

Diploma in Financial Management & Accountability

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Course Material



Book Keeping & Accounting
Paper - IV
Unit -3
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UNIT 3

TOOLS FOR PLANNING

The activity of planning means to actively prepare the organization for the future. Planning takes into account expected changes in the environment and the opinions of people at various levels in the organization or the community. The planning process enables the following:

- define strategies that will flow out of internal discussions and contributions from external sources;
- orient the entity in a specific direction that will lead to success;
- engage in a process of reflection that goes beyond daily activities;
- welcome changes by adapting effectively to them.

The following are the common tools used in the planning process:

1. SWOT Analysis
2. PEST Analysis
3. GAP Analysis
4. Stakeholder Analysis
5. Futuring
6. Cost Benefit Analysis
7. Log Frame Analysis

3.1. SWOT Analysis

SWOT Analysis is a method used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project or venture. It involves specifying the objective of the venture or project and identifying the internal and external factors that are favourable and unfavourable to achieving that objective. SWOT stands for:

S	=	Strengths
W	=	Weaknesses

O = Opportunities
T = Threats

SWOT analysis helps to identify the internal strengths and weaknesses of an organization or project, and the external opportunities and threats the organization or project face. Strengths and weaknesses are factors that are internal to the organization and can be addressed within the organization. Opportunities and threats are external to the organization and provide challenges to the organization.

The process can be done for the organization, departments, projects and units. The best time to use a SWOT Analysis is after one has reviewed progress and after some sort of environmental scan has been done. After the identification of the strengths, weakness, threat, opportunities has been done, it should be transferred to the format given below for ensuring a meaningful analysis. In the grid below are some questions that an organisation needs to review while doing a SWOT analysis.

Strengths	Weaknesses
<ul style="list-style-type: none"> • Advantages of proposition? • Capabilities? • USP's (unique selling points)? • Resources, Assets, People? • Experience, knowledge, data? • Financial reserves, likely returns? • Marketing - reach, distribution, awareness? • Innovative aspects? • Location and geographical? • Accreditations, qualifications, certifications? • Processes, systems, IT, communications? • Cultural, attitudinal, behavioural? 	<ul style="list-style-type: none"> • Disadvantages of proposition? • Gaps in capabilities? • Lack of competitive strength? • Reputation, presence and reach? • Financials? • Own known vulnerabilities? • Timescales, deadlines and pressures? • Cashflow, start-up cash-drain? • Continuity, supply chain robustness? • Effects on core activities, distraction? • Reliability of data, plan predictability?

<ul style="list-style-type: none"> • Management cover, succession? 	<ul style="list-style-type: none"> • Morale, commitment, leadership? • Accreditations, etc? • Processes and systems, etc? • Management cover, succession
Opportunities	Threats
<ul style="list-style-type: none"> • Market developments? • Competitors' vulnerabilities? • Industry or lifestyle trends? • Technology development and innovation? • Global influences? • New markets, vertical, horizontal? • Niche target markets? • Geographical, export, import? • New USP's? • Information and research? • Partnerships, agencies, distribution? • Seasonal, weather, influences? 	<ul style="list-style-type: none"> • Political effects? • Legislative effects? • Environmental effects? • IT developments? • Competitor intentions - various? • Market demand? • New technologies, services, ideas? • Vital contracts and partners? • Sustaining internal capabilities? • Obstacles faced? • Insurmountable weaknesses? • Loss of key staff? • Sustainable financial backing? • Economy - home, abroad? • Seasonality, weather effects?

Management experts discovered that while one could not change the values of the team nor set the objectives for the team, one could as the first step by asking the appraisal question ie what's good and bad about the project, what is good and bad about the present and the future. What is good in the present is Satisfactory, good in the future is an Opportunity; bad in the present is a Fault and bad in the future is a Threat.

By sorting and identifying the SWOT issues one can obtain a system which presents a practical way of assimilating the internal and external information about the business unit, delineating short and long term priorities, and allowing an easy way to build the team which can achieve the final objectives. This approach captures the collective

agreement and commitment of those who will ultimately have to do the work of meeting or exceeding the objectives finally set. It permits the team leader to define and develop co-ordinated, goal-directed actions, which underpin the overall agreed objectives between different hierarchy levels of the organization.

The following are examples of strengths, weaknesses, opportunities and threats that may be taken into account while drawing up the organization's plans:

Strengths	Weaknesses
<ul style="list-style-type: none"> • Spare capacity. • Some staff have experience of end-user sector. • Have comprehensive database and lists. • Quality ongoing research • Good location advantage • Can serve from existing sites. • Have required accreditations. • Quality Processes and IT • Management is committed and confident. 	<ul style="list-style-type: none"> • Data not tested. • Some gaps in range for certain sectors. • Problem of size -small player. • No direct experience. • We cannot supply end-users abroad. • Need more quality personnel. • Limited budget. • No pilot or trial done yet. • Don't have a detailed plan yet. • Field-staff need training. • Processes and systems, etc • Management cover insufficient.
Opportunities	Threats
<ul style="list-style-type: none"> • Could develop new innovations & methods. • Local competitors have poor outreach. • Funding Partners interested • End-users respond to new ideas. • Could extend to overseas. • New specialist applications. 	<ul style="list-style-type: none"> • Legislation could impact. • Environmental effects would not be favourable. • Existing core funding spread to other agency. • Seasonal factor • Retention of key staff critical. • Possible negative publicity. • Vulnerable to reactive attack by press

3.2. PEST ANALYSIS

PEST is an acronym for Political, Economic, Social & Technological factors, which are used to assess the external factors relating to the organisation. The best time to use a PEST Analysis is probably before a SWOT Analysis is done.

PEST Analysis is quite useful to scan the external environment for forces and trends that may be opportunities or threats for the project or organisation. It helps the project / organisation to understand its context. The PEST analysis is a useful tool for understanding the growth or decline, and as such the position, potential and direction an organisation is heading for. A PEST analysis is a management planning measurement tool.

The following is a template of factors that could be considered for review in a PEST analysis.

Political	Economic
<ul style="list-style-type: none"> • Ecological/environmental issues • current legislation home market • future legislation • international legislation • regulatory bodies and processes • government policies • government term and change • trading policies • funding, grants and initiatives • Other projects • lobbying/pressure groups 	<ul style="list-style-type: none"> • home economy situation • home economy trends • overseas economies and trends • general taxation issues • seasonality/weather issues • market and trade cycles • specific industry factors • market routes and distribution trends • End-user drivers

<ul style="list-style-type: none"> • international pressure groups • wars and conflict 	<ul style="list-style-type: none"> • interest and exchange rates • international trade/monetary issues.
Social	Technological
<ul style="list-style-type: none"> • lifestyle trends • demographics • Donor attitudes and opinions • media views • law changes affecting social factors • Image & Reputation • major events and influences • ethnic/religious factors • advertising and publicity • ethical issues 	<ul style="list-style-type: none"> • competing technology development • research funding • associated/dependent technologies • replacement technology/solutions • maturity of technology • manufacturing maturity and capacity • information and communications • consumer buying mechanisms/technology • technology legislation • innovation potential • technology access, licencing, patents • intellectual property issues • global communications

3.3. GAP ANALYSIS

The GAP Analysis helps to identify the gaps that need to be addressed between where the organization is now and where it aims to be in the future. It is a good technique to use after a vision and mission statement has been done, an organizational diagnosis, and an environmental scan, and programme planning. It is a good introduction to planning the internal changes needed to meet targets and goals. It is important to know where you are, and where you want to be.

GAP analysis cannot be done in isolation. It is a basic tool and helps in the initial stages of the planning exercise. It gives management a telescopic view of the situation and helps in channelising thoughts and action towards narrowing the GAP as determined by the analysis. Gap analysis is a resource assessment tool enabling an organisation to compare its actual performance with its potential performance. At its core are two questions:

Where are we?

Where do we want to be?

If resources or technology are being underutilised, then it may be performing at a level below its potential.

This goal of the gap analysis is to identify the gap between the optimised allocation and integration of the inputs, and the current level of allocation. This helps provide an insight into areas which could be improved.

The gap analysis process involves determining, documenting and approving the variance between requirements and current capabilities. Gap analysis naturally flows from benchmarking and other assessments. Once the general expectation of performance is understood, it is possible to compare that expectation with the level of performance at which it currently functions. This comparison becomes the gap analysis. Such analysis can be performed at the strategic or operational level of an organization.

Gap analysis provides a foundation for measuring investment of time, money and human resources required to achieve a particular outcome (e.g. to turn the salary payment process from paper-based to paperless with the use of a system).

If the gap analysis does not show any discrepancies between what is and what needs to be done then there is shortcoming with the planning team. Gap analysis shows how large the gap is, and how far we must leap to cross it. It tells us about the resources available to deal with the gap.

Gap analysis involves careful decision-making. If gaps cannot be bridged, then the planning team must go back to the planning stage and revise the plan. Perhaps future vision must be re visited or expectations moved to areas that more closely oriented to achievable outcomes.

There are two ways to reduce the gap:

- to modify or reduce the goal or objective.
- to modify and reduce the obstacles that are responsible for the gap.

How to Close the Gap :

- Internal expansion
- New line of services (LOB)
- Acquisition and mergers
- Strategic Alliance
- Planning Tactics such as

1. Lengthen the time frame for accomplishing the objectives.
2. Reduce the size or scope of the objectives.
3. Reallocate resources to achieve goals.
4. Obtain new resources (last, not first on the list).

The following grid helps in GAP analysis:

Gaps

Project:	
Where we are	Where we want to be
How we will get there	
Discussion Points	

3.4. STAKEHOLDER ANALYSIS

A stakeholder is anyone or any group or any institution or structure that has any kind of stake in the organization or project. These may include government agencies, private land owners and developers, community and other interest groups, non-government organizations, and citizens. For an organization or project to run successfully, the interests of all groups of persons directly or indirectly concerned with the organization need to be addressed. Hence it is important for the stakeholders to be identified and that it be ensured that all concerned are involved in the planning process.

The steps of Stakeholder Analysis are explained below:

- **Identifying Stakeholders:** Hence one of the initial steps in the planning process is to identify the stakeholders. An exercise of further identifying their key interests, expectations and their potential contribution is charted out. The following grid is helpful in developing the data of stakeholders so that a meaningful analysis is arrived at.

	Interests	Expectations	Potential
Stakeholder	What is their interest in the organization?	What do they expect from their relationship with the organization?	What contribution could they make to the organization?
1. Funding Agency 2. Government 3. NGO 4. Public 5. Primary Beneficiaries			

The list of stakeholders will depend on the project, conflict, or issues to be addressed. It should be as inclusive as possible, and stakeholders can be added as time goes on. It is important to begin stakeholder involvement early in the process before interests become entrenched. However, the adage "better late than never" holds true here. While more difficult than starting early, in many cases stakeholder collaboration at a later stage of a process has helped resolve conflict.

The table below shows some of the people who might be stakeholders in your job or in your projects:

Your boss	Shareholders	Government
Senior executives	Alliance partners	Trades associations
Your co-workers	Suppliers	The press
Your team	Lenders	Interest groups
Customers	Analysts	The public
Prospective customers	Future recruits	The community
Your family		

- **Prioritize Your Stakeholders:** You may now have a long list of people and organizations that are affected by your work. Some of these may have the power either to block or advance it. Some may be interested in what you are doing, others may not care.

Map out your stakeholders on a Power / Interest Grid as shown in the figure below, and classify them by their power over your work and by their interest in your work.

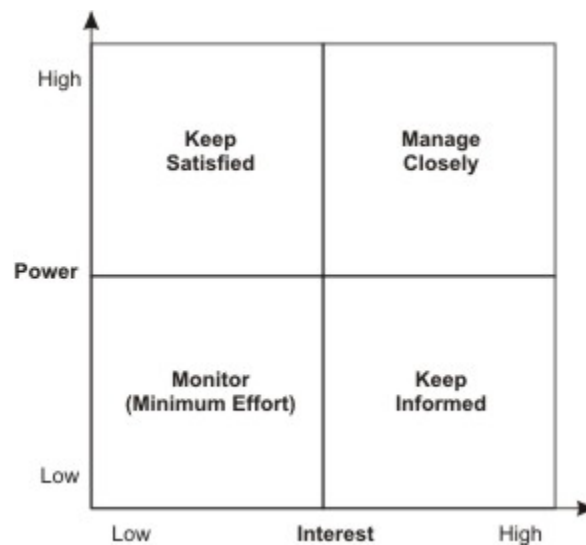


Figure 1: Power/Interest Grid for Stakeholder Prioritization

For example, your boss is likely to have high power and influence over your projects and high interest. Your family may have high interest, but are unlikely to have power over it.

Someone's position on the grid shows you the actions you have to take with them:

- **High power, interested people:** these are the people you must fully engage with, and make the greatest efforts to satisfy.

- **High power, less interested people:** put enough work in with these people to keep them satisfied, but not so much that they become bored with your message.
 - **Low power, interested people:** keep these people adequately informed, and talk to them to ensure that no major issues are arising. These people can often be very helpful with the detail of your project.
 - **Low power, less interested people:** again, monitor these people, but do not bore them with excessive communication.
- **Understanding the key stakeholders:** You now need to know more about your key stakeholders. You need to know how they are likely to feel about and react to your project. You also need to know how best to engage them in your project and how best to communicate with them.

Key questions that can help you understand your stakeholders are:

- What financial or emotional interest do they have in the outcome of your work? Is it positive or negative?
- What motivates them most of all?
- What information do they want from you?
- How do they want to receive information from you? What is the best way of communicating your message to them?
- What is their current opinion of your work? Is it based on good information?
- Who influences their opinions generally, and who influences their opinion of you? Do some of these influencers therefore become important stakeholders in their own right?
- If they are not likely to be positive, what will win them around to support your project?
- If you don't think you will be able to win them around, how will you manage their opposition?
- Who else might be influenced by their opinions? Do these people become stakeholders in their own right?

A very good way of answering these questions is to talk to your stakeholders directly - people are often quite open about their views, and asking people's opinions is often the first step in building a successful relationship with them.

You can summarize the understanding you have gained on the stakeholder map, so that you can easily see which stakeholders are expected to be blockers or critics, and which stakeholders are likely to be advocates and supporters of your project. A good way of doing this is by color coding: showing advocates and supporters in green, blockers and critics in red, and others who are neutral in orange.

- **Managing Stakeholder Participation:** Finally, work out what is to be done to win and manage the support of all the identified stakeholders. With the time and resource available, the process needs to identify primarily how the communication to and the input from the stakeholders will be managed. Focusing on the high-power/high-interest stakeholders first and the low-interest/low-power stakeholders last, devise a practical plan that communicates with people as effectively as possible and that communicates the right amount of information in a way that neither under nor over-communicates.

Think through what you need to do to keep your best supporters engaged and on-board. Work out how to win over or neutralize the opposition of skeptics. Where you need the active support of people who are not currently interested in what you are doing, think about how you can engage them and raise their level of interest.

Also, consider how what you are doing will affect your stakeholders. Where appropriate, let people know as early as possible of any difficult issues that may arise, and discuss with them how you can minimize or manage any impact.

Stakeholder involvement and collaborative decision making represent a high level of participation and a goal for a wide range of public involvement programs. However, it is not easy, and must be complemented in many cases

with conflict resolution. To achieve effective collaboration, a number of conditions or prerequisites are needed, including:

- Time to participate, to build trust, to learn, to resolve disputes, to create solutions
- Commitment of participants
- Willingness to learn among participants
- Shared authority and responsibility to affect and implement decisions

Conversely, the lack of any of these conditions serves as a barrier to collaboration. Misinformation, insufficient time, lack of commitment and responsibility, entrenched positions, or uneven authority can undermine the collaborative process. In addition, if litigation or legal precedent is a goal of certain stakeholders, collaboration clearly will not work.

Good Stakeholder Management helps you to manage the politics that can often come with major projects. It helps you win support for your projects and eliminates a major source of project and work stress.

Benefits of Good Stakeholder Participation

The benefits of using a stakeholder-based approach are that:

- One can use the opinions of the most powerful stakeholders to shape the projects at an early stage. Not only does this make it more likely that they will support, but that their input can also improve the quality of your project.
- Gaining support from powerful stakeholders can help win more resources - this makes it more likely that the projects will be successful.
- By communicating with stakeholders early and often, it can be ensured that they know what is being done and fully understand the benefits of the project

3.5.FUTURING:

"The difficulty in times of turbulence is not the turbulence, but to respond with yesterday's logic." -- Peter Drucker.

Futuring is an anticipatory decision-making process that leads to planning and program development (Sobrero, 2004).

This tool of planning looks ahead for a period of 10, 20, or even 30 years. Futuring prepares for what one will face in the future. It makes one think both long terms and short term. It helps prepare for any likely eventuality. It helps anticipate the future requirements.

Futuring involves the following steps :

Step1 - Scan & monitor the environment

Step 2 - Develop & analyse both internal & external assumptions

Step 3 - Create scenarios around emerging issue areas

Step 4 - Develop a forecast for each scenario

Step 5- Use results of above 5 steps to write a report

Step 6 - Assign the reports to the person who will be the best (Change Champion) to notice the indicators and signals of emerging change.

Step 7- Assign teams the annual responsibility of continual futuring, to inform planning, direction, funding, staffing, partnerships & programs.

Futuring, based on a data driven intelligence system, is key to remaining relevant and viable. Effective futuring will lead to:

- Higher quality decision-making.
- Shifting from reactive to proactive modes to anticipate change.
- More effective and timely framing, valuing and ranking of program priorities.

- Positioning current and future assets to address emerging issues.

3.6.COST BENEFIT ANALYSIS AS APPLICABLE TO DEVELOPMENT SECTOR:

Cost benefit analysis (CBA) is a technique for assessing the monetary social costs and benefits of a project over a given time period. It is an economic technique for project appraisal, widely used across all sectors, government, business & non profit sectors. It incorporates externalities into the equation. It can, if required, include wider social/environmental impacts as well as 'private' economic costs and benefits so that externalities are incorporated into the decision process. In this way, CBA can be used to estimate the social welfare effects of an investment. CBA can take account of the economics of time - known as discounting. This is important when looking at environmental impacts of a project in the years ahead

CBA has traditionally been applied to big public sector projects such as new motorways, by-passes, dams, tunnels, bridges, flood relief schemes and new power stations. Refer example later which considers some of the social costs and benefits of the new Terminal at a leading airport. The basic principles of CBA can be applied to many other projects or programmes. For example, - public health programmes (e.g. the mass immunization of children using new drugs), an investment in a new rail safety systems, or opening a new railway line. Another example might be to use CBA in assessing the costs and benefits of introducing congestion charges for motorists in a city or the costs and benefits of a social development programme designed to reduce long-term unemployment. Cost benefit analysis has also been used during recent times in inquiry into genetically modified foods. Increasingly the principles of cost benefit analysis are being used to evaluate the returns from investment in environmental projects such as wind farms and the development of other sources of renewable energy etc.

Since financial resources are scarce, CBA allows different projects to be ranked according to those that provide the highest expected net gains in social welfare - this is particularly important given the limitations of government spending.

3.6.1. The Main Stages in the Cost Benefit Analysis Approach

At the heart of any investment appraisal decision in development is this basic question - does a planned project lead to a net increase in social welfare?

Stage 1 (A)

Calculation of social costs & social benefits: This would include calculation of:

- Tangible Benefits and Costs (i.e. direct costs and benefits)
- Intangible Benefits and Costs (i.e. indirect costs and benefits - externalities)

This process is very important - it involves trying to identify all of the significant costs & benefits.

Stage 1(B) -

Sensitivity analysis of events occurring: this relates to an important question - If you estimate that a possible benefit (or cost) is Rs.x crores, how likely is that outcome? If you are reasonably sure that a benefit or cost will 'occur' - what is the scale of uncertainty about the actual values of the costs and benefits?

Stage 2:

Discounting the future value of benefits - costs and benefits accrue over time. Individuals normally prefer to enjoy the benefits now rather than later - so the value of future benefits has to be discounted. This involves the computation of the net present value by using the appropriate discounting factor.

Stage 3:

Comparing the costs and benefits to determine the net social rate of return

Stage 4:

Comparing net rate of return from different projects - the government may have limited funds at its disposal and therefore faces a choice about which projects should be given the go-ahead

Case Study:**Cost benefit analysis in practice - Busy Airport Terminal**

The debate over whether there should be a new terminal at Busy airport was fiery and hostile! The enquiry committee reported after a gap of several years and having cost crores of rupees. The rival arguments at the inquiry highlighted many examples of environmental impact (externalities) - noise, air quality, rivers etc. - but concluded that these were not enough to refuse planning permission and that the new terminal project should go ahead.

Arguments Favouring the Airport Terminal:

Economic growth: Demand for air travel in the country is forecast to alarming growth in the next 20 years, making expansion vital - many thousands of jobs and businesses depend on the airport expanding to provide sufficient supply capacity to meet this growing demand. An increase in the capacity will make best use of airport's existing infrastructure and land (nearly 3,000 acres).

The economy and trade: The country will lose airlines and foreign investment to rivals if it does not meet demand. The benefits of a world-beating industry would be diminished - many sectors of our aviation industry have a comparative advantage and add huge sums to our balance of payments

Jobs: The terminal 5 project will create or safeguard an estimated 16,500 jobs, as well as creating 6,000 construction jobs during the building phase - this will have multiplier effects on the local / regional and national economy.

Transport: The terminal will be the centre of a world-class transport interchange, with new Tube and rail links. Car traffic would rise only slightly - the social costs of increased traffic congestion have been exaggerated by the environmentalists

Environment: The site earmarked for the new terminal is currently a disused sludge works, and any displaced wildlife and plant life will be carefully relocated. The noise climate around the Airport has been improving for many

years, even though the number of aircraft movements has increased considerably - partly due to the phasing out of older, noisier aircraft

Noise and night flights: The airport authorities promised no increase in overall noise levels or in night flying. The number of flights would rise only 8%

Objections to new Terminal

Growth: Airport Authority forecasts are misleading and will lead to uncontrolled expansion, rather than targeting better solutions such as using existing space at other airports.

The Economy: The airport already has the biggest capacity in the asia, and ambitions to extend its lead are merely "commercial prestige" rather than having long term macroeconomic benefits

Jobs: Only 6,000 jobs will be created - a tiny fraction of all the new jobs on a macro basis.. Some studies say jobs will increase anyway even without a new terminal

Transport: There will be a significant increase in road-widening and car parks to cater for the tens of thousands of extra car journeys to the airport every year

Environment: Air pollution will increase significantly, and hundreds of acres of wildlife and Green Belt land will be lost forever. Plus the environmental costs of increased traffic congestion.

Noise and Night Flights: More flights will mean more noise under the flight paths, and the pressure for controversial night flights and a third runway will increase - the regulators will be captured by the airlines and airport authorities and will eventually be pressurized into giving way on allowing more night time flights

Case study - A National Smoking Ban (An Example)

The cost benefit analysis with respect to a ban on smoking in public places would benefit the economy by between Rs. 420 cr to Rs.920 cr in a year. The CBA argued that a ban on smoking in restaurants and cafes would not reduce profits in the leisure, catering and hospitality industry. However critics of the new study responded by saying that the assumptions behind the economic model, remained unpublished.

Annual Benefits	Rs. Cr
Health benefits (reduced absenteeism)	70 - 140
Health benefits (reduced costs of healthcare)	4
Health benefits (averted deaths from second-hand smoke amongst employees)	21
Health benefits (reduced uptake, particularly new young employees)	550
Health benefits (smoking cessation)	1600
Safety benefits (damage, deaths, injuries)	57
Safety benefits (cost to fire services)	0.2
Safety benefits (administration costs)	6.3
Cleaning costs and damage to equipment avoided	100
Production gains	340 - 680
Total	2700 - 3100
Annual Costs	Rs. Cr.
Production losses (smoking breaks)	430
Losses to continuing smokers (loss of satisfaction)	155
Losses to quitters (loss of satisfaction)	550
Losses in Taxes	1145
Total	2280

To recap, cost benefit analysis is basically an appraisal technique that tries to place monetary values on all benefits arising from a project and then compares the total value with the project's total cost. It has numerous potential applications although

there are inherent difficulties with the issue of valuation. Essentially the process of CBA is a comparative one, so that we can perhaps make judgments about which projects from a limited choice should be given the go ahead.

As we have already studied, around the globe there are many different programmes and interventions which have been developed to improve conditions in the local, regional or national context. There are innumerable Non Governmental Organizations (NGOs), Voluntary Organizations (VOs) and Not for Profit Organizations (NPOs) with a social mission. These organizations receive a lot of funds and grants from national, international as well as government agencies so that they can contribute meaningfully to the development process. NGOs are the agents through which these funding bodies try and ensure that resources reach those people or the community for whom they are intended. It becomes extremely important to measure the impact of the initiatives that are taken up by these bodies to be able to ensure whether the funds are being used appropriately and are generating benefits commensurate to the costs that are being incurred. There is a need to distinguish programmes and interventions that make a difference from those that don't and evaluation and impact assessment are powerful strategies for doing that. Since the initiatives taken up by NGOs more often than not have more social benefits than monetary benefits, it becomes imperative to account for not only monetary impacts of the programme or project, but to also take into account the social, qualitative impacts to be able to decide whether or not the initiative is effective.

Cost Benefit Analysis (CBA) is a tool that is used during the planning stage to either rank project or to choose the most appropriate alternative. The ranking and decision is based on expected economic costs and benefits. The thumb rule is that a project be chosen if its expected lifetime benefits exceed all its expected costs. The art of the analysis comes in the measurement of these impacts, their adjustment for market failure, and for the effects of time, income distribution, incomplete information and potentially irreversible consequences.

3.6.2. Difference between Financial CBA and Social CBA

Since we know that NGOs do not have a profit motive and work for social welfare of the society it becomes imperative for us to understand the difference between Financial Cost-benefit analysis and Social Cost-benefit analysis.

The difference between the two types of CBA is important. For any given project, financial CBA looks at the costs and benefits to an individual stakeholder. Social CBA looks at the costs and benefits to society as a whole, trying to determine whether the project will make society better or worse off. A financial cost benefit analysis would take into account only the direct costs and benefits. It would consider the capital, financial and labour costs incurred as well as the expected costs of operations. On the benefit side it would consider the expected revenue stream and other benefits occurring directly to the individual stakeholder etc.

A Social CBA performed by the government would necessarily go further in order to consider the implications of the project on the whole of society. The prices of land, labour and capital would be corrected to address any implicit subsidies, distorting taxes or market imperfections. The exchange rate would be checked to ensure that over or under valuation was not generating a spuriously high or low net earnings flow. It would consider all stakeholders, looking not only at the direct costs incurred in the new hotel's construction and running, but also at the costs to the rest of society. This could include things like an estimation of the cost of environmental destruction, the effect of noise pollution, the impact on local communities etc. They would also have to consider a broader range of benefits (e.g. increased tax revenue, an increase in foreign exchange, a reduction in unemployment etc). A complete social CBA should also consider the needs of future generations and adjust the discount rate accordingly. The two types of CBA can therefore yield substantially different outcomes.

3.6.3. Cost Benefit Analysis and its relevance to the development

organization.

Around the globe there are many different programs and interventions which have been developed to improve conditions in the local, regional or national context. Communities come together to work towards a better society. But how do we know whether these programs are working? Whether or not they are effective? And how can an organization make an informed and intelligent choices or decisions pertaining to a decision whether or not to go ahead with a programme (in the planning stage) or whether a programme or initiative that has been taken up is worth it or not?

Man being a rational being will go ahead with anything if the likely output is greater than the input. In essence, everyone performs a cost benefit analysis before taking any decision. Similarly, a programme will be considered cost effective if the benefits are at least as great as the costs. The problem that exists with the development sector today is that there is no accountability. NGOs receive huge amount of funding from funding agencies or from corporations and are put into good use at least on paper. This money is used for implementing programmes and projects which reach out to the needy. Whether the large amounts of money that is being put in to implementing a programme has commensurate benefits and whether these initiatives are reaching the group they are targeted at, is something any NGO should ask itself. An initiative can devote a great deal of time and energy to working on meeting its goals, but if the initiative isn't headed in the right direction, all the hours and hard work that has been expended towards this can lead to frustration. Thus, there is a need to constantly evaluate a project at all stages- the beginning, the middle and the end. It is here that a cost benefit analysis comes handy.

Cost Benefit Analysis in the planning stage can serve as an extremely useful tool to help understand the potential range of impacts of a proposed initiative and the likely responses of those impacted if it is implemented. The projected costs and the potential benefits can be weighed against each other and it can then be decided whether or not to go ahead with the

programme or project. If the benefits are greater than the costs, then the planners should decide to go ahead with the initiative while if the costs outweigh the benefits, then the planners should not do so.

Although conventionally the cost benefit analysis serves as a tool in the planning stage, it can also be used in the evaluation of a project on completion or in progress. Here the difference would be that an attempt will be made to assess the actual impact of the initiative. It is important to determine not only the full range of impacts, such as changes to levels of income and employment, access to services, quality of life, but also the implications of each particular change. While economic impact assessment and social impact assessment are often undertaken separately and employ different methods, they are complementary and sometimes overlap. An integrated approach can provide a comprehensive and cost effective outcome providing information of potential economic impacts in the planning stage and actual economic impacts in the monitoring and evaluation stage along with the social value attached to the activity. The cost benefit analysis framework which is discussed here emphasizes the importance of both qualitative and quantitative data but at the same time also recognizes the difficulty in data collection which can comprehensively cover the relevant issues.

3.6.4. Advantages of Using CBA as a Planning Tool

Some of the key benefits of undertaking a CBA for a programme or project are discussed below.

- **CBA facilitates meaningful comparisons:** CBA aims to quantify the net benefits to the public of a project (expressed in terms of money value). This provides a common basis for comparison with any other proposal that has been similarly assessed. In principle the standardized framework means proposals from very different areas can be compared. However, there are often risks in basing a decision on the results of studies that do not share common objectives or a common framework of assumptions. Provided this common base is achieved, the method can be a very useful aid to decision-makers. For example, road

upgrading proposals can be compared with proposals to upgrade rail, or even to upgrade a hospital, despite major technological and institutional differences between the contexts.

- **CBA is conducive to good programme management:** The basic idea of CBA is that it reflects the value of a programme or project to the community. In the process, the value to key stakeholders will also be estimated. For example, in conducting an evaluation of a rehabilitation service, the value to the recipients of the service would be determined, whether in terms of long-term lifetime earnings, enhanced sense of personal well-being, or some other significant factor. CBA can contribute to good programme management because it is concerned with efficiency and is sensitive to the priorities of key stakeholders' needs.
- **CBA and distributional impact:** A key advantage of CBA is that it provides a quantitative measure of the net benefit of an investment, allowing direct comparisons between dissimilar projects. The cost-benefit process implicitly estimates the size of gains and losses for affected individuals and groups. This information is important in social sector decision-making and should be made explicit because it is important to identify those who stand to gain and lose from a programme or project.
- **CBA encourages clear thinking about the true 'value added':** A CBA provides an estimate of the worth of a proposal relative to an accompanying estimate of what would happen in the absence of the proposal. The difference between these values can be viewed as the 'value added' from adopting a proposal.

3.6.5. Evaluation: Criticisms of CBA

There are several objections to the use of CBA for environmental impact assessment:

- **Problems in attaching valuations to costs and benefits:** Some costs are easy to value such as the running costs (e.g. staff costs) + capital costs (new equipment). Other costs are more difficult - not least when a project has a

significant impact on the environment. The value attached to the destruction of a habitat is to some “priceless” and to others “worthless”.

- The CBA may not cover everyone affected (i.e. all third parties) - inevitably with major construction projects such as a new airport or a new road, there are a huge number of potential “stakeholders” who stand to be affected (positively or negatively) by the decision. CBA cannot hope to include all stakeholders - there is a risk that some groups might be left out of the decision process.
- Future generations - are they included in the analysis?
- What of “non-human” stakeholders?
- Distributional consequences: Costs and benefits mean different things to different income groups - benefits to the poor are usually worth more (or are they?). Those receiving benefits and those burdened with the costs of a project may not be the same. Are the losers to be compensated? To many economists, the equity issue is as important as the efficiency argument.
- Social welfare is not the same as individual welfare - What we want individually may not be what we want collectively. Do we attach a different value to those who feel “passionately” about something (for example the building of new housing on greenfield sites) contrasted with those who are more ambivalent?
- Valuing the environment: How are we to place a value on public goods such as the environment where there is no market established for the valuation of “property rights” over environmental resources? How does one value “nuisance” and “aesthetic values”?
- Valuing human life: Some measurements of benefits require the valuation of human life - many people are intrinsically opposed to any attempt to do this. This objection can be partly overcome if we focus instead on the probability

of a project “reducing the risk of death” - and there are insurance markets in existence which tell us something about how much people value their health and life when they take out insurance policies.

- Attitudes to risk - e.g. a cost benefit analysis of the effects of genetically modified foods.
- Discounting the future - Would you rather have Rs.1000 of income today or Rs. 1000 of income in the future (say in 3 years?).

The answer is probably now, because Rs.1000 in three years time is unlikely to buy as many goods and services as it does now (because of inflation). And also because Rs.1000 put into a savings account today will yield interest. Discounting is a widely used technique as part of cost benefit analysis.

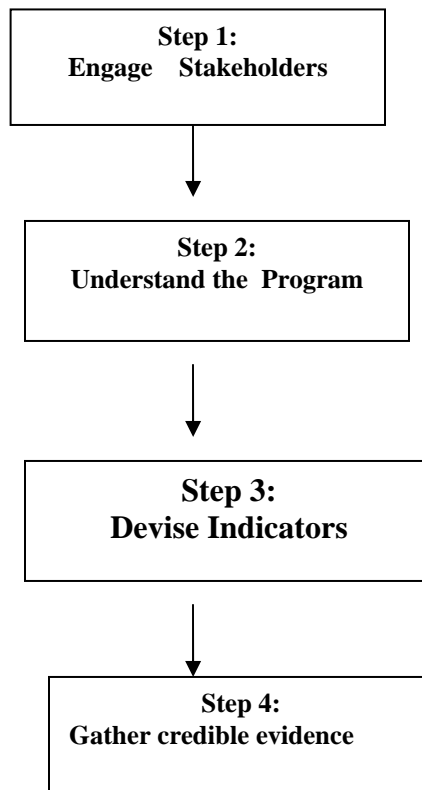
The technique of discounting reflects the following:

- The value of a cost or benefit now > the value of a cost or benefit in future years Discounting reflects this by reducing all future costs and benefits to express them as today's values.
- The key question is: How do you choose an 'interest rate' for reducing future costs to give them a present value today? Setting a general discount rate for new projects has important implications for the environment: A low discount rate is often favoured by economists since they argue that investing a high proportion of current income is a good way of providing for the future. A high discount rate may also be favoured since it discourages investment (and by implication environmental damage) in the present.
- Most projects have lifetimes of 20-30 years - with many of the big costs arising early in a project e.g. from construction whereas the stream of benefits from a project occur over a much longer period of time. But for many huge construction projects, some of the costs only become

apparent in the long run. Consider the building of a new nuclear power station. Environmentalists would argue that there is a long list of costs from waste management and decommissioning which stretch over 100 years into the future whereas no social benefits exist to offset these costs beyond year 30 or 40 (where the nuclear power station might reasonably be expected to be ready for closure). The value of decommissioning costs over 100 years away is almost negligible no matter what discount rate we use. This makes discounting difficult to justify

3.6.5. The Framework-An Overview

Before embarking on the cost benefit analysis, we need to understand the project and its context in the light of the opinions of the different stakeholders. To evaluate a programme and understand and thereby assess its costs and impacts require the following steps.



3.6.6. Steps involved in Estimating the Costs and Benefits

Step 1- Engage Stakeholders

Stakeholders are those who are directly or indirectly have an interest in the project. They are either influenced by the project or they exert an influence over the project. They can either be for or against a project. From the point of view of CBA, broadly, stakeholders can be divided into four groups-

1. Target group
2. NGOs
3. Funding Agencies
4. Government

Any serious effort to evaluate a programme must consider the different values held by the various stakeholders and their priorities. Stakeholders must be a part of the evaluation to ensure that unique perspectives are understood. It is according to the expectations and needs of different stakeholders that different indicators will be decided.

Step 2-Describe and Understand the Programme

Here, with the help of stakeholders, we will try and understand the intervention for which the impact assessment and hence the cost benefit analysis will be performed. Here, the evaluator will try and understand the nature of the problem, the goals and objectives of the initiative, the different activities, resources, the stage in which the project is and how the project is able to fit in the environmental context. The way the project is described will help in formulating different indicators for assessing the benefits and the impact of the programme.

Step 3 - Understanding the Project and the Programme

The evaluator should try and understand what the programme is trying to achieve and what it is doing towards achieving this. That is, the evaluator should be clear about the objective of the programme and the different activities that would require to be carried out in order to achieve this goal. The evaluator should be clear about the following aspects of the programme before moving on to devising the indicators. These aspects are as follows:

- The evaluator should be able to understand the nature of the problem and who it affects.
- The evaluator should be able to understand the aim or goal of the initiative or programme.
- The activities need to be identified and accordingly implemented to bring about the desired change. The desired outcome of each activity will also be listed.
- The resources that will be required to carry out the various activities e.g. time, equipment, human resources, equipment, financial resources, etc.
- The desired outcomes of every activity should be listed along with the respective activity.

The various aspects of the programme may be listed out in the following activity grid as follows in order to get an idea of the initiative.

OBJECTIVE		
ACTIVITY	DESIRED OUTCOME	REQUIRED INPUTS
Activity 1	1.1 Desired outcome 1	# Input 1
	1.2 Desired outcome 2	# Input 2
	1.3 Desired outcome 3	# Input 3
Activity 2	1.1 Desired outcome 1	# Input 1
	1.2 Desired outcome 2	# Input 2

	1.3 Desired outcome 3	# Input 3
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Step 4 - Estimating the Costs

From this analysis, we shall be able to estimate the various costs - financial and non financial that will be incurred for each activity. The costs can be classified as non-recurring and recurring costs depending on whether these are one time costs for the project or will be incurred again. In the context of a project, there will be several non recurring costs (sunk costs) while in the context of a programme, there will be few or none sunk costs. Most of the costs will be borne over the activity period.

Non Recurring: Costs

1. **Building and Site:** This would include the cost of setting up a new office or a centre for operationalizing the programme. For example, VVD would need to set up a district level office for a new intervention so as to station its local field officers.
2. **Machinery and Equipment:** - These would include those one time technological purchases that would be required for operationalizing the project. Here equipment such as computers, fax machines, telephone, etc would be included. Also here, equipment required for the project, for example mechanical tools and equipment, would be included.
3. **Furniture:** - The furniture purchased for the office or for the site will be placed under this head.
4. **Transportation, Shipping and installation Costs:-** The cost of transporting equipment or other material, including transportation and delivery charges, packing, unpacking and installation and set up charges of equipment, software, furniture and materials.

5. **Recruiting Costs:** - In case there is a need to recruit new personnel for the project then some costs will be incurred for the entire recruiting procedure as well.

6. **Training Costs:** - In case there is some special training required for the staff as regards specific skills regarding the project or for using the new equipment or machinery, then these should be included under this head.

Recurring Costs

These will be the costs that will be incurred over a period of time. These can be broadly placed under the following heads. These are more relevant in the context of a programme.

1. **Building and Site:** - If the building or the site for the office is taken on rent, then the rent for the same would be included under this category. Also if some training or a workshop is being conducted on rented premises, then this too will be included under this category of recurring costs.

2. **Equipment and Machinery:** - If the equipment and machinery is not purchased, but is taken on lease, then this expense would be included under this head.

3. **Human Resources:** - The costs of personnel on staff or those who are appointed on a time bound basis, i.e. their salaries, overtime and other benefits and emoluments should be placed under this category.

4. **Stationery and supplies:** - The regular supplies and stationery that will be required throughout the intervention will be included under this head.

5. **Travel:** - The expenses that will be borne for traveling shall be included here.

1. **Bills:** - The telephone, electricity and other such utility expenses will be placed under this category.

2. **Maintenance:** - Any maintenance costs for the machinery or equipment so purchased will be placed under this category.

The costs and benefits need to be comparable and thus there arises the need of a common yardstick of measuring these. We fortunately have the currency which can be used for this. But the problem that arises is that there are different ways of assigning economic value to anything. These are briefly outlined as follows:

Use value - This value reflects the value that would be placed on a product or a service based on its use.

Market value - This is based on the market value of the product or service that would be affected by the demand and supply conditions prevailing in the market.

There are other ways of assigning values to the product or service - the esteem value and the exchange value but these will not be very relevant in the context of an initiative.

Step 5- .Devising Indicators

We need to focus the evaluation in a way that it is headed in a direction depending on what we need to learn from the evaluation since it is never possible to answer all the possible questions for the stakeholders. In our context, our indicators will be developed in a way to assess the impact on the target group.

Step 6 - Baseline Profiling

A baseline profiling also called baseline investigation investigation is a study done before an intervention. It provides you with data (information) about the situation before an intervention. This information is very important when you get to monitoring and evaluation as it enables you to assess what difference the intervention has made.

Before the nature of socio-economic impacts due to any programme can be gauged, it is imperative to understand the current impacts or effects of the activity that is being examined, the current status of operations and to identify that part of the society that will be affected. Thus, we need to set baselines for the behaviors that are desired to be changed. In case the evaluator is not able to assess the situation that exists prior to implementation due to the time difference, then he or she can take help of historical evidence or can conduct Participatory Rural Appraisal Exercises to know the situation that existed before and compare it to the current situation. It is very important to conduct a baseline survey because we need a standard or a base to compare the results to. Example : if one were to assess the impact of the project on the standard of living by the number of TV antenna in a village. The base data of what was the number of antenna installed prior to start up of the project should be known.

A baseline survey broadly would need the following information:

- Types of activities that would be affected, people who undertake them
- Geographic location
- Extent and scale of activities potentially affected
- Other factors that may impact these activities
- Proportion of the group, or of the activity likely to be impacted

- Planning and implementation Issues

The possible questions that can be asked in this regard are:

- Who participates?
- What is the demographic composition?
- Why do participants leave the programme? (in case of high attrition)
- What is the outreach to the target group?
- What are the satisfaction levels among members?

- Impact Assessment at the Individual and Household Level

We here try and see what kind and level of impact the initiative has had on the participant of the initiative as an individual and his or her family as a unit. The possible impacts, which can serve as a checklist (not exhaustive), are:

- Output
- Skill development
- Employment
- Personal income
- Income from enterprise
- Personal expenses
- Asset ownership
- Domestic food resources (calorie intake) Change in living standards
- Stability in income
- Level of indebtedness
- Psychological and emotional wellbeing Behavioral and attitudinal changes
- Access to services
- Awareness

The questions that can be asked in this regard are:

- Does the initiative impact, or may impact any of the following? To what extent is the impact or can the impact be?

- What are the other possible impacts of the programme on the individual or on the family? What is the extent or the possible extent of the impact?
- What can be or has been the change in behavior due to participation in the programme?

What can be or has been the impact on the family as a unit?

- Impact Assessment at the Community level

Here we try and measure the impact the initiative has had at the community level. The possible questions in this regard are:

- What can be or what were the results of the impact at the level of the community?
- Can there be or was there a shift in the attitude of the people?
- Are there any changes or what are the possible changes in the community norms or conditions?

Step 7 -Gathering Credible Information

To understand the true impact of the initiative and to lend credibility to the evaluation, the evaluator needs to ask what really counts as evidence. Depending on the indicators that we have devised, we will know what kind of data will be needed. On this basis it needs to be decided how the data will be collected and how this data can be analyzed to gauge the impact of the intervention.

Primary sources of data which is collected from an identified sample of the population, allows questions to be targeted to relevant issues. Secondary sources of data are 'useful for conducting a time line analysis.

Ways of Data Collection

There are various sources of evidence - people, documents or simple observation. We may have to use more than one source for a particular indicator. Having multiple sources of data gives different perspectives and

different insights about the programme and in fact enhances credibility. Some sources of data may be in narrative form, while others may be numerical in nature. Integrating quantitative and qualitative can give us more credible and complete evidence.

The different ways of data collection are:

- **Surveys:** Surveys involve collecting qualitative or quantitative data or both from a sample population. Surveys with a more qualitative focus seek to obtain more descriptive information and have a less structured approach. This enables obtaining much more detail. Quantitative surveys give more of statistics to describe a particular situation.
- **Focus Group Discussions:** This is a way of collecting data from a small group of people and getting their opinion or feedback on a certain issue. The purpose of conducting a focus group discussion is to try and gauge the attitudes, feelings, beliefs and experiences of the participants.
- **Interviews and Self Reporting:** The impact of an initiative can be inferred by conducting one-on-one interviews with individuals. The interviews and personalized discussions should preferably be unstructured or semi structured so as to get a broad picture. The questions that are put before the interviewee should be open ended. Also self reporting and feedback that is received from participants from time to time can serve as a source of information.
- **General Observation:** A change, especially at the community level can be felt by way of observation over a period of time. For instance, we may see the impact of an SHG Microfinance programme by seeing that fewer people are taking loans from the village moneylender or that women in a village have begun socializing with one another with the advent of SHGs.

- **Secondary Sources of Data or Historical Data:** Analysis of existing sources of data can identify the impact of an intervention at a broad level. Time series data, i.e. data collected over a period of time can help in identifying trends or changes that may have occurred due to the programme or outside the programme.
- **Analyzing the Data:** Once data has been collected, we need to analyze it so that some sense can be made of it or progress can be measured. The ways in which we can analyze the data so collected are briefly outlined as follows:
 - **Comparison between two groups:** This is a preferred way of assessing the impact of a particular programme or initiative. We take two groups from the target group, similar in the socio-economic backgrounds, one of which have been exposed to the initiative, and one that hasn't and compare these two groups. This will help us gain a good idea of how much real impact has been made due to the initiative.
 - **Case Study:** This takes into account only the post programme effects. It involves an in depth ' analysis of a person, a group or the community at large which helps in understanding the impact the initiative may have had. It is mostly performed at an individual level.
 - **Time Series:** This involves measuring the effects from a series of repeated evaluations taken before, during and after the initiative has been undertaken. This will help in understanding the impact that the initiative has had over a period of time.
 - **Assigning values to the outcomes:** We will try and assign economic value to all the possible impacts- positive or negative, due to the projects. In assessing the value of a benefit, we need to decide what to value. Some benefits can be easily valued, while it will not be possible to value others and not be able to apply direct values to.

- **Shadow Pricing:** Shadow pricing, is used when placing a value on programme outcomes other than market price. Programme outcomes that cannot be bought or sold, such as social value, can be ascribed a monetary value. For example, the cost of using an external trainer maybe Rs. 5 per hour. If people are trained internally and they are paid Rs. 4 per hour to impart the same training, then $\text{Rs. } 5 - \text{Rs. } 4 = \text{Rs. } 1$ can be considered the net benefit to the organization.
- **Opportunity Costs:** This method of estimating value is focused on basing the value on the alternative use that the resource could have been used for. e.g. if a person is being employed from within the organization, and the prior work is suffering due to this, then this work that has suffered can be deemed as an opportunity cost.
- **Spillover:** This is a way of putting value on programme benefits takes into account the indirect benefits or secondary benefits resulting due to it. For example, a training programme about a business opportunity for villager makes him start a poultry for which he needs to employ 2 other individuals then this employment created can be considered a spillover of the training programme.

Step 8 - Drawing the Cost Benefit Balance Sheet

Now we have all the costs that have been incurred and the benefits that accrue due to the programme. The costs will be enlisted as recurring or non-recurring depending on whether we are evaluating an entire project or a certain programme. The costs can be classified as financial or non-financial depending on the nature of the costs. The costs will be listed in a manner where the projected and actual costs will be mentioned. Eachkind of cost will be broken up activity wise wherever possible. For instance, stationery costs will be listed according to the different activities that were taken up as a part of the programme. If costs will be borne over a period of time, then the Net Present

Value of the costs will be taken into consideration.

We also have the various benefits that have accrued due to the programme. We will list these outcomes against the projected outcomes in the cost benefit balance sheet. If the actual outcomes do not match up to the projected outcome, then the discrepancy that so occurs should be backed up by the reasons for the same. This will be helpful if the valuation of the programme is carried out in the early phases of the project or at a time when the future goals are being set. The benefits will be quantified using any of the methods as described above. However, even if it is not possible to quantify all the benefits, we will enlist them as it is on the balance sheet. If the benefits are producing a future stream of income, then the future stream of benefits will be discounted to get the Net Present Value and this will be considered the benefit.

Once this is done we will add up all the costs and all the benefits which are in economic terms. If the monetary benefits are greater than monetary costs, then we can say that the programme benefits outweigh the costs and that it is a worthwhile initiative. It may so happen that the monetary costs are greater than the monetary benefits. In this case it is quite possible that the programme may have more of a social or qualitative impact than a monetary impact. In this case, we need to take into consideration the difference between the accounting costs and accounting benefits. We will weigh this difference against the qualitative benefits and will see whether the costs that have been incurred is justified by the qualitative benefits, i.e. we'll see the benefits and then decide whether the costs incurred to gain those benefits were worthwhile or not.

This method of presenting the cost-benefit analysis will be extremely helpful as the costs and benefits for the same programme can be seen in a comprehensive manner at the same time. Also this balance sheet will enable us to account for and improve on the factors that are causing any sort of discrepancy in the costs or benefits.

Cost Benefit Balance Sheet Format

ITEM	ACTUAL AMOUNT	PROJECTED AMOUNT	COMMENTS AND REASON FOR DISCREPENCY (If a>b)
	(a)	(b)	
Cost 1			
Activity 1			
Activity 2			
Activity 3			
Cost 2			
Activity 1			
Activity 2			
Activity 3			

INDICATOR	ACTUAL OUTCOME	PROJECTED OUTCOME	COMMENTS AND REASON FOR DISCREPENCY (If c<d)
	(c)	(d)	
CATEGORY OF INDICATOR			
Qualitative indicators			

Indicator 1			
Indicator 2			
Indicator 3			
Indicator 4			
Indicator 5			
Indicator 6			

3.7. LOGICAL FRAMEWORK ANALYSIS (LFA)

Inadequate planning is a perennial problem in development project \ programmes. It is observed that quiet often planning documents are specific and clear as to the physical and financial inputs, personnel and activities, but lacks in thorough assessment of the overall objectives, the target group and the external factors which determine the success or failure of a project or programme. Deficiencies in the planning are usually reflected in inadequate monitoring systems. During implementation, there is often too much emphasis on physical results, and too little on policy issues and the effects of the project / programme on the target groups or communities at large.

Logical Frame work is a planning tool presenting the objectives, related activities and corresponding assumptions and pre-conditions of the project or programme design at different hierarchical levels in a matrix levels.

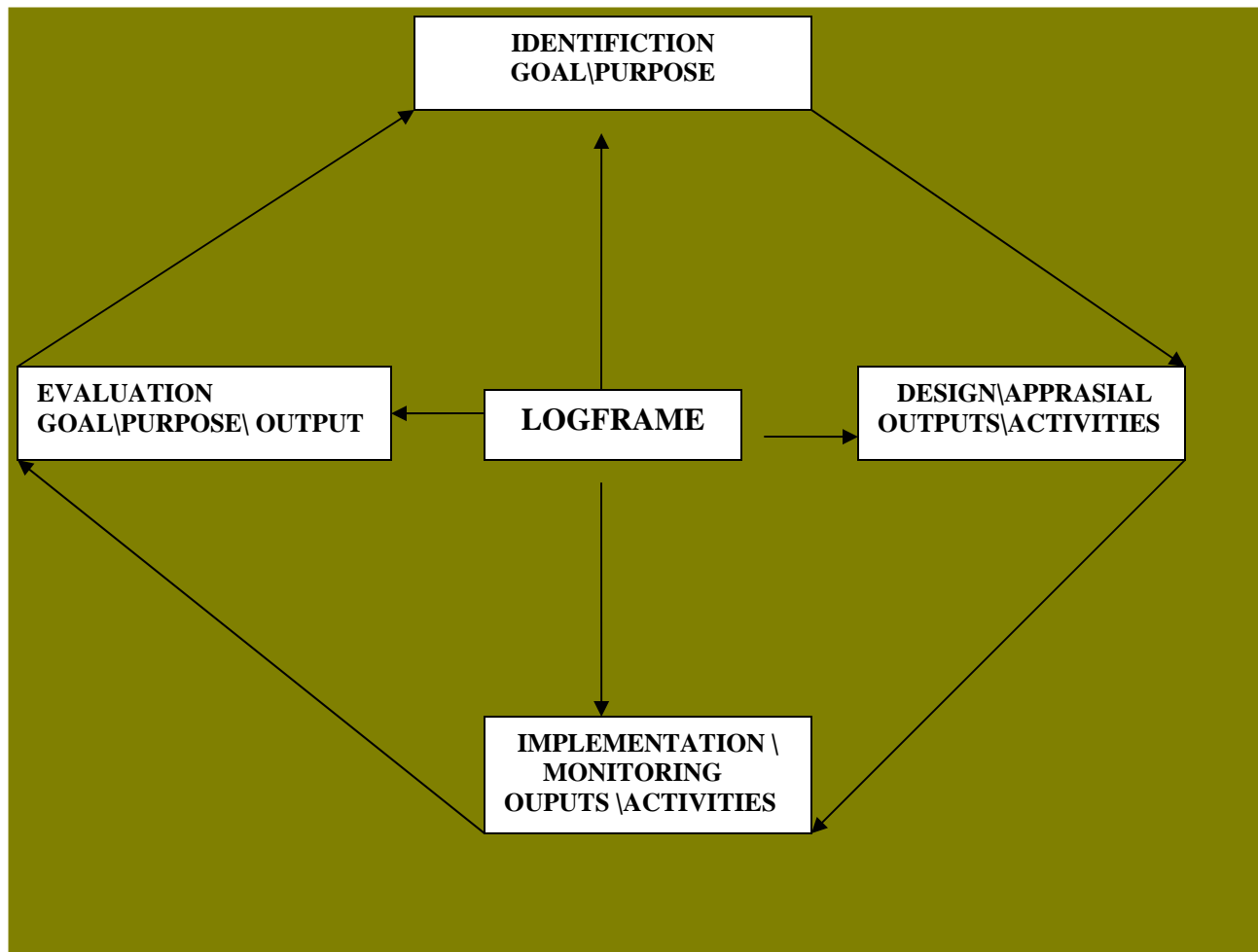
In simple terms the logical framework is a management tool developed for use by the teams of varying size and diverse membership. It uses a log frame or matrix (table) with columns and rows to help you plan a project. The rows represent a hierarchy (top to bottom) of goals and objectives, from overall goal to activities, and the columns represent the way in which achievement of these goals and objectives can be verified (shown to have taken place). Many donors now insist that organisations use the LFA to do their planning

The method helps teams to achieve their tasks while at the same time encouraging sustainable teamwork and productive working relationships. It is used at all stages of the project cycle .It is a participatory planning tool. As such its strength depends on the extent to which it incorporates the full range of views of all the project stakeholders.

Logical Framework Analysis enables the project teams and stakeholders to:

- Define the goal the project supports
- Define the purpose of the project
- Identify and list the key outputs the project must deliver
- Group the activities needed to achieve the results
- Use Quantity , Quality, and Time indicators for achievement of the objectives
- Identify the means of verification which will be used to verify the projects achievement
- Make important assumptions about external factors and risks
- Schedule , implement , monitor and Evaluate

It is also a tool for better project cycle management



3.7.1. Log Frame Box Matrix

Narrative Summary	Verifiable Indicators	Means of verification	Important Assumptions
GOAL The wider problem the project will help to resolve	Quantitative ways of measuring or qualitative ways of judging the timed achievement of the GOAL.		External Factors necessary to sustain the long term benefits of the project.
PURPOSE The end result or immediate impact on the project area or target group (i.e. the change or benefit to be achieved by the project)	Quantitative ways of measuring or qualitative ways of judging the timed achievement of the. PURPOSE		External factors necessary if achieved PURPOSE is to contribute to achieving the GOAL
OUTPUTS The deliverable results expected from the project to attain the purpose. What the	Quantitative ways of measuring or qualitative ways of judging the timed achievement of the OUTPUTS.		External factors outside project control necessary if achieved OUTPUTS are to lead to achieving

project management team will deliver.			the PURPOSE.
ACTIVITIES The main activities undertaken to achieve the outputs.	Quantitative ways of measuring or qualitative ways of judging the timed achievement of the ACTIVITIES.		External Factors outside the project control necessary if achieved ACTIVITIES are to lead to achieving the OUTPUTS.

3.7.2. Project Design: Logical Framework is one of the tools incorporated in the PCM method, and is thus a major link in the introduction of quality management. There are six steps in preparing a project design following the Logical Framework approach:

Step a. Make clusters of Objectives on the objective tree and identify alternatives;

Step b. Establish the focus of the project in terms of the project purpose;

Step c. Identify the project results and assumptions (design a comprehensive package);

Step d. Identify activities, assumptions and preconditions;

Step e. Adjust and update the plan on the basis of the sustainability factors;

Step f. Prepare activity schedule and responsibility matrix.

Step a. Make clusters of objectives on the objective tree and identify alternatives: The objective tree represents a hierarchy of objectives which are the basis for planning. The branches of the objective tree represent clusters of related objectives and a selection has to be made of which clusters the project will address and which are outside the control of the project. The selection of objectives to include (IN) and those to exclude (OUT) is referred to as the scoping of the objective tree.

This tool demonstrates that the separation of objectives from the tree on the basis of decision to be either IN the Project design or to be OUT as assumption or pre-condition. These respective objectives are placed at various levels in the matrix. These levels are determined whether the objective is offering a direct benefit to the beneficiaries (Project purpose), the economy and the government (Overall objectives) and the services offered by the project to the Beneficiaries (Results). Objective in the objectives tree positioned below these results are reformulated as activities.

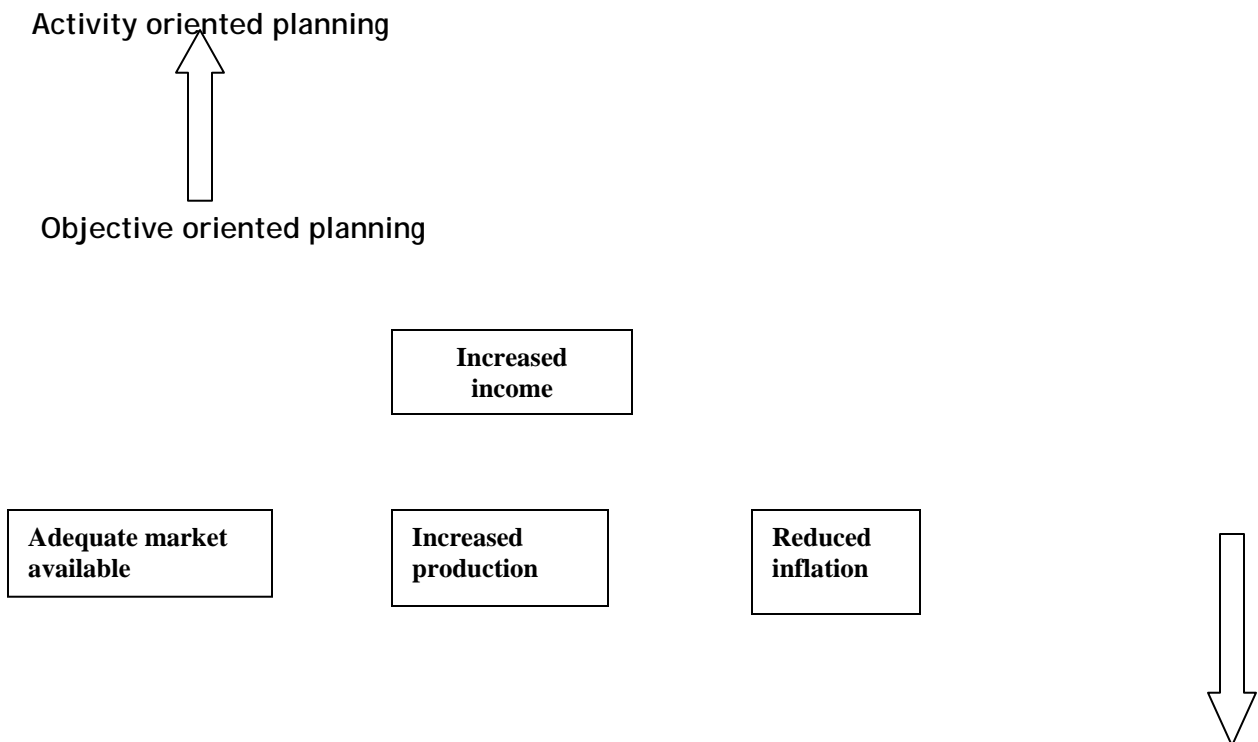
Step b Establish the focus of the project in terms of the project purpose: It is very essential that the objective should be directly related to the needs of the beneficiaries. The project purpose must be stated in terms of benefits of beneficiaries- Why the need the Project. The project purpose must not be expressed in terms of services provided but must be determined in terms of utilization of these services by the beneficiaries.

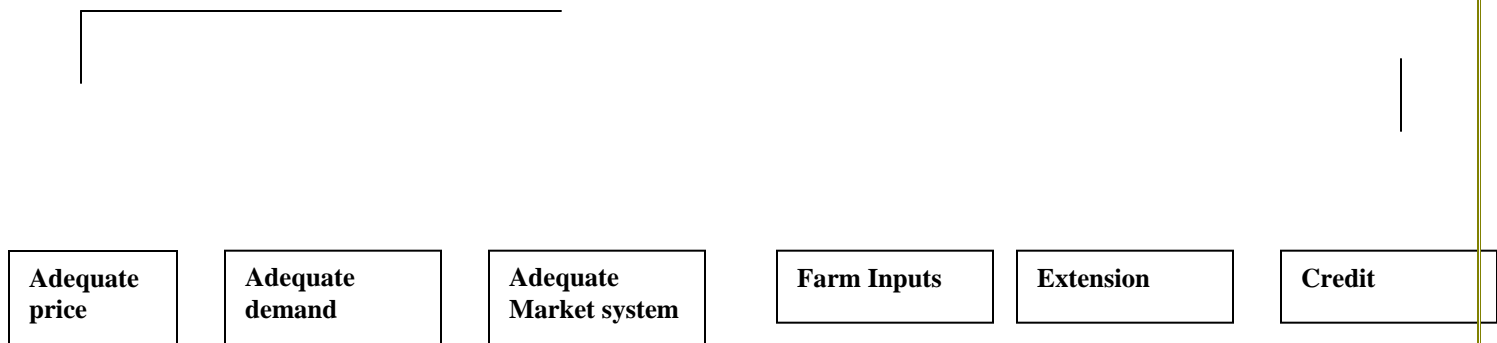
Step c. Identify the project results and assumptions (design a comprehensive package): In order to achieve the project purpose, a number of services may need to be made available. Some of these services may be supplied by the project, and are referred to as the project results. Other services which cannot be made available by the project but which are essential to achieving the project purpose should be assumed to be supplied by external agencies. These are referred to as assumptions which are outside the control of the project. With a clear focus on the needs of the

beneficiaries as specified in the project purpose, the required results and assumptions (supporting external objectives) can be identified.

Planning from the project purpose down will generate additional objectives required to achieve the higher level objective. This system of planning by objectives offers a tool for identifying a number of assumptions, which after assessment, may have to be incorporated into the project design.

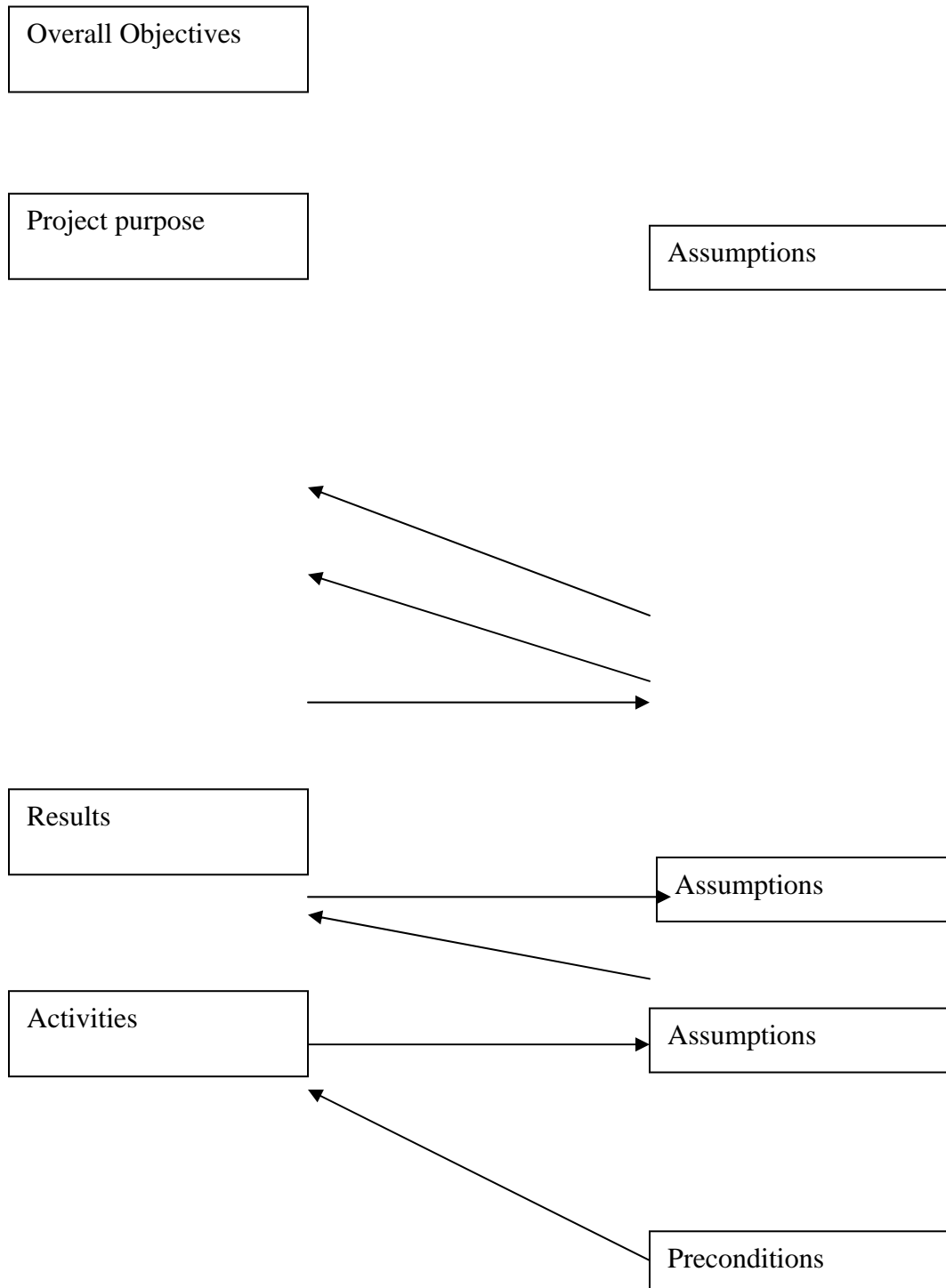
This system differs from planning by activities, which is based on preconceived 'logical' effect of services to offer by the project. This reasoning is often derived from vested interests. The difference between objective and activity-oriented planning is illustrated below. The thick arrows visualize the thinking process. As such 'bottom-up' or activity-oriented planning may leave out important factors that are discovered through 'top down' objective-oriented planning.





When making the shift from the objective tree to the Logical framework matrix as presented in Figure below, planning starts with the identification of the Project Purpose. Following the objective-oriented planning down all objectives required to achieve the Project Purpose are identified. Those selected for achievement by the project (IN) are placed at the corresponding level in the left column of the matrix, while the objectives to be achieved by others are placed in the right column as assumptions (OUT) . Assumptions are external factors not under the control of the project but which must be met in order to achieve the project objectives. Pre-conditions are external factors that must be complied with before the project activities can start. .Policy requirements are often identified as pre-conditions and form a critical element in the initial negotiations on the project agreement.

Matrix of Project Objectives (In), Assumptions and Pre-Conditions (Out)



Step d - Identify project activities, assumptions and preconditions: The decision whether an objective or an activity should be incorporated in the intervention as a result , or an activity , or placed as a assumption is determined by running the conditions through the questions posed in the questions posed in the algorithm presented below.

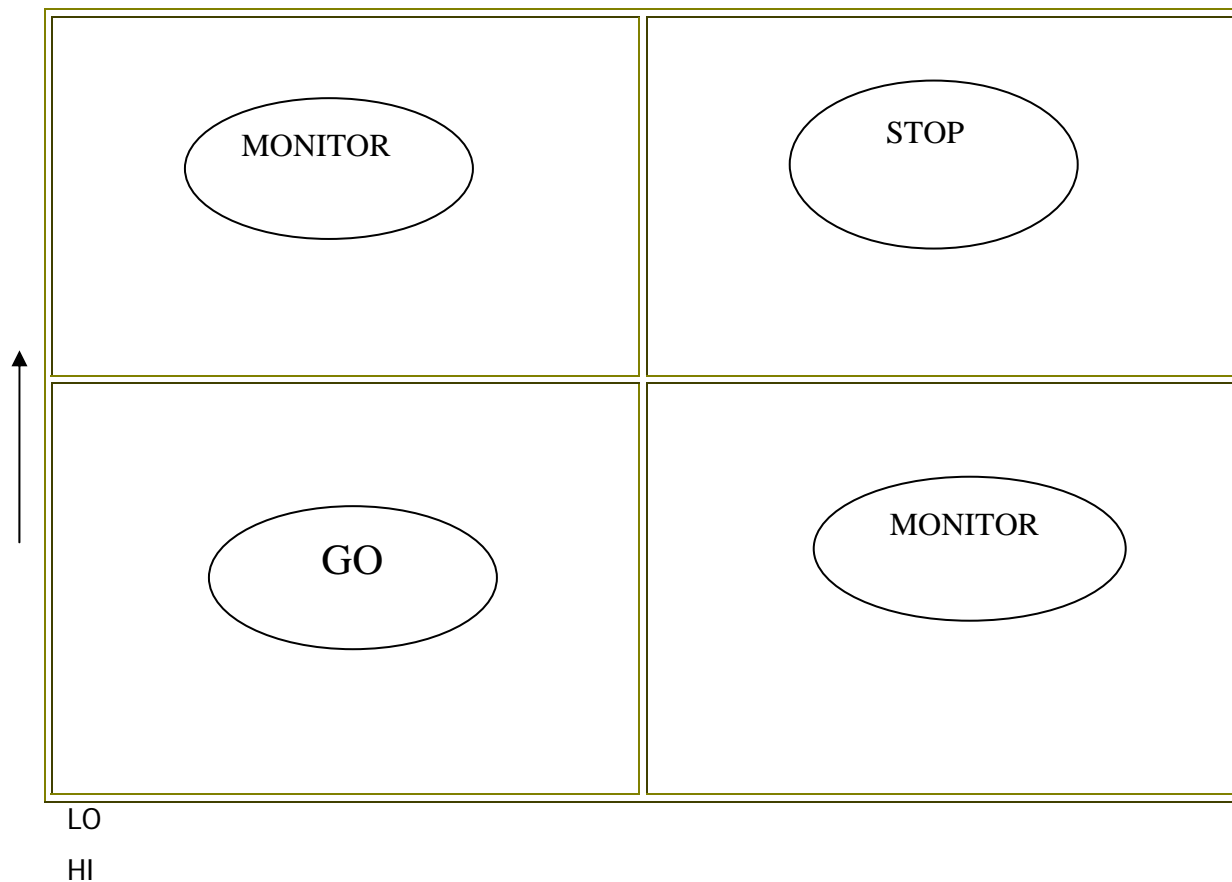
Following this procedure, the first question assesses the importance of the condition in achieving a high level objective. It may either be excluded or further tested on whether the condition will be achieved without further project involvement. When surely this will happen the condition can be excluded from the matrix. When it is likely the condition should appear as an assumption and when it is unlikely it should be checked whether the project can affect this condition .If this is the case the condition should be part of the project design and as such be shifted into the first column of the matrix. If the project will have no authority and no means to affect this critical condition then the condition is called a killer assumption .From the technical point of view the project is likely to fail. So if the killer assumption is identified, then the project design has to be changed or the project should be rejected.

Once all the project results have been identified, then the activities required to achieve each result can be identified. Again, external conditions required to carry out the activities are identified. After testing each of these on the algorithm above, some assumptions may have to be fulfilled before the activities can commence. These crucial assumptions are referred to as preconditions

CRITICALITY

HI

KILLER RISK? ↓



Step e. Adjust and update the project plan on the basis of sustainability factors: In this step of the designing of the project, the factors which determine the sustainability are incorporated in the Logical Framework matrix. Once it has been clarified that the project addresses the real problems of the beneficiaries by offering the required services, due attention should be given to provisions to ensure or enable that these services will be sustainable after the development assistance ceases. All too frequently, there is inadequate commitment by the implementing agencies, insufficient management capacity, or the means are not made available by implementing agencies or

government to continue operation after a project is completed.

The principle of phasing a project with different results achieved consecutively during implementation is shown in figure below. The incorporation of additional results required to achieve the project purpose may lead to extension of the implementation phase of the project.

Visualization of achievement of objectives during project implementation:

Factors relevant to the sustainability of development projects

- Policy support
- Appropriate technology
- Environmental protection
- Socio-cultural aspects/gender issues
- Institutional and management capacity in the public and private sectors
- Economic and financial rationale.

The project results and corresponding activities are assessed on the basis of the sustainability risk factors listed above. This may lead to the inclusion of additional preconditions, activities, assumptions or even results in the plan or Log Frame matrix

The inclusion of the sustainability check in the Log Frame planning is a significant conceptual addition. Corrective measures to ensure the sustainability of a development project may be included in its design. If these factors are beyond the control of the project, they are included as assumptions, which have to be fulfilled by external agents.

In fact, close scrutiny of such factors often leads to modification of the project design. For instance, the approach or technology proposed may have to be modified, cost recovery systems may have to be included or institutional

development activities incorporated. Furthermore, an analysis of the assumptions may well indicate that the implementation of policy measures by the recipient government is a pre-condition for the ultimate success of the project

Guiding instructions are being prepared on the financial & economic analysis, environment, institutional development and gender.

Step f. Prepare activity schedule and responsibility matrix: A rough indication of the phasing of a project should 'be attached to the Financing Proposal At the start of the implementation phase, a detailed activity schedule setting out responsibilities distributed among the involved parties on an annual basis (work plan) must be prepared by the implementing agency as part of the Plan of Operations to cover the total project period.

Documentation

One of the strengths of Project cycle management is that project documents prepared in the phases of the project cycle are presented in a standardised format covering all issues including the assumptions on which the project is .based. The standardised format as presented below offers transparency and facilitates an improved institutional memory in the donor agencies.

At each stage in the project cycle, the information in the respective documents is examined, revised where necessary and carried forward to the next stage. This system makes the project concept and context in which it operates clear and visible, and thus enables improved project monitoring and evaluation.

2.8. SUMMARY

- SWOT Analysis
- PEST Analysis
- GAP Analysis
- Stakeholder Analysis
- Futuring
- Cost Benefit Analysis
- Log Frame Analysis

Self- Assessment Exercises

1. *Read the following carefully and basis your perception and understanding of the situation prepare a SWOT analysis grid :*

XYZ Society has been recently registered with the main objective of welfare of street children. As per their memorandum of association, the society will be working in the state of Bihar. The promoters plan to kick start the project in the areas around an industrial belt. The donors some who are from abroad have agreed to donation of Rs. 50 lakhs. The society has a dedicated team of retired teachers who wish to take this project forward. The donors have committed funds with the assurance that there is going to be an increase of 40% in school attendance.

2. *Consider the following SWOT analysis made for a development organization working in the field of women upliftment. What can be done to maximize the strengths? How can the organization build or develop to overcome weaknesses or problem areas. How can they make use of the opportunities and what can be done to minimize or even neutralize the threats: Explain with proper details.*

Weaknesses: Middle management weak, main office very far from main city, Finance Dept not staffed properly.

Opportunities: Government has announced a scheme for financing women empowerment projects, State elections expected in 3 months

Threats: Several NGOs already in the same area of women enlistment, monsoon season to commence, sowing operations in the field started.

3. XYZ Society has received funding approval of Rs. 30 lakhs from a foreign donor for a HIV awareness project. The area of operation has been mainly the target group of truck drivers on long distance hauls. The society has been mainly working in the northern belt of Rajasthan, Haryana & Punjab. Prepare a PEST analysis for the organization.

4. Explain what you understand by 'Futuring'

5. An organization is working towards a green environment. Give an account of the possible stakeholders, with their interests, expectations, and the contribution that they could make towards the project.

6. What do you understand by Cost Benefit Analysis? What are the advantages & disadvantages?

7. What do you understand by Baseline Profiling

8. What are the methods of credible data collection?

9. What are strategies? Explain with examples.