

PSDP process overhaul need of the hour in Pakistan

Focus must be on return on assets, cost and benefit analysis, IT for future projects

FIDA MUHAMMAD/AQEEL CHAUDHRY | March 23, 2020



Representational image. PHOTO: REUTERS

ISLAMABAD: The Public Sector Development Programme (PSDP) is the apex development-sector portfolio funded by the government. In the current fiscal year, the total budget allocated to the PSDP was Rs701 billion.

The government has spent over Rs11.5 trillion through the PSDP in the last two decades with little improvement in the process. Projects which are politically fit are given preference over those that are economically sound.

More than 80% of the PSDP funds go to infrastructure-led projects, the benefit of which is enjoyed by particular segments of society. A lack of capacity and political will has resulted in a system that measures growth through inputs rather than the long-term growth which comes from projects in coming years.

The long process and no impact evaluation further alleviate the process. Multiple researchers and others were of the view that PSDP projects had an insignificant or negative impact on the growth of economy, which should be the other way round.

There are certain binding constraints that influence the planning process from the cradle to grave but if the planning and projects are not directed at growth, then the whole process and PSDP funds lead to nothing. Unfortunately, this is being missed by the planners, the decision-makers and the donors as well.

The projects and programmes would work only if the objective is economic growth. Growth will lead to the betterment of human lives across the country and if growth is made the primary objective, then there may come a time when we may not even need planning and special development funds.

Another issue is that politics and political feasibilities are preferred over financial and economic feasibilities. The project needs to be politically fit even if it is economically disastrous.

Similarly, with each change of political government, new projects are approved and the projects already being executed become a secondary priority.

It creates cash flow problems which affect all the stakeholders involved in the shape of cost overrun. In Pakistan, on average each PSDP project is finished in double the approved cost.

Another core issue for project delays is that project budgets are often released in the fourth quarter of any financial year, not for the benefit of the project but for the mere fact that if the money is not spent till the end of the year, it will make its way back to the government exchequer and next year less budget will be allocated.

As the whole process is faulty, another reason for project delays is that the cost at the start of the project is underestimated so it can get accepted. Hasty surveys and design inaccuracies result in a lack of consensus among local agencies at the PC-I stage.

With local agencies not on board, projects are delayed because of a lack of coherence, as is in the case of Rawalpindi-Islamabad Metro Bus project. The lack of coherence results in the track being still maintained by the Rawalpindi Development Authority in Islamabad as well.

During a conference on PSDP funds organised by Pakistan Institute of Development Economics (PIDE), PIDE Vice Chancellor Dr Nadeemul Haque said there is no exercise in the PC-I regarding return on assets.

As projects are treated as a singular identity, not part of a bigger overarching strategy, it results in a negative impact on economic growth rather than a positive effect.

Project plans often lack the failure and success indicators, which eventually translate into failure being rewarded over the years. As the PSDP is central to national development, more debate is needed to push for positive results.

Public finance

The government came with the Public Finance Management (PFM) Act 2019. This Act defines infrastructure as the main component of a development project.

This makes one wonder that if the infrastructure is the basic component of a development project, then what is the rationale for the Planning Commission to have members for other fields such as member governance, energy and social sciences.

Another problem with the public finance management is that the cost and benefit analysis is only done for projects that exceed the PC-I threshold.

There should be cost and benefit analysis for all the projects undertaken. Moreover, the definition of development and development projects should be changed.

Planning should be growth-oriented. We need to focus on growth as the main objective of the planning process. If we ignore growth, we would not achieve any development.

Ignoring growth is the primary reason that we go astray and projects don't bring in what is required. We should also understand the Mehboobul Haq model is no longer efficient or workable. We need to revamp the entire planning process and respond to the challenges of 2020.

Forecasting

Economic geographer Bent Flyvbjerg has written extensively on how public funds are inappropriately channeled to misfit projects. As in Pakistan, more than 80% of the projects are infrastructure-driven, which needs a considerable amount of forecasting and it is proven across the world that forecasting is always misleading.

Every project has risks but a calculated risk is acceptable but ignoring risks altogether is very problematic. Forecast should be made through an independent peer review rather than the project sanctioning agency doing it and it should be available to the public as well.

To achieve accountability in forecasting, different steps can be taken like how many private investors are willing to be part of the project. It will lead to better forecasts as seen around the world that private investors better assess risks and full sovereign guarantee by the government should be avoided at all costs.

Risk capital from the private investor does not mean reduced control of the government but it will eventually result in effective role of the government in the form of proper utilisation of public funds and protecting the ordinary citizen's rights.

The need of the hour is to make the process as easy as possible having a return on assets, cost and benefit analysis and learning from previous projects being important factors for future projects. By doing that, future projects will not face the same fate as the past projects having huge cash overflow and no real impact.

The use of information technology and artificial intelligence cannot be neglected in this technological era because out of many benefits it can provide a chance to compare the cost of raw material across thousands of portals/suppliers and better forecast the costs as well. Random cuts on project funds need to be seen with care as well.

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