availability of the required inputs, whether they were obtained, channelled to the right activities and outputs were produced without wasting resources. The set of questions under effectiveness are intended to find out whether the outputs led to targeted outcomes and the objectives were achieved. The third set of questions on impact assesses the result/change brought about by the project and whether there were extraneous effects that were not intended before (complimentary or distortionary).

The questions on relevance are intended to find out whether the outputs and outcomes have achieved the objectives and are consistent with the beneficiaries needs for a targeted period. The set of questions under sustainability intends to measure whether the achievement of the goals is likely to be maintained for an extended period after completion of the implementation of PI project.

7.5 Types of Evaluation

The types of evaluation are not mutually exclusive and are often done in combination. The classification based on: (i) timing; (ii) audience; and (iii) methodology used. In terms of timing, evaluation is classified according to the project's terminal or periodic concerns. Regarding the audience, evaluation is categorized the way it addresses different issues in the interests of respective stakeholders, while according to methodology it is classified in respect of the approaches used for some specific purposes (*Table 9* evaluation by these categories).

Table 8: Key Types of Evaluation

According to timing	***According to audience***	***According to methodology***
(i) *Formative evaluation* Is done during project implementation to improve performance and assess compliance. **(ii) *Summative evaluations*** Are conducted at the end of the project implementation to assess effectiveness and impact. **(iii) *Midterm evaluations*** These are formative in purpose and occur midway during implementation. Some type of midterm assessment, evaluation or review is required. The number or terms depend on the length of the project life. Typically, this does not need to be independent or external, but may be according to specific assessment needs. **(iv) *Final evaluations*** They are summative in	**(i) *Internal or self-evaluations*** These evaluations are conducted by those responsible for implementing a project. They can be less expensive than external evaluations and help build staff capacity and ownership. However, they may lack credibility with certain stakeholders such as donors, as they are perceived as more subjective (biased or one-sided). These tend to be focused on learning lessons rather than demonstrating accountability. **(ii) *External or independent*** Evaluations of this type are conducted by evaluator(s) outside of the implementing team, lending it a degree of objectivity and often technical expertise. These tend to focus on accountability.	**(i) *Real-time evaluations (RTEs)*** They are undertaken during project implementation to provide immediate feedback for modifications to improve on-going implementation. Emphasis is on immediate lessons learnt from the impact evaluation or accountability. RTEs are particularly useful during emergency operations, and are required in the first three months. **(ii) *Meta-evaluations*** These evaluations are used to assess the evaluation process itself. Some key uses of meta-evaluations include: taking inventory of evaluations to inform the selection of future evaluations; combine evaluation results; check compliance with evaluation policy and good practices; assess how well evaluations are disseminated and utilized for organizational learning and change, etc. **(iii) *Thematic evaluations*** They focus on one theme, such as gender or environment, typically across a number of projects, programmes or the whole organization.

purpose and are conducted at the end of project implementation to assess how well the project achieved its intended objectives (often done externally). All public investments should have some form of final assessment. **(v) *Ex-post evaluations*** *These* evaluations are conducted sometime after implementation to assess long-term impact and sustainability.	**(iii) *Participatory evaluations*** They are conducted with the beneficiaries and other keystakeholders, and can be empowering, building theircapacity, ownership andsupport. **(iv) *Joint evaluations*** These are evaluations conducted collaboratively by more than one implementing partner, and can help buildconsensus at different levels, credibility to stakeholders and joint support.	**(iv) *Cluster/sector evaluations*** Evaluations of this type focus on a set ofrelated activities, projects or programmes,typically across sites and implemented bymultiple actors. **(v) *Impact evaluations*** Evaluations focus on the effect of a project, rather than on its management and delivery. Therefore, they typically occur after project completion during a final evaluation or an ex-post evaluation. However, impact may be measured during project implementation, and for longer life time projects when feasible.

Evaluation has to be informative, while one may be interested in mid-term review, others may wish to look at thematic issues of the project. If the evaluation report did not include such items, there will be a need to rework. The more comprehensive the evaluation process is the better it is for different uses.

Unlike monitoring which focuses inside the project (on what it has produced and what it has done), evaluation focuses outside the project (on the effects it has on its clients or service users). Evaluation asks questions like: Are the objectives fulfilled? Has the project interventions made an impact? Has the project been conducted efficiently? In practice *monitoring* and *evaluation* do overlap and are complementary. Distinguishing the two is not necessary as long as a full picture of performance can be provided to the management and project's stakeholders.

7.6 Economic and Financial Values in Evaluation

Although economic benefits and costs can be differentiated into economic and financial categories, they are reconcilable. Economic value is wider than financial value by the magnitude of externalities. Economic net present value equals financial net present value plus the present value of externalities of the project. In view of this, it means if financial net present value and the present value of externalities can be determined, then economic net present value can be established.

7.7 Evaluation Criteria and Guidance

Evaluation must be properly managed if the process is to succeed. Evaluation has to be based on prior stated criteria and also follow standard guidelines that are used in evaluation. It is essential to have a series of common evaluation criteria so that the assessment or evaluation stays consistent. These are tools that should guide how evaluation processes has to be planned, commissioned, conducted, reported and utilized. The guidelines are drawn from the best practices of international standard to ensure that evaluations are accurate and reliable (*Table 10*). The criteria state what to evaluate in the process and the standards state how to do the evaluation work.

Table 9: Framework of Evaluation Criteria and Guidelines

Evaluation criteria	***Evaluation standards guide***
i. ***The national standards and guidelines*** Evaluate the extent to which a project upholds the standards and guidelines of the national public investments. **ii.** ***Relevance and appropriateness*** Evaluate the extent to which the project is suited to the needs and priorities of the target group and complements work from other actors. **iii.** ***Efficiency*** The extent to which the project is cost-effective and timely; and also, the state of quality of material and works. **iv.** ***Effectiveness*** The extent to which the project has or is likely to achieve its intended, immediate results. **v.** ***Coverage*** The extent that the project includes (or excludes) population groups and the differential impact on these groups. **vi.** ***Impact*** The extent to which project effects positive and negative changes on stakeholders, directly or indirectly, intended or unintended. **vii.** ***Coherence***	**i.** ***Utility*** Evaluations must be useful. **ii.** ***Feasibility*** Evaluationsmust be realistic, diplomatic and managed in a sensible, cost-effective manner. **iii.** ***Ethics and legality*** Evaluations must be conducted in an ethical and legalmanner, with particular regard for the welfare of those involved in and affected by the evaluation. **iv.** ***Impartiality and independence*** Evaluations should provide a comprehensive and unbiased assessment that takes into account the views of all stakeholders. With external evaluations, evaluators should not be involved or have a vested interest in the intervention being evaluated. **v.** ***Transparency*** Evaluation activities should reflect an attitude of openness and transparency. **vi.** ***Accuracy*** Evaluations should be technically accurate, providing sufficient information about the data collection, methods of analysis and interpretation so that its worth or merit can be

The extent to which the project is consistent with relevant national and global agenda (e.g., humanitarian, security, trade, military and development), and takes adequate account of humanitarian and human-rights considerations. **viii. *Sustainability and connectedness*** The extent to which benefits of the project are likely to continue once the project's role is completed.	determined. **vii. *Participation*** Stakeholders should be consulted and meaningfully involved in the evaluation process when feasible and appropriate. **viii. *Collaboration*** Collaboration between key operating partners in the evaluation process improves the legitimacy and utility of the evaluation.

The project is evaluated from these criteria to verify whether it is/was necessary to implementit, what effects the project has on the beneficiaries, whether the project is/was efficient in terms of effective use of resources, and how long the effects will be sustained. The following are the specific questions, or issues to be addressed for public investment projects by criteria.

Table 10: Application of the Evaluation Criteria for Public Investment Projects

Criteria	***Issues to be addressed in public investment project assessment and evaluation***
The national standards and guidelines	Whether a project follows the national public investment procedures: • Project's focus compared to the national development framework. • Extent of adherence with the public investment projects guidelines.
Relevance and appropriateness	Whether a project matches the priority of the national plans, or targeted region/sector; i.e., the beneficiaries, and other national and regional policies at the time of assessment/evaluation: • Appropriateness of the project purpose (targeted beneficiary and region, etc.). • Consistence of the project purpose and the overall national/regional/sectoral goals and objectives. Since development plans, needs and policies change in the course of time, it is important that the project is always evaluated on relevance based on the latest information.
Efficiency	• Whether project inputs are utilized appropriately and efficiently. • Whether the inputs invested through the public investment project budget efficiently develops to the outputs. In case of newly proposed projects, *feasibility* of efficiency will be evaluated. The main points to consider are: • Total cost, including financial schedule and actual disbursement. • Implementation plan and actual schedule of the project. • Quality of works and material. • Action taken for social and environmental issues.

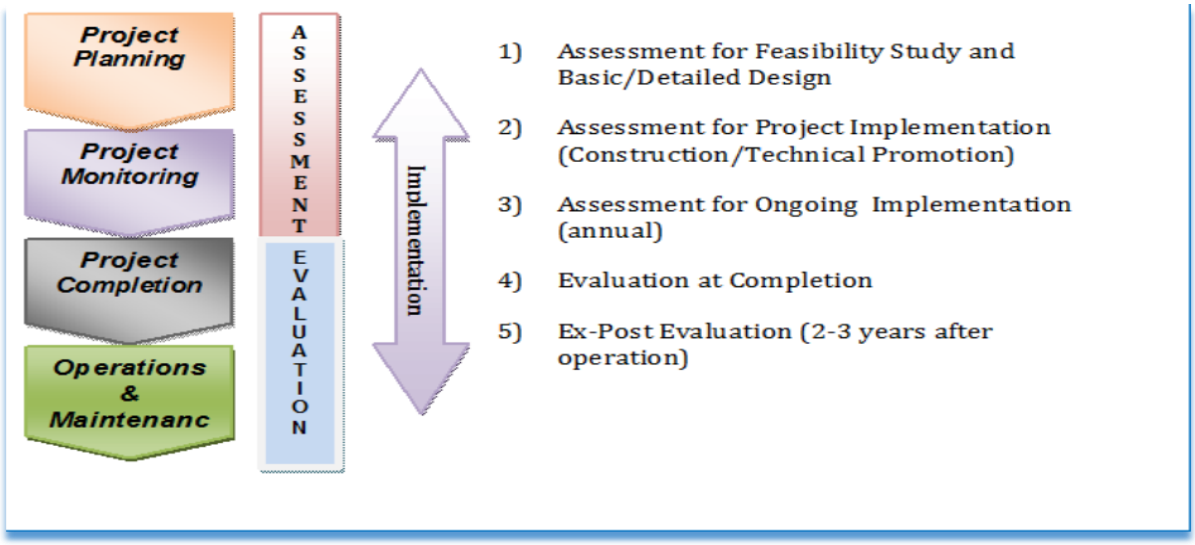
Effectiveness	To what extent the project purpose is achieved. In the case of newly proposed projects, *feasibility* of effectiveness will be evaluated.
Coverage	Whether the project includes (or excludes) some population groups: • Likely proportions of different groups that will benefit or lose.
Impact	Whether and how positive or negative effects are caused through the projectimplementation, and expectations of positive or negative effects after completion: • Individuals' economic gains and social benefits. • Social impacts such as resettlement and regional conflict. • Environmental impacts such as pollution, etc.
Coherence	How much the public investment project is consistent with relevant national and global agenda: • Human rights considerations. • Consistence with the national security, trade, military and development targets.
Sustainability and connectedness	Whether the outputs and the direct effect produced by the project can be sustained afterthe project is completed. Existence of Operation and Maintenance (O&M) Plans: • Responsible organization of O&M. • O&M schedule. • Material and equipment needed for O&M. • O&M tasks and technical aspects. • Costs required for O&M and its financing source.

7.8 Absolute Assessment and Evaluation

7.8.1 Absolute Assessment and Evaluation Methods

Both absolute assessment and evaluation are focused on the project. The differences between the two are in their objectives. While absolute assessment is intended to improve new and ongoing projects and allocate public investment projects budget, evaluation is intended to check the completed or operational status of the project (*Figure 12*).

Figure 12: Absolute Assessment and Evaluation at each Project Stage



Guidance 7.2: Absolute Assessment and Evaluation Responsibility

i) MOFP shall conduct project absolute assessment and evaluation of the PI projects at national level.
ii) MDAs shall conduct project absolute assessment and evaluation of the PI projects that are under their respective mandates.
iii) PO – RALG shall conduct project absolute assessment and evaluation of the PI projects that are implemented at RSs and LGAs levels.
iv) RSs and LGAs shall conduct project absolute assessment and evaluation of the PI projects that are under their respective mandates.

7.8.2 Improvement of Projects during the Assessment Process

One of the objectives of absolute assessment is to find out whether, further improvements are necessary for the project. Therefore, in the process of assessment, discussions are made between MoFP and the CA to seek countermeasures to the project issues in relation to the absolute assessment sheet results and recommendations. If improvement is possible through these countermeasures, the project is reassessed and produce improved results. If the rating improves, the improved rate is considered as the updated rate of the project. Attempt for improvement may be continued until the submission of absolute assessment sheet results to the decision maker.

Guidance 7.3: Decisions and Supervision of PI projects Improvement Process

(i) For the national PI projects at national level MoFP and CA shall agree on the requisite countermeasures where necessary and CA shall order the PI management to implement such measures.

(ii) For the respective regional or local governments PI projects at RSs and LGAs levels the particular RSs or LGAs shall agree with CA on the requisite countermeasures where necessary, and CA shall order the PI management to implement such measures.

(iii) CA shall oversee implementation process of the recommended countermeasures.

7.8.3 Criteria Weight and Score-rate Relationship

There are various types of the assessment/evaluation objectives of each project and its stages. Depending on the project type and stage, the importance of each assessment/evaluation criterion is different; therefore, the weight of importance affecting the total score should be adjusted accordingly. Generally, the following definitions are used as a guideline for criteria weighting.

Guidance 7.4: Setting Criteria Weight of Score Rate

Project Stage	***Important Points (with higher weight)***
New projects (before implementation)	• Verification of relevance and necessity of project. • Confirm feasibility of effectiveness. • Existence of an Operation & Maintenance idea (especially the organizationin charge) in the planning stages (sustainability).
Revival project(*After suspension*)	• Relevance of the project based on the updated development goal and plan. • Expectations of effectiveness and efficiency of the project based on a revisedplan. • Any social and/or environmental negative impact caused during suspension,or expected upon revival
Ongoing (*During implementation*)	• Efficiency (schedule, cost, quality of work) of the project. • Effectiveness or whether the project purpose would be achieved. • Any social and/or environmental negative impact caused during implementation.
Operation	• Results of operation and progress of maintenance (sustainability). • Achievement of the Overall Goal (relevance). • Any social and/or environmental negative impact caused during operation.
Completion	• Achievement of the project purpose (effectiveness). • Existence of a detailed Operation & Maintenance Plan (sustainability). • Any social and/or environmental negative impact caused during implementation, or may arise during operation stages.

7.9 Studies to Inform Evaluation Process

Evaluations are done against some initial conditions. Thus, both baseline and end-line studies have to be done. Baseline study is analysis that describes initial conditions and end-line studyis analysis done at the completion of the project as part of final evaluation. Baseline study is usually followed by some other similar study to compare statistics and analyse the observed changes to ascertain the impact between those periods. Although it is challenging, it is the measure of impact that helps indicate whether the project is focused to achieving its objectives or not. Typically, impact involves longer-term changes, and may take months or years for such changes to become noticeable. Further, it can be difficult to attribute the observed changes to an intervention versus other factors (*attributions*) that could have led to realization of outcomes concurrently with the project implementation. This does not, however, mean that an attempt should not be made to study and measure the project's impact. It is an important exercise for being accountable for what was set out to be achieved.

7.9.1 Rationale for Baseline Studies

A baseline study forms the first step prior to commencement of the project implementation. A baseline study gathers key information early in a project so that judgments can be made later about the quality and development results achieved by the project. The project's evaluation plan is closely linked toeach (objective) level of the log frame and includes indicators of achievement and means of verification. The baseline study is an early element in an evaluation plan, and uses the log frame structure to systematically assess the circumstances in which the project commences.

The first stage in building an evaluation system typically involves design, execution and analysis of the baseline study in order to establish the frame of reference for subsequent comparisons on which evaluation will be based on. Since for these comparative purposes the data to be collected subsequently must be similar to those collected in the baseline study, the methods of selecting and conducting baseline studies should be similar or harmonized.

7.9.2 Designing Baseline Study

A baseline study will be ideally available to enable assessment of changes in indicators. The fundamental principles in designing a baseline study are:

(i) Conduct the baseline study as early as possible;
(ii) The study design must be based on the evaluation design which is, in turn, based on the project theory of change;
(iii) The Data must be collected across the results chain, not just on outcomes;
(iv) Comparative group sample must be of adequate size, and subject to the same, or virtually the same, questionnaire. While some intervention-specific questions may

not be appropriate, similar questions of a more general nature can help test for contagion;

(v) Multiple instruments are usually desirable, and must be coded in such a way that they can be linked;

(vi) Survey design takes time. Allow at least 3 months from the beginning of design to going to the field;

(vii) Include information to allow tracing of the respondents for later rounds of the study, and ensure that they can be linked in the data; and

(viii) Avoid changes in survey design between rounds. Ideally the same team will conduct all rounds of the survey.

Guidance 7.4: Baseline Studies Responsibility

(i) CA shall be responsible in conducting the baseline study.

(ii) Baseline study is necessary for projects with a medium-term or long-term span of implementation. For projects to be implemented within a period of up to 2 years, baseline studies may be waved.

(iii) CA shall submit baseline study report to their respective Line Ministry for the PI project(s) at the RS or LGA level to facilitate decision making on the project(s) approval for implementation decision.

(iv) The line Ministry shall submit to MoFP for PI project(s) at national level to facilitate decision making on the project(s) approval for implementation.

7.9.3 Ascertaining the Impact

It is important to be careful when doing impact analysis so that the impact of a project is not overstated. Consider an evaluation of a hypothetical rural power supply project. If it is presupposed that providing energy to a rural setting will raise incomes and standard of living of the people in that area, and there are other concurrent related development adventsin the next 5 years, it can be tricky evaluating the impact of implementation of the power project. i.e., to isolate the impact of other interventions.

Evaluation of this project will require to have control of extraneous factors, which are called attributions that can cause the same outcome. There is no standard approach of how to control for those attributions of standard of living, for example, but a choice of an appropriate means to go about it is a prerequisite for the evaluator. In this hypothetical project, an evaluator could decide to make a *control* and *treatment* groups.

The control and treatment groups should be groups with the same attributes save for the connection to the electricity for the treatment group. By using the baseline survey to underscore their initial conditions, an evaluator can make a conclusion as to whether electricity provision project has a change/impact or not.

7.9.4 Evaluation Alternatives when there is no Baseline Study

Evaluations are often conducted ex-post, and there may be no baseline study available. Under this circumstance the following options can be considered:

(i) Single difference estimate: if treatment and comparison groups are drawn from the same population and some means is found to address selection bias (which will have to be quasi-experimental, since randomization is ruled out unless the treatment had been randomized, but if the programme designers had thought of that they would have thought of a baseline also), then a single difference estimate is in principle valid;

(ii) Find another data set to serve as a baseline. Sometimes secondary data can be used to carry out the impact evaluation study. This is especially true when evaluating nationalor sector-wide interventions. More usually secondary data can be used to buttressother data. At times the project data set could be used for the treatment group and a national data set used to establish the control. If there was a baseline survey but with apoor or absent comparison group, then a national survey might be used to create a comparison group using propensity score matching;

(iii) Survey using recall on the variables of interest. Many commentators are critical of relying on recall. However, all survey questions are recall, so it is a question of degree. The evaluator needs to use his or her judgment as to what is reasonable to expect a respondent to remember. It is reasonable to expect people to recall major life changes, introduction of new farming methods or crops, acquisition of large assets and so on, but not the exact amounts and prices of transactions. When people do recall there may be telescoping (thinking things were more recent than they were); so, it is useful to refer to some widely known event as a time benchmark for recall questions;

(iv) If all the above fails, then the study will make/build a strong analysis of the causal chain (from the programme theory). Often a relatively descriptive analysis can identify breaks in the chain and so very plausibly argue there was low impact; and

(v) The argument can be further strengthened by triangulation (indeed this point applies whatever method is adopted): drawing on a variety of data sources and approaches to confirm that similar results are obtained from each.

Guidance 7.5: Identification of the Alternative of Baseline Study

CA shall be responsible in identifying suitable alternative to the baseline study in any case where the study is relevant but there is no possibility to undertake it.

7.10 Key Elements in Designing Evaluation Process

The key elements in designing an impact evaluation include:

(i) Deciding type of evaluation to proceed;

(ii) Identifying key evaluation questions;
(iii) Embedding the evaluation design in the underlying theory and practical experiences;
(iv) Ensuring that the comparison group serves as the basis for a credible counterfactual, addressing issues of selection bias (the comparison group is drawn from a population different from that of treatment group) and contagion (the comparison group is affected by the intervention or a similar intervention by another agency);
(v) Triangulating findings; and
(vi) Contextualising the evaluation.

7.11 Analysis at Evaluation Stage

As indicated in the key types of evaluation (section 7.4), evaluation stage starts in the course of project implementation and ends with two important evaluation works: final/terminal evaluation; and ex-post evaluation.

7.11.1 Mid-term Formative Evaluations/Assessment

These are formative in nature and are done midway through implementation. Some type of midterm assessment, evaluation or review should be done as a way of informing the likely outcomes. This evaluation is important because in case some expected results do not seem to come out, corrective measures can be instituted to refocus the project to its intended objectives. The number or times this type of evaluation is done differs from project to project, but it often depends on the length of the project life. Typically, this does not need to be independent or external, but may be according to specific assessment needs. Issues that are often addressed include:

(i) ***Is the project managed in a manner that is leading to its expectations?*** Check the interim outputs during midterm and judge progress;
(ii) ***Are there unintended outcomes?*** Determine socio-economic impact of the unintended outcomes and compare them with the intended ones. ; and
(iii) ***What are the likely corrective measures that can improve the results?*** In case there is any observed misalignment of the project's results, midterm evaluation process should be able to point out protective means to avoid or reduce the likely loss.

7.11.2 Final Evaluation

Final evaluation is carried out at the completion of the project, namely before actual operation of the facilities commences. The main focus of final evaluation is whether the project purpose has been accomplished. The organization in charge of evaluation should ask the following questions:

(i) ***Have all planned important measures been carried out appropriately?*** Check

whether there are any issues remaining to be carried out even at the end of project implementation.

(ii) ***Is there any unexpected adverse impact caused by the project?*** Check whether there are any adverse impacts due to the project implementation which were not expected before that can be identified.

7.11.3 Ex-post Evaluation

Ex-post evaluation is carried out in some years after the completion of project. These can be after 2, 3 or more years depending on the nature of the project. It aims at examining whether the intended impacts resulting from operating project facilities have emerged. Typical questions to ask:

(i) ***Are there any positive impacts that have been influenced by the project?***

(a) Since ex-post evaluation focuses on impact and sustainability of the project, the evaluation needs to check the positive expected/unexpected impacts generated by the project.

(b) Check whether any positive/negative and expected/unexpected impacts generated by the project can be identified.

(c) Widening of opportunities in terms of access to market, education, employment, potable water, etc.

(ii) ***Are there any unexpected adverse impacts caused by the project?***

(a) Check whether any adverse impacts, which were not expected to occur before, canbe identified.

(b) Check whether there were complaints from the affected, and whether the following occurred due to the project intervention:

- Widening of income gap.
- Widening of gender disparities.

7.12 Monitoring and Evaluation Guidelines

Figure 13: Evaluation Stages

A. Preparation

Monitoring and evaluation are the main instruments for project management. In practice M&E are implemented together and for that reason, the guidelines for both M&E are placed in this one section of the Manual.

Guidance 7.6: Preparation of Monitoring and Evaluation Plan

The CA shall prepare a monitoring and evaluation framework which shall comprise:

i) Project management plan;
ii) Performance criteria;
iii) External audit and reporting requirements;
iv) Submission of progress reports; and
v) Stakeholders' communication.

The monitoring and evaluation plan must enable the contracting authority to measure performance of the contractor and to determine and verify the payments that are due by the different parties under the contract.

Guidance 7.7: Planning of Monitoring and Evaluation

i) CA shall identify the purpose and scope of the M&E process
ii) CA shall set performance criteria that are directly linked to specified output and payment mechanism.
iii) CA shall prepare M&E budget.

B. Process

M&E will be done by expert(s) who are knowledgeable and conversant with how the process is implemented.

Guidance 7.8: Implementing M&E

CA shall ensure that M&E is undertaken in accordance with National M&E Framework.

Among the key activities for M&E include:

(i) Develop an M&E plan;
(ii) Assess availability of data;
(iii) Determine the balance of quantitative and qualitative data;
(iv) Triangulate data collection sources and methods;
(v) Determine sampling requirements;
(vi) Prepare for any surveys to be undertaken;
(vii) Prepare specific data collection methods/tools;
(viii) Establish project staff/volunteer review mechanisms;
(ix) Plan for data management; and
(x) Perform M&E.

It is the responsibility of the M&E expert to develop data analysis plan while identifying: purpose of data analysis; frequency of analysis; responsibilities in data analysis; and process for data analysis. The experts will be expected to follow the key data analysis stages, including: data preparation and analysis (findings and conclusions); data validation; data presentation, recommendations and action planning.

Formative Evaluations/Assessment

In order to get progress of the project development, CA has to require the expert to undertake formative evaluations or assessments.

Guidance 7.9: Formative Evaluation/Assessment Requirements

i) CA shall require expert to do internal midterm assessments whenever deemed necessary and submit reports.
ii) CA shall arrange and facilitate at least one own formative assessment during project implementation period.
iii) For the projects lasting for shorter periods than one year, midterm assessment shall be done subject to the impressions of the progress reports and projects' inspections.

Final and Ex-Post Evaluations

Public projects with relatively large scope will be evaluated at completion and some period after, since the project's impacts tend to linger after completion, there is a need for ex-post evaluation. It is the role of CA to facilitate these activities for feedbacks and information to the policy makers for further action.

Guidance 7.10: Final and Ex-post Evaluation Requirements

i) CA shall plan and facilitate final evaluation to be done immediately as the project ends especially for Type I Projects.
ii) CA shall plan and facilitate ex-post evaluation in the later dates after the project ends as a follow up action to track the long-term impacts of the project.

C. Reporting

Reporting on M&E results will be mandatory to make sure that these processes are done. It is the responsibility of MoFP to make sure that M&E is done at all levels as required and within the scheduled time.

Guidance 7.11: Reporting Monitoring and Evaluation Results

i) All Contracting Authorities shall prepare M&E reports and submit them to MoFP through the NPMIS.

ii) MoFP shall demand M&E reports from MDAs, RSs and LGAs in the agreed formats, focusing on needs or targeted audience, frequency and specific formats. However independent department, agencies, RSs and LGAs will route their respective reports through their responsible ministries for reviewing before submitting to the MoFP through NPMIS. In the case of PISC, M&E reports should be submitted to the Office of Treasury Registrar (OTR) as well; additionally, OTR, shall carry out independent M&E for projects of strategic interests and submit reports to CAs' line Ministries and MoFP.

CHAPTER 8:
CLIMATE CHANGE CONSIDERATION IN PUBLIC INVESTMENT

8.1. Introduction

Public projects are the vehicles through which the country improves development indicators of the country. The implementation and completion of these projects further ensure the achievement of the country's sustainable development goals through economic growth and social wellbeing. For achieving sustainable development, factoring climate change into the development process is necessary. Building public infrastructure that makes the economy more resilient to climate and related natural disasters can provide a foundation for sustained growth and prosperity while also reducing climate change risks. Certainly, ignoring climate change risks will undermine future economic growth and development.

8.2. Climate Change Issues in the Public Investment Projects

All infrastructure policies, plans and projects should build resilience to the risks of climate change projected during their lifetimes and be consistent with countries' adopted climate targets and policies. The Third Five Year Development Plan (FYDP III) emphasizes the agenda of Environment and Climate Change and set forth different measures and objectives for achieving sustainable development by 2025. These include: ensuring environmental sustainability while attaining economic development; making the most vulnerable sections of the society and sectors resilient to climate change impacts; effectively accessing climate change finance to develop adaptive capability; to mainstream issues related to climate change and the environment in all national programs and policies; and to minimize the economic costs of climate change.

In response to the growing concern about the negative impacts of climate change on the country's social, economic, ecological, and physical environment, the Government developed a National Climate Change Strategy (NCCS) 2021-2026. The strategy provides guidance on how to address climate change issues in undertaking public investment hence, enhancing the overall national resilience to the potential adverse impacts of climate change and further enabling the country to pursue low carbon emission development pathways to achieve sustainable development.

8.3. Integrating Climate Change into Public Investment Management

Climate Change Strategy provides guidance on how to invest in resilient infrastructure by integrating climate change considerations into all phases of public investment management. Different items in different project phases will highlight climate change components to be considered in the Project Planning, Project Appraisal and Selection, Budgeting and Risk Management. Therefore,

- The identification, preparation, and assessment of the project should consider a project's exposure and vulnerability to climate change risk;

- Developed and designed projects through PIM-OM should be climate-proofed to the changing climatic conditions, such as increased rainfall or rising temperatures; and
- Public officials should utilize tools and techniques developed in PIM- OM to screen projects for climate change-related risk, determine the need for climate-proofing a project and assess the economic viability of climate-proofing a project.

Figure 14: Consideration of Climate change issues from Project Initiation, Implementation and Execution

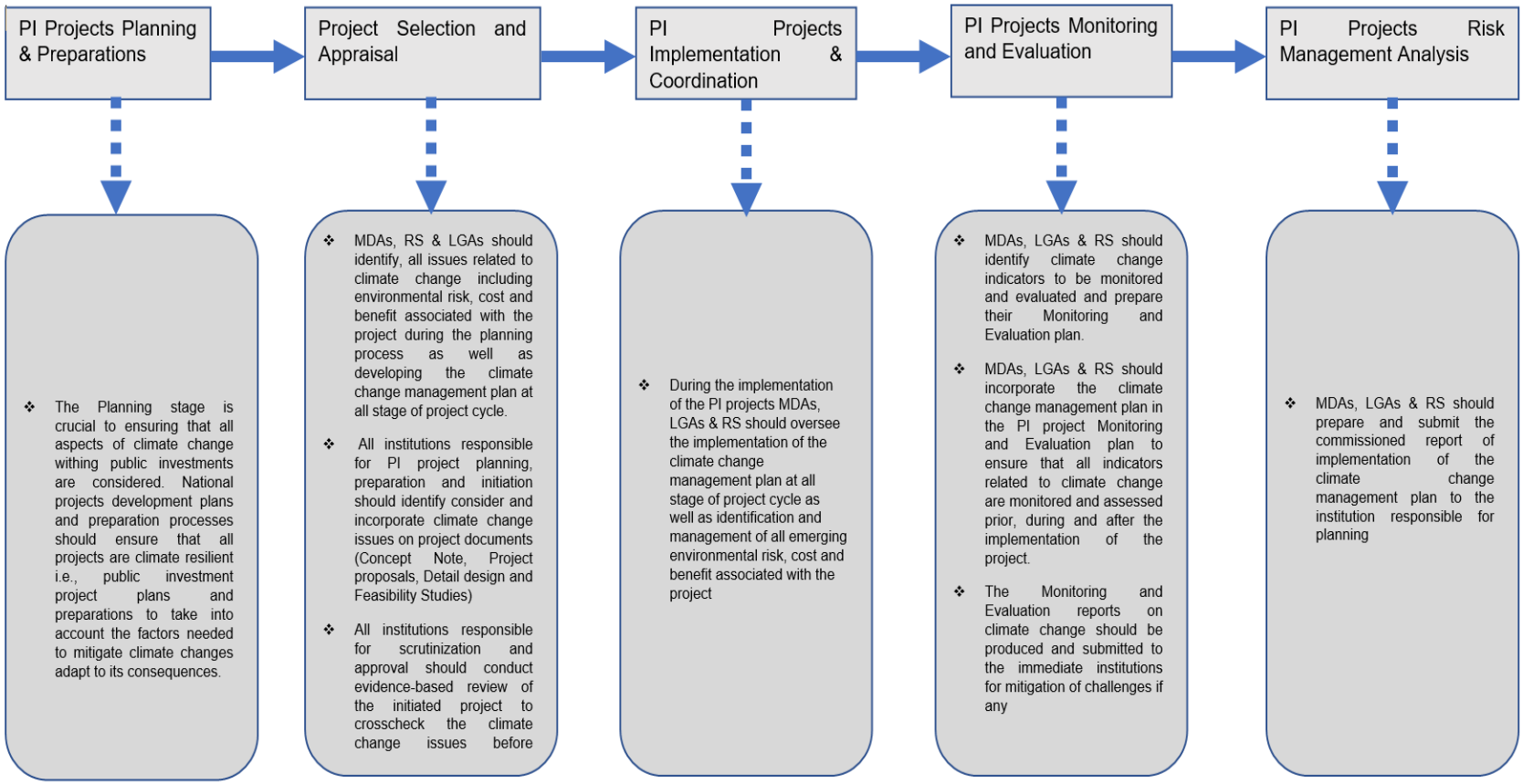


Table No. 8.1: Guidelines on Integration of Climate Change Issues in PI Projects

Guidance 8(A): Climate Change Requirements for PI Project Appraisal

All MDAs, RSs and LGAs initiating PI projects are required to prepare Project documents and submit to all required entities for review and approval. The PI Project documents shall include the following:

(i) All PI Projects consider Climate Change issues as a key component covering:
- ✓ Identifying climate change issues relevant to the proposed project
- ✓ Mitigation of climate change impacts (i.e. flooding, drought, loss of biodiversity, global warming, rock falling etc.);
- ✓ Resilience to climate change impacts; and
- ✓ Climate change adaptation.

(ii) All PI Projects adhere to:
- ✓ Environmental Policy, 2021 and Environmental Management Act, 2004;
- ✓ Paris Agreement, as ratified on 18th May, 2018; and
- ✓ National Climate Change Strategy (NCCS), 2021 – 2026.

Guidance 8(B): Climate Change Requirements for PI Project Analysis and Selection

During project analysis and selection, the institution responsible for PI Project Management shall ensure:

(i) Appropriately weigh climate change impacts in project analysis and selection;

(ii) Projects with positive climate change benefits such as reduced emission and environmental conservation valued appropriately in benefits and those with negative impacts such as increased emissions and environmental degradation discounted in costs;

(iii) Projects components and activities consider climate smart budgeting (to reduce climate change impacts);

(iv) All PI projects implemented under the PPP framework covers climate change risks as part of project costs directly incurred by the project; and

(v) PI projects have climate change risk mitigation strategy.

Guidance 8(C): Climate Change Requirements for PI Project Implementation, Monitoring, Evaluation and Reporting

All MDAs, RSs and LGAs shall ensure:

(i) Implementation of PI Projects goes hand in hand with monitoring of climate resilience factors; and

(ii) PI Projects climate impact evaluation is carried out as part of PI Project impact evaluation.

ANNEXES

Annex A1: Proposed Format for Project Concept Note (PCN) of a PI Project

1. **Introduction**
   - Project Summary
   - Project Background
     - Situation Analysis
   - Problem statement
   - Scope of the Project

2. **Project Rationale and Justification**
   - Urgency for Immediate Implementation of the project
3. **Project Description**
   - Beneficiaries
   - Project Duration
   - Size and scope
   - Project main activities/ interventions
   - Location
   - Objectives of the Project
     - General
     - Specific Objectives
   - **Expected Results of the Project**
4. **Risks and mitigation mechanism;**
5. **Stakeholders' analysis**
6. **Project Budget and financing options (if loan debt service capacity should be stated**
7. **Project Implementation Plan and coordination aspects**
8. **Overall evaluation**

Annex A2: Proposed Format for Project Proposal for Non-Infrastructural, Acquisition and Capacity Development Projects

1. **Introduction and Background Information**
   - Basic Information of the Project
   - Name of the Project.
   - Particulars of the project owner (and organization in charge of the project), department/section, name, etc. collaborating/advisory organizations (if any).
   - Sector of the project.
   - Location of the project.
   - Requested total budget.
   - Expected duration of the project implementation

2. **Background of the project**
   - Situation Analysis
   - Statement of the problem

3. **Project Description**
   - Project Objectives
   - Project Purpose
   - Expected Results/Outputs
   - Planned Activities in Achieving Outputs.
   - Required Inputs for carrying out Planned Activities

4. **Cost estimation breakdown (Total cost)**
   - Write the total cost estimation of the project, and its breakdown including the breakdown for the planned activities.
   - Cost estimation breakdown by years (Write the total cost estimation of the future PI project, and its breakdown for the planned activities
   - PI project budget request for first year (Write the budget request amount for the first year and its breakdown by item)

5. **Project Sustainability**
   - Sustainability asks whether the project and its direct effect can be sustained after the project is completed.
   - Operations and Maintenance Plan
   - Organizational Sustainability (Write the organization in charge of operation and maintenance of the project outputs, once it is completed)
   - Financial Sustainability (Write the expected budget sources and the annual amount of cost incurred in the operation and maintenance of the project after its completion)

Annex A3: Proposed Format for Pre-Feasibility Study of PI Project

1. Project Description

- Project Objectives
- Project Purpose
- Expected Results/Outputs
- Planned Activities in Achieving Outputs.
- Required Inputs for carrying out Planned Activities
- Beneficiaries

2. Demand/ Market Soundness/Analysis

3. Technical assessment

- Site suitability analysis
- Preliminary Engineering design of the project
- Different technical options
- Scope of work

4. Cost Estimation Breakdown (Total Cost)

- Write the total cost estimation of the future PI project, and its breakdown including the planned activities
- Cost Estimation Breakdown (by Year)
- Write the total cost estimation of the future PI project, and its breakdown by year
- PI project Budget Request for First Year
- Write the budget request amount for the first year and its breakdown by item.

5. Economic and Financial Analysis

- Check the feasibility of the investment criteria that are needed for economic/financial analysis.

6. Sensitivity Analysis

- Changes in investment cost, e.g., construction costs
- Changes in operating costs
- Changes in service demand
- Changes in user fees
- Changes in the inflation rate or growth rate
- Changes in financing costs/cost of capital
- Changes in the discount rate

7. Legal Feasibility

- Legal mandate to implement the selected project
- Alignments with national policies and priorities
- Legal obstacles

- Identification of required approvals and permits.

8. Environmental and Social Impact Assessment

- Initial Environmental Examination (IEE)
- Environment Impact Assessment (EIA)
- Social Impact Assessment (SIA)
- Climate Change Risks and Mitigation Measures
- Other Environmental Assessment Certificates

9. Operation & Maintenance Management Plan

- Inspection and Maintenance
- Outlook of the toll operation
- Implementation Plan

10. Risk Analysis and Mitigation Measures

11. Project Sustainability

- Sustainability asks whether the project and its direct effect can be sustained after the project is completed.
- Operations and Maintenance Plan
- Organizational Sustainability
- Financial Sustainability

12. Project Implementation Plan

Annex A4: Proposed Format for Feasibility Study of PI Projects

1. Introduction
- Basic information of the project
- Expected Duration of the Study/Design Implementation

2. Project Description
- Project Objectives
- Project Purpose
- Expected Results/Outputs
- Planned Activities in Achieving Outputs.
- Required Inputs for carrying out Planned Activities
- Beneficiaries

3. Demand/ Market Soundness/Analysis
- Demand survey
- Demand forecast

4. Technical assessment
- Site suitability analysis
- Preliminary Engineering design of the project
- Different technical options

5. Cost Estimation Breakdown
- Write the total cost estimation of the future PI project, and its breakdown including the planned activities
- Cost Estimation Breakdown (by Year)
- Write the total cost estimation of the future PI project, and its breakdown by year
- PI project Budget Request for First Year
- Write the budget request amount for the first year and its breakdown by item.

6. Economic and Financial Analysis
- Check the feasibility of the investment criteria that are needed for economic/financial analysis.

7. Sensitivity Analysis
- Changes in investment cost, e.g., construction costs
- Changes in operating costs
- Changes in service demand
- Changes in user fees
- Changes in the inflation rate or growth rate
- Changes in financing costs/cost of capital
- Changes in the discount rate

8. Environmental and Social Impact Assessment

- Initial Environmental Examination (IEE).
- Environment Impact Assessment (EIA).
- Social Impact Assessment (SIA).
- Climate Change Risks and Mitigation Measures
- Other Environmental Assessment Certificates.

9. Legal Feasibility

- Legal mandate to implement the selected project
- Alignments with national policies and priorities
- Legal obstacles
- Identification of required approvals and permits.

10. Operation & Maintenance Management Plan

- Inspection and Maintenance
- Outlook of the toll operation
- Implementation Plan

11. Risk Analysis and Mitigation Measures

12. Project Sustainability

- Sustainability asks whether the project and its direct effect can be sustained after the project is completed.
- Operations and Maintenance Plan
- Organizational Sustainability
- Financial Sustainability

Annex A5: Special Purpose Vehicles (SPV) Features for PI Projects Implemented by Different Contracting Authorities (CA) and Through Various Financing Modalities

Financing Approach	SPV Formulation	SPV Obligations	Capitalization or financing	Stakeholders' relationships	Management and tenure
SPV in PI Projects implemented under PPP Arrangements					
Equity contribution by private party and borrowing: Use of SPV is mandated by Law in all PPP projects (PPP Act, CAP 103, PPP Regulations of 2020 and Standard PPP procurement document)	• **Formulation stage:** SPV: SPV is formulated during procurement of private party to undertake PPP project. CA enters into agreement PPP agreement with SPV. In terms of PPP project cycle, SPV is formulated during implementation and procurement phase. • **Who formulates SPV:** SPV is formulated by private party (either a single company or consortium) who has emerged as successful bidder in PPP procurement Private party incorporates SPV (within 30 days of being issued with letter of award) which will sign PPP	SPV obligations are often specified in PPP Agreement between CA and SPV depending on the nature of PPP modality (i.e DBFOMT, BOOT, O&M etc). However, in most greenfield project the following are typical obligations • To finalize the design of the infrastructure, construct or develop the infrastructure asset (including obtaining all permits necessary if obliged to do so); • To finance the works and other	SPV is responsible for securing finance required for construction and operating facilities. SPV financing involves a mix of equity and debt financing. Equity financing is provided SPV shareholders (private part or consortia) and debt financing is raised from local and international lenders. Project finance or corporate finance approaches can be used to raise funds from lenders	• **SPV and Contracting Authority (CA**): As per PPP Regulations, PPP Agreement is signed between CA and SPV. CA is responsible for supervising PPP Agreement to ensure SPV adheres to agreed terms. CA is thus responsible for M&E of project implementation. SPV provides regular implementation reports to CA, it also pays concession fees and other payments to CA as per PPP Agreement. In case CA is part owner of SPV, then CA is among SPV shareholders and responsible for contributing in equity financing and	SPV management will be appointed by Board of Directors hence responsible to BoD. Members of the management team will be sourced from the labour market but in some cases from SPV shareholders companies. The duration of SPV in the PPP projects is finite and it

Financing Approach	SPV Formulation	SPV Obligations	Capitalization or financing	Stakeholders' relationships	Management and tenure
	agreement with CA. Private party will be SPV shareholders (in case of consortium each member must have at least 10% ownership in SPV with lead consortium member owing at least 26% of SPV shares. In some cases, CA may take part ownership in SPV. • **Governance and leadership:** SPV SPV owners constitute Board of Directors (BoD) which acts as governing body for SPV. BoD appoints SPV management which is responsible for day-to-day management of SPV.	development costs; and • To operate and maintain the asset/facilities (after commissioning the asset and obtaining approvals and authorizations).		participates in providing strategic leadership (part of BoD) and SPV is responsible for providing returns (in terms of dividend) to SPV. • **SPV and financiers**: SPV signs financing agreement with lenders, SPV is responsible to ensure project generate sufficient returns to guarantee debt servicing. In some case lenders may have step in rights (take over management of SPV) if SPV performance isn't satisfactory.	depends on the duration of the PPP contract. thus, after the handover of the project the SPV wound up unless PPP contract is renewed
SPV in PI project implemented by Public Institutions and Statutory Corporations (PISC) and Local Government Authorities (LGAs)					
PISC/LGAs' own sources SPV are not used in all projects financed by	• **Formulation Stage**: SPV is formulated during implementations stage, specifically once construction of facility is completed. PISC/LGA is	• Operation and maintenance of infrastructure facility developed. It is responsible for day-to-day operations to	PISC/LGAs finances capital expenditures for construction of infrastructure/facility as well as initial	**PISC/LGAs and SPV**: PISC/LGAs are SPV shareholders hence responsible for appointing BoD who in turn appoints management.	Management is appointed by BoD and often sourced from the labour market.

Financing Approach	SPV Formulation	SPV Obligations	Capitalization or financing	Stakeholders' relationships	Management and tenure
PISCL/GAs own sources. Often used as an alternative project governance and management structure to instil efficiency in management of operations and in some cases, to reduce political interferences	involved in project preparation and implementation until completion of construction, while SPV is formulated to manage operations. • **Who formulates SPV?** SPV is formulated by PISC/LGAs who becomes its shareholders. In cases where part of funding has been provided through central government transfers, OTR can be part of the shareholders. SPV can be wholly owned by PISC/LGAs or jointly owned by PISC/LGA and other public or private entities. • **Governance and leadership: PISC/**LGAS are often shareholders of SPV hence they are responsible for appointing BoD who in turns appoints	ensure facility operates according to plan and goods or services that were intended to be produced or delivered accordingly; and • Operates facility efficiently and effectively to ensure business generates returns to its shareholders (LGAs)	operating working capital for SPV operations from its own sources. Subsequent working capital for SPV operations are expected to be financed by revenues generated by SPV operations .		SPV is operated on a going concern basis hence tits tenure is assumed to be infinite.

Financing Approach	SPV Formulation	SPV Obligations	Capitalization or financing	Stakeholders' relationships	Management and tenure
	and supervise SPV management which is responsible for day-to-day management of SPV.				
PISC/LGAs Direct borrowing SPV are not used in all projects financed through PISC/LGAs direct borrowing from local lenders. It is often used in cases formulation of SPV is condition precedent (CP) to disbursement of funds or in cases lenders also take part as project equity investors hence the need to formulate a	• **Formulation Stage**: SPV is formulated during budgeting and financing often as a CP that funds will be made available once SPV has been formulated and/or competent management team appointed. • **Who formulates SPV?** SPV is formulated by PISC/LGAs who becomes its shareholder. In some cases, lenders may also be minority shareholders of SPV to ensure their interests are protected and SPV is operated in a manner that guarantees returns to services the debt accordingly and pay dividends to shareholders. In cases lenders also take part in project ownership,	• Manage construction of infrastructure/facility (in cases lender's terms prescribes so); and • Operation and maintenance of infrastructure facility developed. To ensure project's operations generates sufficient returns to repay the loan to lenders and dividend to shareholders.	Equity investment by PISC/LGAs (bridge finance) and debt finance from Local lenders (commercial banks, development banks, pension funds etc)	**PISC/LGAs and SPV**: PISC/LGAs are shareholders hence they contribute equity investment and secure debt finance for construction and operations. PISC/LGAs supervises construction of facility and hand it over to SPV once completed. They also they appoint BoD. SPV manages the project on behalf of PISC/LGAs and through its management and BoD they report to PISC/LGAs **Lenders and SPV**: Lenders provide debt finance for capital expenditure and initial operating expenditure. SPV services the debt	Management is appointed by BoD and often sourced from the labour market. SPV is operated on a going concern basis hence tits tenure is assumed to be infinite. In some cases, once the loan is fully repaid, SPV may be wound up and project's assets and operations returned to PISC/LGA.

Financing Approach	SPV Formulation	SPV Obligations	Capitalization or financing	Stakeholders' relationships	Management and tenure
separate project company.	they also participate in SPV formulation. • **Governance and leadership:** PISC**/**LGAs are often shareholders of SPV hence they are responsible for appointing BoD who in turns appoints and supervise SPV management. SPV management reports to BoD. There are cases in which financial agreements grants lenders step in rights i.e lender's right to step and take over SPV management if SPV is performing poorly hence unable appropriately service its debts.			issued accordingly. In cases lenders are part owners of SPV, lenders also appoint BoD member(s)	
Municipal bonds: This applies only to LGAs who can issue Municipal bonds. SPV is formulated to act	• **Formulation Stage**: SPV is formulated during budgeting and financing. SPV is formulated to supervise and manage bond issuance and use funds raised from	• Supervise and manage bond issuance including: (i) Preparation of necessary documents needed for bond issuance	Project is financed through funds raised from bond sale thus investors who purchased the bond (retail investors,	**LGAs and SPV**: LGAs are SPV shareholders hence they appoint BoD who appoints SPV management. SPV raise funds on LGAs behalf by managing bond issuance	Management is appointed by BoD and often sourced from the labour market. SPV is

Financing Approach	SPV Formulation	SPV Obligations	Capitalization or financing	Stakeholders' relationships	Management and tenure
as bond issuer and manager. Revenue municipal bonds (rather than general obligation bonds) are used. Revenue bonds re project-specific bond issued to finance one or a portfolio of bankable revenue-generating infrastructure projects	municipal bond sale to finance project construction and operation and maintenance. • **Who formulates SPV?** SPV is established and owned by the LGA.Using the Companies Act, Cap. 212, the LGA establishes SPV to act as the issuer (the borrower) that sells bonds to investors. • **Governance and leadership:** LGAs are often shareholders of SPV hence they are responsible for appointing BoD who in turns appoints and supervise SPV management. SPV ringfence project revenue from being used to fund non-project activities. SPV management reports to BoD and LGA's representative will report	approval (Prospectus and Project information Memorandum); (ii) secur9g necessary regulatory approval from LGAs full council, PO-RALG, MoFP, CMSA and DSE; (iii) organizing investors road show and coordinating initial public offering (IPO) of bond sale • Manage construction of the infrastructure/facility using funds raised from bond issuance • Operation and maintenance of the facility • Payment of interest and principal (upon maturity) to bondholders	institutional investors, financial institutions etc) are the financiers.	although LGAs facilitate SPV is securing necessary regulatory approvals. SPV management reports to BoD and LGA's representatives in the BoD will report on the performance of the project to the LGA. **Bondholders and SPV**: SPV pays bondholders interest as per stated terms of bond sale as well as repayment of principal upon bond maturity.	operated on a going concern basis hence tits tenure is assumed to be infinite. However, upon maturity of municipal bonds and full repayment of interest and principal to all bondholders, SPV may be wound up and project's operations returned to LGA.

Financing Approach	SPV Formulation	SPV Obligations	Capitalization or financing	Stakeholders' relationships	Management and tenure
	on the performance of the project to the council. SPV governance shall conform with Guidelines on Corporate Governance Practices by Public Listed Companies in Tanzania issued by the CMSA.				