No.1(2)-PF.II/03
Government of India
Ministry of Finance
Department of Expenditure
Plan Finance-II Division

New Delhi, the 7th May, 2003.

OFFICE MEMORANDUM

Subject: Guidelines for Formulation, Appraisal and Approval of Government funded plan schemes/projects.

In pursuance of the need felt by the Government to reform investment approval and implementation procedures, the Government had set up a Committee in September, 2001 to examine the existing procedures and suggest measures to simplify and expedite the process. The Committee divided its task in two parts, Part-I concentrating on issues that arise from the conceptualization of the project to the stage of investment approval, and Part-II covering all implementation and operational issues starting from the stage of investment approval till the commissioning of the project. The report covering Part-I has since been received and examined by the Government. The Committee has emphasized the need for increased rigor and capacity building at the project **formulation** and **appraisal** stage.

2. Rigorous project **formulation** and **appraisal** have a major bearing on the relevance and impact of projects as well as on their timely implementation. The Committee has identified indifferent quality of project formulation and appraisal as major factors which contribute to bottlenecks at the implementation stage and consequential time and cost over-runs. Failure to identify constraints in the availability of land, inadequate environmental impact analysis and lack of consultation with stakeholders at the time of project formulation can retard the implementation and impact of the project at a later stage. Additional time and effort spent at the project **formulation** and **appraisal** stage would be time well-spent and result in qualitative improvement in terms of ultimate project impact.

3. After having considered the matter carefully, the following guidelines are laid down for formulation and appraisal of Government funded plan schemes/projects, covering all sectors and Departments:

(i) Project identification: Feasibility report: The project preparation should commence with the preparation of a Feasibility Report (**FR**) by the Administrative Ministry. The project will be considered for 'in-principle' approval by the Planning Commission for inclusion in the Plan based on the FR. The FR should focus on analysis of the existing situation, nature and magnitude of the problems to be addressed, need and justification for the project in the context of national priorities, alternative strategies, initial environmental and social impact analysis, preliminary site investigations, stake holder commitment and risk factors. The FR should establish whether the project is conceptually sound and feasible and enable a decision to be taken regarding inclusion in the Plan and preparation of a DPR. The FR should present a rough estimate of the project cost. Consultation with stakeholders should be held to ensure involvement of stakeholders in the project concept and design. The Financial Adviser should be involved in this exercise.

(ii) In- principle approval of Planning Commission: The Administrative Ministry should send the FR to the Planning Commission for 'in-principle' approval, to enable the project/scheme to be included in the Plan of the Ministry/Department.

(iii) Preparation of DPR: The Administrative Ministry should prepare the DPR for the project/scheme after obtaining 'in-principle' approval of the Planning Commission. The various stakeholders in the project should continue to be associated while preparing the DPR. The services of Experts/professional bodies may be hired for preparation of the DPR, if considered necessary. The Financial Adviser should also be associated. The DPR must address all issues related to the justification, financing and implementation of the project/scheme. A generic structure of the DPR is at Annexure I. The Terms of Reference (**TOR)** for preparation of the DPR should cover all aspects of the generic DPR structure. In addition, sector/project specific aspects should be incorporated in the TOR as required. The requirements of the EFC/PIB format may also be kept in view.

(iv) Inter-Ministerial consultations: The final DPR should be circulated along with draft EFC/PIB Memo to the Department of Expenditure, Planning Commission and any other concerned Ministries for seeking comments before official level appraisal. Techno economic clearance should also be obtained from agencies like CEA and CWC wherever required. Thereafter, the EFC/PIB memo alongwith appraisal note/comments of the relevant Ministries and Planning Commission should be placed before EFC/PIB for consideration.

(v) Time frame : The time frame for the appraisal of projects under the project cycle is at Annexure-II. A time period of 16 weeks is prescribed for appraisal of projects (excluding the time taken for preparation of DPR). Earlier instructions contained in OM No. 1(2)/PF.II/94, dated 18.04.1994 stand modified accordingly.

(vi) Applicability: These guidelines will apply to **ALL** plan schemes/projects, including social sector schemes/projects, costing Rs.50 crores and above over a 5 year Plan period. In sectors where a number of sub-projects are taken up under a scheme, this limit will apply to the umbrella project under which the sub-projects are included. In respect of Plan schemes and projects which continue from one Plan period to another, the requirement for preparation of FR/DPR and observing EFC/PIB procedures will be regulated by instructions contained in OM No.1(3)/PF.II/2001 dated 10th May, 2002 and 10th July, 2002 (**Annexure III & IV)**.

(vii) Instructions regarding expenditure on pre-investment activities are contained in para 4 of OM No.1(3)/PF.II/2001 dated 18th Feb., 2002 **(Annexure-V)**. It may be noted that expenditure on preparation of FR/DPR for social sector projects/schemes is likely to be much lower than for commercially viable projects in the infrastructure sectors.

(viii) Guidelines regarding preparation of FR/DPR in para 3(i)-3(iii) will also apply to Railway projects which are required to be placed before the Expanded Board for Railways.

4. Delegation of powers for project appraisal and approval: The delegation of powers for project appraisal and approval as well as for revised cost estimates has been prescribed vide this Department's O.M. dated 18.2.2002 **(Annexure-V)**. The level of delegation will be reviewed at the end of each Five Year Plan period, or earlier if required.

5. Identical process for public sector projects requiring budgetary support or entailing contingent liability on Government: The process for seeking approval would be identical both for new public sector projects requiring budgetary support, as well as thosssse entailing contingent liability on Government.

6. Evaluation: Evaluation arrangements for the project, whether concurrent, mid-term and/or post-project, should be spelt out in the DPR. It may be noted that continuation of projects/schemes from one Plan period to another will not be permissible without an independent, in depth evaluation. Evaluation work may be outsourced to reputed institutions, if required. It may be noted that Planning Commission and Ministry of Statistics and Programme Implementation have an ongoing programme for evaluation. Duplication with these evaluations may be avoided.

7. **Capacity Building:** DO&PT is being separately requested to provide a special thrust on building skills for project formulation and appraisal under ongoing efforts for human resource development. These efforts should be dovetailed with efforts of administrative Ministries.

8. **Time and cost overrun:** An accountability mechanism is laid down in the Planning Commission's D.O. No.O-14015/2/98-PAMD dated August 19, 1998 addressed to Secretaries of all Departments/Ministries in respect of time and cost overrun (Annexure VI). This mechanism should be enforced strictly.

9. These guidelines will not supercede any specific dispensation approved for a Ministry/Department by the Cabinet/CCEA.

10. These guidelines shall come into force from July 1, 2003. No projects/schemes to which these guidelines apply shall be considered for appraisal/approval without FR/DPR with effect from July 1, 2003.

11. These guidelines issue with the approval of Finance Minister.

sd/-
(Vivek Rae)
Joint Secretary (PF.II)

To
The Secretary/Financial Adviser
(All Ministries/Departments) with the request to circulate to all Divisions/Sections in the Ministries/Departments and also to all Attached/Subordinate Offices, Autonomous bodies and PSUs.

Copy to:-

1. **Secretary, Planning Commission**
2. **Adviser, PAMD, Planning Commission**
3. **Cabinet Secretariat (Smt.V.K. Jena, Joint Secretary)**
4. **Prime Minister's Office(Dr.P.Ghosh, Addl.Secretary)**
5. **Chairman, Railway Board.**

Copy also to:-
- **i. PS to Cabinet Secretary**
- **ii. PS to Finance Secretary**
- **iii. PS to Secretary(Expenditure)**
- **iv. PS to Secretary(Revenue)**
- **v. PS to Secretary(Banking)**
- **vi. Additional Secretary(Budget), DEA**

ANNEXURE-1

GENERIC STRUCTURE OF THE DPR

(i) Context/background: This section should provide a brief description of the sector/sub-sector, the national priority, strategy and policy framework as well as a brief description of the existing situation.

(ii) Problems to be addressed: This section should elaborate the problems to be addressed through the project/scheme at the local/regional/national level, as the case may be. Evidence regarding the nature and magnitude of the problems should be presented, supported by baseline data/surveys/reports. Clear evidence should be available regarding the nature and magnitude of the problems to be addressed.

(iii) Project Objectives: This section should indicate the Development Objectives proposed to be achieved, ranked in order of importance. The deliverables/ outputs for each Development Objective should be spelt out clearly. This section should also provide a general description of the project.

(iv) Target beneficiaries: There should be clear identification of target beneficiaries. Stakeholder analysis should be undertaken, including consultation with stakeholders at the time of project formulation. Options regarding cost sharing and beneficiary participation should be explored and incorporated in the project. Impact of the project on weaker sections of society, positive or negative, should be assessed and remedial steps suggested in case of adverse impact.

(v) Project strategy: This section should present an analysis of alternative strategies available to achieve the Development Objectives. Reasons for selecting the proposed strategy should be brought out. Involvement of NGOs should be considered. Basis for prioritization of locations should be indicated (where relevant). Options and opportunity for leveraging government funds through public-private partnership must be given priority and explored in depth.

(vi) Legal Framework: This sector should present the legal framework within which the project will be implemented and strengths and weakness of the legal framework in so far as it impacts on achievement of project objectives.

(vii) Environmental impact assessment: Environmental impact assessment should be undertaken, wherever required and measures identified to mitigate adverse impact, if any. Issues relating to land acquisition, diversion of forest land, rehabilitation and resettlement should be addressed in this section.

(viii) On-going initiatives: This section should provide a description of ongoing initiatives and the manner in which duplication will be avoided and synergy created through the proposed project.

(ix) Technology issues: This section should elaborate on technology choices, if any, evaluation of options, as well as the basis for choice of technology for the proposed project.

(x) Management arrangements: Responsibilities of different agencies for project management and implementation should be elaborated. The organization structure at various levels as well as monitoring and coordination arrangements should be spelt out.

(xi) Means of Finance and Project Budget: This section should focus on means of finance, evaluation of options, project budget, cost estimates and phasing of expenditure. Options for cost sharing and cost recovery (user charges) should be considered and built into the total project cost. Infrastructure projects may be assessed on the basis of the cost of debt finance and the tenor of debt. Options for raising funds through private sector participation should also be considered and built into the project cost.

(xii) Time frame: This section should indicate the proposed 'Zero' date for commencement and also provide a PERT/CPM chart, wherever relevant.

(xiii) Risk analysis: This section should focus on identification and assessment of project risks and how these are proposed to be mitigated. Risk analysis could include legal/contractual risks, environmental risks, revenue risks, project management risks, regulatory risks, etc.

(xiv) Evaluation: This section should focus on lessons learnt from evaluation of similar projects implemented in the past. Evaluation arrangements for the project, whether concurrent, mid-term or post-project should be spelt out. It may be noted that continuation of projects/schemes from one Plan period to another will not be permissible without an independent, in depth evaluation being undertaken.

(xv) Success criteria: Success criteria to assess whether the Development Objectives have been achieved should be spelt out in measurable terms. Base-line data should be available against which success of the project will be assessed at the end of the project (Impact assessment). In this regard, it is essential that base-line surveys be undertaken in case of large, beneficiary-oriented projects.

Success criteria for each Deliverable/Output of the project should also be specified in measurable terms to assess achievement against proximate goals.

(xvi) Financial and economic analysis: Financial and economic analysis of the project may be undertaken where the financial returns are quantifiable. This analysis would generally be required for investment and infrastructure projects, but may not always be feasible for social sector projects where the benefits cannot be easily quantified.

(xvii) Sustainability: Issues relating to sustainability, including stakeholder commitment, operation and maintenance of assets after project completion, and other related issues should be addressed in this section.

Note: Requirements of the EFC/PIB format may also be kept in view while preparing the DPR.

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ANNEXURE-II

Time frame for appraisal and approval of projects/schemes

The project cycle would commence with the submission of the Feasibility Report (**FR**) to the Planning Commission by the Administrative Ministry/Department.

(i)	Decision on "in principle" approval based on FR	4 weeks
(ii)	Preparation of DPR by Administrative Ministry/Deptt. and circulating the same alongwith draft EFC/PIB Memo.	The time limit will vary from project to project. The time limit for preparation of the DPR should be stipulated by the competent authority while according approval for preparation of the DPR.
(iii)	Comments to be offered on DPR and draft EFC/PIB memo by Planning Commission and concerned Ministries/Agencies.	6 weeks
(iv)	Preparation of final EFC/PIB Memo based on DPR and comments received, and circulating the same to Planning Commission, Department of Expenditure and other concerned Ministries/Agencies	1 week
(v)	Convening EFC/PIB meeting after receiving final EFC/PIB Memo	4 weeks
(vi)	Issue of minutes of EFC/PIB	1 week
(vii)	Submission for Approval of Administrative Minister and Finance Minister (for projects of Rs. 50 crores and above but less than Rs. 100 crores)	2 weeks
(viii)	Submission for Approval of Cabinet/CCEA (for projects of Rs. 100 crores and above)	4 weeks

Note: Wherever the recommended time frame is not adhered to any stage, the concerned organization should work out an appropriate trigger mechanism to take the matter to the next higher level for timely decision making.

ANNEXURE-III

F.No.1(3)-PF II/2001

Government of India
Ministry of Finance
Department of Expenditure
(Plan Finance-II Division)
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New Delhi, the 10th May, 2002

OFFICE MEMORANDUM

Subject:- ***Expenditure Finance Committee – Fresh appraisal by the SFC/EFC for on-going schemes from 9th Plan to 10th Plan.***

The undersigned is directed to refer to this Department's Office Memorandum No.1(4)-PF II/97 dated 15.5.1998 on the above subject.

2. The Planning Commission has completed a Zero Based Budgeting exercise for all the Plan schemes of various Ministries. The Core Committee constituted by the Planning Commission for this purpose has recommended merger, modification or weeding out of various schemes, as well as transfer of certain schemes to the State Governments. Based on these recommendations, the Planning Commission has also conveyed its decision regarding these schemes.

3. Accordingly, for continuation of the schemes from 9th Plan to 10th Plan, the schemes falling under the following categories will require appraisal and approval in terms of O.M No.1(3)/PF.II/2001 dated 18.02.2002 of Department of Expenditure:-

(i) The schemes requiring modification as suggested by the Planning Commission or as proposed by the administrative Department.

(ii) Merger of schemes with modifications in basic parameters of the constituent schemes.

4. For schemes not falling under the above categories, fresh consideration by the EFC would not be required for continuation of the schemes from 9th Plan to 10th Plan provided all the following conditions are fulfilled:-

(a) No major change in the content or parameters of the scheme is proposed

(b) No change in the pattern of assistance to the States, in the case of a Centrally Sponsored Scheme, is envisaged.

(c) The projected requirement of funds for implementing the scheme over the Plan period is within the outlay approved by the Planning Commission.

(d) The Planning Commission has not proposed modification/weeding out of the Scheme.

(e) While approving the scheme for implementation during 9th Plan, the competent authority (CCEA etc.) should not have specifically decided to terminate the scheme at the end of 9th Plan.

5. Where these conditions are met, the administrative Ministry could approve the continuance of the scheme for the current financial year/Tenth Plan period. The Financial Adviser of the concerned Ministry would ensure that the above conditions are met in all cases which are continued without fresh consideration.

Sd/-

(R.N. Choubey)
Jt. Secy. to the Govt. of India.

To

Secretaries of all Ministries/Departments

Financial Advisers of all Ministries/Departments

Copy to:
1)Adviser (PAMD), Planning. Commision.
2)Cabinet Sectt. (Sh.N.S.Sisodia, Additional Secretary)
3)Prime Minister's Office

ANNEXURE-IV

F.No.1(3)-PF II/2001
Government of India
Ministry of Finance
Department of Expenditure
(Plan Finance-II Division)
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New Delhi, the 10th July, 2002

OFFICE MEMORANDUM

Subject:- ***Expenditure Finance Committee – Fresh appraisal by the SFC/EFC for continuation of on-going schemes from 9th Plan to 10th Plan.***

The undersigned is directed to refer to this Department's O.M. of even number dated 10.05.2002 on the above subject.

2. As per para 4 of the above O.M., fresh consideration by the EFC is not required for continuation of the schemes from 9th Plan to 10th Plan provided all the conditions mentioned in he above para are fulfilled. In such cases, the Administrative Ministry/department have been delegated the powers to approve the continuance of the scheme in consultation with the Financial Advisor. However, instances have come to notice where the subject matter Divisions within a Ministry have continued the schemes without such approvals and without any scrutiny within the Ministry. This is contrary to the spirit of delegation of powers for continuing the schemes.

3. Under the circumstances, the Administrative Ministries/Departments are requested to ensure that before approving the continuation of the schemes in the 10th Plan as per para 4 of the above-mentioned O.M., the schemes are subjected to rigorous scrutiny within the Ministry, inter-alia, with regard to the following:-

(i) Evaluation of the performance in the 9th Plan.
(ii) Need for improvements.
(iii) Phasing of expenditure in the 10th Plan for each component of the scheme.
(iv) Setting of physical and financial milestones/targets for the 10th Plan for each component of the scheme.

4. The Financial Adviser of the concerned Ministry shall invariably be involved with such scrutiny. They would ensure that the schemes are scrutinized as above before approving the same for continuation in the 10th Plan. While the Administrative Ministry is free to evolve an appropriate format for such scrutiny, it may be advisable to use the existing EFC format for this purpose.

Sd/-
(R.N. Choubey)
Joint Secretary (PF II)

To

Secretaries of all Ministries/Departments
Financial Advisers of all Ministries/Departments.

ANNEXURE-V

F.No.1(3)/PF.II/2001
Government of India
Ministry of Finance
Department of Expenditure

(Plan Finance-II Division)
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New Delhi, the 18th February, 2002.

OFFICE MEMORANDUM

Subject :- ***Public Investment/Expenditure - Guidelines for appraisal and approval -***

A need has been felt to prioritize the projects/schemes and take-up only such projects/schemes, which are financially and economically viable and have higher returns. There is also a need to avoid thin spreading of resources and multiplicity of schemes with similar objectives. Therefore, it is necessary to strengthen decision-making process for investments. At the same time, the process should be simple and quick so that the challenges of the competitive economic environment can be met effectively. These considerations will require optimum level of delegation in the system for appraisal and approval of the proposals. Accordingly, the following guidelines/financial limits for appraisal and approval of public investments/expenditure are being prescribed:

2. Appraisal of Plan schemes/projects:-

	Financial limits of Plan scheme/project	**Appraisal Forum**
(a)	Upto Rs.5.00 crores	Ministry/Department concerned, in normal course.
(b)	Above Rs. 5.00 crores but less than Rs.25 crores.	Standing Finance Committee of the Department concerned under the Chairmanship of Secretary with Financial Adviser and Joint Secretary/Director of the concerned Division as members with provision for inviting representatives of the Planning Commission, D/o Expenditure and any other Department that Secretary or Financial Adviser may suggest.
(c)	Rs. 25 crores and above but less than Rs.100 crores	Departmental Expenditure Finance Committee (EFC). Departmental EFC will be chaired by Secretary of the Administrative Department. It will include the Financial Adviser, as the Member Secretary, and the representatives of Planning Commission and D/o Expenditure as members.
(d)	Rs.100 crores and above but less than Rs.200 crores.	Main Expenditure Finance Committee (EFC). Main EFC will consist of Secretary (Expenditure) who will chair the meeting, Secretary (Planning Commission) and Secretary of the Administrative Department. FA will be the Secretary of this EFC.
(e)	Rs.200 crores and beyond.	Public Investment Board (PIB)/Main EFC chaired by Secretary (Expenditure). Projects/schemes where financial returns are quantifiable will be considered by PIB, others by the EFC.

(i) It is clarified that SFC/EFC/PIB will be the appraisal forum for any scheme/project. Their recommendations will require approval of competent authority as indicated in para 3 below.

(ii) In respect of Scientific Ministries/Departments, the appraisal forum (EFC) will continue to be chaired by the concerned Administrative Secretary irrespective of the outlay.

(iii) Navratna and Miniratna PSUs have enhanced powers for taking investment decisions as per guidelines issued by the Department of Public Enterprises. This delegation will be continued.

(iv) For schemes/projects involving setting up of new Autonomous Organizations, EFC will be chaired by Secretary (Expenditure) irrespective of their outlays or nature of the Ministry/Department.

(v) Specific approval of Department of Expenditure for creation of new posts in relaxation of standing economy orders will be necessary irrespective of the recommendations of EFC/PIB.

(vi) At present all projects being posed to PIB are considered in the pre-PIB meeting. Pre-PIB process in respect of projects with outlay upto Rs.500 crores has been dispensed with and the proposals will be considered by PIB directly.

1. Authority for approval

(a) Original Cost Estimates

Project/scheme Outlay	**Approval Authority**
Less than Rs.50 crores	Minister in-charge of Administrative Ministry.
Rs.50 crores and above but less than Rs.100 crores	Minister of Administrative Ministry and the Finance Minister
Rs. 100 crores and above	Cabinet/CCEA
Proposals for new autonomous organisations irrespective of outlay	Cabinet/CCEA

(b) Revised Cost Estimates:

<u>(b)(1) RCE cases less than Rs.100 crores:</u>

(i) RCE cases with outlay of less than Rs.100 crores arising due to change in statutory levies, exchange rate variations and price escalation within the approved project time cycle and the cases involving further cost increase upto 20% can be approved by the authority as per para 3(a) above in consultation with the Planning Commission.

(ii) RCE cases involving increase of more than 20% after excluding the increase due to change in statutory levies, exchange rate variations and price escalation within the approved project time cycle will require appraisal at the forum as per para 2 above and approval as per para 3(a) above.

<u>(b) (2) RCE cases of Rs.100 crores and above:</u>

(i) Revised Cost Estimate (RCE) which arises entirely due to change in statutory levies, exchange rate variations and price escalation within the originally approved project time cycle will be approved by the administrative Ministry/Department concerned in consultation with the Planning Commission.

(ii) The First RCE , which is upto 10% of the originally approved cost estimates (after excluding the increase within the originally approved project time cycle due to three factors mentioned in (i) above) will be approved by the Administrative Ministry in consultation with the Planning Commission.

(iii) First RCE, which exceeds 10% but are upto 20% of the originally approved cost estimates (after excluding increase within originally approved project time cycle due to three factors mentioned in (i) above) shall be appraised by the Planning Commission and will be approved by the Administrative Minister and the Finance Minister.

(iv) First RCE which exceeds 20% of the originally approved cost estimates (after excluding increase within originally approved project time cycle due to three factors mentioned in (i) above) due to reasons such as time overrun, change in scope, under-estimation, etc. shall be posed to EFC/PIB for appraisal and thereafter to CCEA for approval.

(v) Second or subsequent RCE less than 5 % of the latest approved cost (First or previous RCE) (after excluding increase due to changes in statutory levies, exchange rate variation and price escalation within the existing approved project time cycle) will be appraised by the Planning Commission and decided with the approval of the Administrative Minister.

(vi) Second or subsequent RCE involving increase of 5% or more of the latest approved cost (first or previous RCE) (after excluding increase due to changes in statutory levies, exchange rate variation and price escalation within the approved project time cycle) will require appraisal by EFC/PIB and approval of the CCEA.

(b)(3): Criterion for appraisal forum and level of authority for approval of RCE will be cost overrun and not time overrun.

(b)(4): The existing procedure prescribes that RCE cases should be decided by the same authority, which had approved the original proposal notwithstanding any subsequent delegation of powers. This applies to RCE cases of the Ministries as well as Navratna and Miniratna CPSUs also eventhough they have powers, subject to certain conditions, to decide new investments. It is now decided that powers for deciding RCE cases are delegated to the authorities as per powers for fresh approvals.

(b)(5): Where the revised/firmed up cost estimates of scheme/project exceeds the limit of competent authority who approved the original cost of the scheme, the approval of higher competent authority will be obtained.

(b)(6): While processing the RCE cases the contents of Planning Commission's D.O. No.O-14015/2/98-PAMD dated 19.8.1998 regarding consideration of cost & time overruns and fixation of responsibility by the Standing Committee may be kept in mind.

4. Expenditure on pre-investment activities etc.

(a) The delegation of powers for sanctioning pre-investment activity like preparation of Detailed Feasibility/Project Reports will be as follows:

Expenditure/Financial limit	Appraisal/approval authority
Upto Rs.2.00 crores for preparation of DFR and pre-investment activities (including detailed study for preparation of Feasibility Report but excluding land acquisition/infrastructure facilities) subject to availability of budget/plan funds.	Secretary, Ministry/Department concerned.
Proposals of PSU upto Rs.10 crores for preparation of DFR and pre-investment	Ministry / Department concerned.

activities excluding land acquisition/infrastructure facilities, if not funded from Budget and PSU is profit making.	
All other cases	Appraisal by Committee of PIB (CPIB), and approval by the authority as per para 3(a) above

(b) For projects of Ministries of Coal and Road Transport & Highways expenditure on pre-investment activities beyond Rs.20 crores only will require consideration by Committee of PIB.

(c) The delegation of powers to Ministry of Power to sanction estimates for pre-construction works and for development of infrastructure facilities in respect of Hydro Electric Project will be governed by the Ministry of Power letter No.16/31/2000-DO(NHPC) dated 8.6.2001.

5. COSTING OF THE PROJECT / SCHEME :-

(a) The cost of the proposal will be inclusive of all components under which expenditure is required to be incurred (like revenue, capital and loans etc.). At present, the costing of the project is done at constant prices. It has now been decided to make it obligatory for the Department to compute the project cost both on constant prices and completion cost basis so that IRR/ERR can be calculated for both scenarios.

(b) The completion cost may be worked out by taking into account the average rate of inflation in the following manner :-

(i) Labour component of the project cost may be updated using the average (of 12 months) of consumer price index for industrial workers.

(ii) For all other components of cost, except labour, the average (of 12 months) of wholesale price index for all commodities may be used.

6. The delegation of financial powers contained in this OM will be exercised only where necessary/requisite funds are available in the Annual Plan and the Five Year Plan outlay as per phasing of the project/scheme. The powers will further continue to be governed by procedural and other instructions issued by Government from time to time like general economy instructions etc. This order supersedes this Department's OM No.1(5)-PF II/96 dated 6.8.1997. This order will not supersede any specific relaxation granted to a Ministry/Department by the Cabinet/CCEA.

This order will be effective from the date of issue.

This has the approval of the Finance Minister.

Sd/-

(R.N. Choubey)
Joint Secretary (PF.II)

Secretaries of all Ministries/Departments.

F.A.s of all the Ministries/Departments.

Copy to:

1) Adviser, PAMD, Planning Commission
2) Cabinet Secretariat, (Shri N.S.Sisodia, Addl.Secy.)
3) Prime Minister's Office

ANNEXURE-V

F.No.1(3)/PF.II/2001
Government of India
Ministry of Finance
Department of Expenditure
(Plan Finance-II Division)

New Delhi, dated the 13th May, 2002

OFFICE MEMORANDUM

Subject: Public Investment/Expenditure-Guidelines for appraisal and approval-

The undersigned is directed to refer to O.M of even number dated 18.02.2002 on the above subject. The following further clarifications are issued.

2. References are being received seeking clarification on the authority to approve Plan investment upto Rs.5 crores in view of the position indicated at paras 2 and 3 of the O.M referred to above. It is clarified that the guidelines issued vide above referred O.M do not envisage change in the approval authority in respect of projects/schemes with cost limit which was earlier upto Rs. 1.5 crore (prior to issue of the guidelines) and which has been now enhanced to Rs.5 crore. The schemes costing upto Rs.5 crore can, therefore, be approved by the Secretary of the Ministry/Department in the normal course subject to fulfillment of the conditions listed in para 6 of this Department's O.M dated 18.02.2002.

3. Further, in para 6 of the above said O.M, it has been mentioned that "This Order supersedes this Department's O.M No.1(5)/PF.II/96 dated 06.08.1997." The above line is modified and substituted to read "This Order supersedes the corresponding provisions made in this Department's O.M No.1(5)/PF.II/96 dated 06.08.1997 only to the extent that some of those provisions are modified by this order." It is clarified that the position with regard to the other issues mentioned in the O.M dated 6.8.1997 and not covered under O.M dated 18.02.2002 remain unchanged.

4. Para 3(b)(4) has a sentence which states that "It is now decided that powers for deciding RCE cases are delegated to the authorities as per powers for fresh approvals." This sentence is modified to read as "It is now decided that powers for deciding RCE cases are delegated to the authorities as per the provisions in para 3(b)(1) and 3(b)(2) above."

Sd/-

(R.N.CHOUBEY)
Joint Secretary (PF.II)

To

All the Secretaries/FAs (Ministries/Departments)
Adviser(PAMD),Planning Commission

ANNEXURE-V

No.1(3)/PF.II/2001
Government of India
Ministry of Finance
Department of Expenditure
Plan Finance-II Division

New Delhi, dated the 8th October, 2002

OFFICE MEMORANDUM

Subject: Public Investment/expenditure-Guidelines for Appraisal and Approval – RCE cases of Navratna/Miniratna Cos. -

References are being received seeking clarification on the authority for approval of RCE cases of Navratna/Miniratna companies with reference to para 3(b) (4) of this Department's O.M of even number dated 18.02.2002 and para 4 of O.M dated 13.05.2002. The position is clarified as under:

As per the extant orders, the powers for deciding RCE cases are delegated to the authorities as per the provisions in para 3(b)(1) and 3(b)(2) of this Department's OM dated 18.2.2002. The Navratna and Miniratna PSUs have been delegated specific enhanced powers for taking investment decisions as per guidelines issued by the Department of Public Enterprises. It is clarified that the powers for deciding RCE cases of Navratna and Miniratna PSEs are delegated to their Board of Directors in the same manner as powers for fresh approvals. However, it is applicable only in respect of their own projects. The RCE cases of JVs where the powers for approval do not vest with the Board of Directors of Navratna/Miniratna Cos. will continue to be approved by the competent authority/Government by following the procedure laid down in this regard.

(K.M.GUPTA)

Director

To

All Secretaries/ Financial Advisers

ANNEXURE-VI

PLANNING COMMISSION
YOJANA BHAVAN
NEW DELHI-110001
D.O. No. O-14015/2/98-PAMD
August 19, 1998

Dear Dr. Sarma,

The Cabinet Committee on Economic Affairs at its meeting held on 25.6.98, inter alia, decided as under:

"In every case where the project cost over-run is over 20% and is accompanied by time over run of over 10%, or such other time and cost over-run norms as may be deemed appropriate by the Planning Commission for different types of projects, the revised cost estimates should be borough up for approval of the Cabinet Committee on Economic Affairs only after responsibility is fixed for the cost and time over-runs. The Committee directed further that the Planning Commission should devise an appropriate mechanism for fixing the responsibility'.

2. In pursuance of the above decision, the Planning Commission has devised the following mechanism for fixing the responsibility:

(a) Set up a Standing Committee in each Ministry/Department to be headed by Additional Secretary or Joint Secretary and with representatives from Planning Commission, Department of Expenditure and Department of Programme Implementation as members. The Administrative Ministry/Department would act as Secretariat and would be responsible for providing documents/information as may be required by the Committee.

(b) The report of the Standing Committee would be signed by all the members of the Committee and appended to the PIB/EFC memoranda in case of PIB/EFC cases and in other cases the report in respect of projects of Rs. 200 crores and above would be submitted by the concerned Ministry to the Committee headed by Finance Secretary. Recommendations made by the Committee and action taken thereon by the concerned Ministry/Department would be placed before the CCEA. In the case of non PIB/EFC cases costing less than Rs.200 crores, the recommendations made by the Standing Committee and action taken thereon would be submitted by the Ministry/Department directly to the CCEA.

(c) The background note circulated for the Standing Committee should, inter alia, include: (i) a brief but comprehensive and self explanatory note on the reasons for cost and time over-run, (ii) a detailed chronology of events, starting from the date of approval, and (iii) the duly filled in check list (copy enclosed).

(3) The above mechanism for fixation of responsibility would be **applicable to all cases being posed to the CCEA.**

(4) In cases where Administrative Ministries/Departments are competent to sanction increase in project cost within the delegated powers, it would be for them to fix the responsibility for cost and time over-runs.

(5) I, therefore, request you to set up a Standing Committee as mentioned above and ensure that the cases which require fixing the responsibility are brought before it without any delay.

(6) This issues with the approval of Deputy Chairman, Planning Commission.

With Regards,

Yours sincerely,

(Ahmad Masood)

Encl: As above

Dr. E.A. S. Sarma,
Secretary,
Department of Expenditure,
North Block, New Delhi.

CHECK LIST FOR DETERMINING THE RESPONSIBILITY FOR TIME AND COST OVER-RUNS.

A - ADMINISTRATIVE AND PROCEDURAL DELAYS

Failures	Agency/Person responsible
*Sanction letter ❑ Delayed issue ❑ Not defining PTC, cost, accountability etc. ❑ Others (Specify)	
*Processing of RCE:- ❑ Delay in submission ❑ Delay in Pre-PIB meeting ❑ Delay in circulation ❑ Delay in appraisal ❑ Delay in PIB/EFC meeting ❑ Others (Specify)	

B- LAND ACQUISITION

Failures	**Agency/Person responsible**
***Assessment of requirement/suitability** ❑ Not assessed ❑ Area of land not indicated ❑ Site/location not surveyed ❑ Inspection/soil testing not done ❑ Inspection/testing not professional ❑ Others (Specify)	
***Acquisition process :** ❑ Advance action not taken ❑ Action taken but no possession ❑ Possession not on time ❑ Possessed but with encroachment ❑ Forest land clearance not obtained ❑ Rehabilitation of displaced not done ❑ Others (Specify)	

C-FUND CONSTRAINTS

Failures	**Agency/Person responsible**
***General** ❑ Requirement not properly assessed ❑ Sanctioned without adequate funds	

❑ Late request for release ❑ Delayed release of funds ❑ Additional projects taken up affecting fund availability for this projects ❑ Others (Specify)	
***Foreign loan / grant** ❑ Not tied up on time ❑ Tied up but delay at DEA ❑ Alternative funding not identified ❑ Others (Specify)	
***Internal Resources** ❑ Inadequately assessed ❑ New projects taken up affecting funding of the projects ❑ Others (Specify)	
***Domestic borrowing** ❑ Over-estimation of ability to borrow ❑ Advance action not taken ❑ Others (Specify)	
***Matching resources from States etc.** ❑ Due consent of contributors no obtained ❑ Funds not released on time ❑ Released but partly ❑ Others (Specify)	

D- TECHNICAL / DESIGN PROBLEMS

Failures	Agency / Person responsible
***Faulty Technical Parameters** ❑ 1st stage clearance required but not obtained ❑ Poor quality of DFR ❑ Short-listing of Consultants not done ❑ Alternatives not adequately defined ❑ Lay out Plans/designs not got approved from Competent authorities ❑ Others (Specify)	
***Change in Scope / Quantity / Technology** ❑ Inadequacy of investigations/surveys ❑ Change in size/scale ❑ Additions foreseeable but not foreseen ❑ Additions not foreseeable (new regulations environment etc. ❑ Under-estimation ❑ Wrong choice of technology ❑ Non identification of alternative technologies in advance ❑ Non identification of suitable vendors ❑ Others (Specify)	
***State of preparedness of the PSU** ❑ Project team not appointed on time ❑ Statutory clearances not obtained in advance ❑ Lay-out plans/designs not prepared on time ❑ Basic engineering not done on time ❑ Delay in technical clearance ❑ Others (Specify)	

E-TENDERING/CONTRACTING

Failures	Agency/Person responsible
***Advance action** ❑ Size/specifications etc. not finalized ❑ Contractors/suppliers not identified ❑ Contract terms not formulated properly ❑ Job packages unprofessionally made ❑ Others (Specify)	
***Time schedule for tendering** ❑ Not drawn up ❑ Delay: preparation of tender documents ❑ Delay in issuing tender notice ❑ Delay in opening and evaluation of Tenders ❑ Delay in awarding the contract ❑ Others (Specify)	
***Ineffectiveness of contractual clauses :** ❑ Liquidity Damages Clause not included ❑ Liquidity Damages Clause not invoked ❑ Liquidity Damage Clause not adequate ❑ Poor performance of the contractor ❑ Contractors" failure due to missing Linkages ❑ Others (Specify)	

F-IMPLEMEN5TATION PLAN AND MONITORING MECHANISM

Failures	Agency/Person responsible
*** Commissioning Schedule:** ❑ Commissioning schedule not realistic ❑ Sequencing and scheduling of activities not professional ❑ No Bar Chart/PERT diagram prepared ❑ Others (Specify)	
*** Implementation Plan:** ❑ Key personnel not placed on time ❑ Delay in finalization of modalities for execution ❑ Linkages not properly assessed ❑ Risk/uncertainties not identified ❑ Others (Specify)	
*** Monitoring Mechanism at Project Level** ❑ Nodal Officer (Chief Executive) for the project not designated ❑ Periodical review was not done ❑ Progress reviewed was not done ❑ Progress reviewed busst no corrective Actions taken ❑ Others (Specify)	
*** Monitoring Mechanism at Ministry Level** ❑ Not set-up ❑ Progress not monitored periodically ❑ Progress reviewed but no action taken ❑ Problems no brought before EC/QPR ❑ Brought before EC/QPR but not resolved ❑ Others (Specify)	