121.4.18

No. NHIII/P/16/78 *Dated the 21st September, 1984*

Subject : Public Investment Board Procedure & Additional Guidelines

A copy each of the Ministry of Finance, Department of Expenditure O.M. both No. 1 (4)/PF. II/84 dated 23rd & 25th August, 1984 on the above subject together with enclosures, is forwarded herewith for information/guidance and necessary action direct.

To

(i) PS to DG (RD)/Senior P.A. to ADG (R)/Senior P.A to ADG (B)

(ii) All Chief Engineers in the Roads Wing.

(iii) DS(R)/DS(P&B)/All Superintending Engineers in the Roads Wing/All Under Secretaries in the Roads Wing.

(iv) All Desk Officers/Section Officers in the Roads Wing.

No. CDN/CMF-35/84 *Dated the 31st August, 1984*

Subject : Public Investment Board Procedure & Additional Guidelines

A copy each of the Ministry of Finance, Department of Expenditure O.M. both No. 1 (4)/PF II/84 dated 23rd & 25th August, 1984 on the above subject together with enclosures, is forwarded herewith for information/guidance and necessary action direct.

To

DG(RD)/JS(T)/JS(P)/DA/CE(IWT)/DIR(S)/DIR(MM)/DS(SY)

Copy also to : The heads of all Public Undertakings.

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF EXPENDITURE
(PLAN FINANCE II DIVISION)

No. 1 (4)/PF. II/84 *Dated the 23rd August, 1984*

OFFICE MEMORANDUM

Subject : Public Investment Board Procedures

A review of the revised cost estimates brought before the PIB for their consideration in the recent years reveals large cost and time over-runs. Apart from escalations arising from the present system of project approval on the basis of fixed cost and also from time over-runs, factors like substantial changes in the scope of the projects, gross under provisioning for some items, omission to provide for all the essential items etc. are also seen to contribute to the major proportion of the increase in cost.

2. The sanction of a large number of projects at grossly under-estimated project costs leads to an anomolous situation particularly at a time of resources constraint. Not only is there a pre-emption of resources for the ongoing projects, leaving little for new projects, but often it also becomes difficult to fund fully the various ongoing projects themselves. The time over-runs also result in a large volume of investment lying idle thereby reducing the tempo of growth of the economy. It is against this background that the Economic Advisory Council have in their Second Report stressed the need for introducing increased discipline in project formulation and appraisal so as to avoid subsequent cost escalation without demonstrable reasons and for introducing greater selectivity in the choice of new projects, so that low priority projects are not cleared. The rising input-output ratios of the public sector projects and the considerable resources constraint that the economy is expected to face in the Seventh Plan also underline the need for such measures. On the balance of payment side the Seventh Plan has to take into account the prospect of considerably diminished flow of concessional financial assistance from abroad, sizeable debt service obligation and an environment where interest rates are expected to remain high, with only limited possibilities of any acceleration in the volume of export growth. Thus, in respect of projects invloving large external finances and/or import of machinery and raw material, as also those aiming at import substitutions, a greater element of selectivity, with emphasis on cost effectiveness becomes necessary.

3. It has, therefore, been decided that only those projects with a financial rate of return and an economic internal rate of return both exceeding 12% should be posed to the PIB for their consideration in future. The economic internal rate of return shall be computed as per the existing guidelines, i.e. excluding taxes and duties, adopting a premium of 25% on foreign exchange and shadow pricing for energy costs, transport charges, etc., where necessary.

4. In those cases where either the financial rate of return of the economic internal rate of return is over 12%, but the other one falls short of the norm, and the administrative Ministry still considers it essential that the project should be taken up for implementation, the reasons therefore should be gone into in detail at the pre-PIB meetings and also set out in the memorandum for the PIB. The PIB shall consider such cases, only in exceptional circumstances and that too only if the projects are in the core sector.

5. Under no circumstances shall projects with both the financial and economic internal rates of return falling below 12% be considered by the PIB.

6. It has been noticed that a number of proposals being put up to PIB have very high costs in terms of rupees in relation to the amount of foreign exchange saved. In a situation where rupee resources are also scarce, it is improtant to ensure that the rupee cost of saving foreign exchange is not unduly high. In order to focus attention on this problem, in future all proposals for consideration of the PIB should contain a calculation of the "Domestic Resource Cost" of saving foreign exchange. Rupee cost

of saving foreign exchange is the ratio of the discounted stream of *net* domestic costs over the life of the project to the discounted stream of *net* foreign exchange benefits. All potentially importable exportable items are counted as part of the net foreign exchange stream and no shadow exchange rate is used in the calculation. This calculation will also be discussed in the PIB meeting. (A rough and ready calculation of the cost of foreign exchange saving can be made by taking the cost and output data for the year in which the project is expected to reach full production. Thus, if the c.i.f. value of output is Rs. 100/- and imported raw materials (c.i.f.) plus depreciation on imported machinery amount to Rs. 50/- the net foreign exchange saving is Rs. 50/- or $ 5 (assuming $ 1 = Rs. 10). If the cost of domestically procured raw materials (net of excise), labour and other variable costs plus interest charges and depreciation on indigenous machinery in that year is Rs. 100/- then the rupee cost of saving a dollar of foreign exchange is Rs. 20 to $ 1 which will be twice the prevailing exchange rate of the rupee with dollar).

7. A number of projects which at the time of approval were found justified on the basis of time and cost schedules as set out in the feasibility reports presented to the PIB were subsequently seen to have come totally unviable because of inordinate delays in implementation and cost over-runs. In order to bring out the impact of such over-runs on the viability of a proposed project, the Project Appraisal Division of the Planning Commission shall in its appraisal carry out a sensitivity analysis on the internal rates of return for different levels of time and cost over-runs. In respect of undertakings, which have implemented and/or implementing projects, one of the points in the sensitivity analysis shall be the "average" delay noticed in the implementation of projects by the undertaking.

8. All Ministries/Departments are requested to ensure that these guidelines are strictly observed. They are also requested to bring these guidelines to the notice of the public sector undertakings under their control for complinace.

9. These instructions have the approval of the Finance Minister.

To

All Ministries/Departments of the Government of India

All Secretaries (by name) of the Government of India

Special Secretary, Prime Minister's Office

Special Secretary & C.E.A., Department of Economic Affairs

Special Secretary & D.G., Bureau of Public Enterprises

Additional Secretary (EF), Department of Economic Affairs

Adviser (PAD), Planning Commission

All Financial Advisers (by name)

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF EXPENDITURE
(PLAN FINANCE II DIVISION)

No. 1 (4)/PF.II/84 *Dated the 25th August, 1984*

OFFICE MEMORANDUM

Subject : Public Investment Board Procedures-Additional guidelines

With a view to introducing a greater degree of selectivity in the projects to be posed to the Public Investment Board for their consideration, certain criteria have been stipulated in this Ministry's Office Memorandum No. 1 (4)/PF.II/84 dated 23rd August, 1984. As part of these measures it also becomes necessary to amplify/modify some of the guidelines already in force. These additional guidelines are set out in the annexure.

2. All Ministries/Departments are requested to ensure that these guidelines are strictly observed. They are also requested to bring these guidelines to the notice of the Public Sector Undertakings under their control for compliance.

3. These instructions have the approval of the Finance Minister.

To

All Ministries/Departments of the Government of India

All Secretaries (by name) of the Government of India

Special Secretary, Prime Minister's Office

Special Secretary & C.E.A., Department of Economic Affairs

Special Secretary & D.G., Bureau of Public Enterprises

Additional Secretary (EF), Department of Economic Affairs

Adviser (PAD), Planning Commission

All Financial Advisers (by name)

ANNEXURE

PUBLIC INVESTMENT BOARD PROCEDURES ADDITIONAL GUIDELINES

All proposals, whether a new project proposal or a revised cost estimate, to be brought before the Public Investment Board for its consideration, shall first be examined at a Pre-PIB meeting to be taken by the Financial Adviser of the concerned Ministry with representative of the appraising agencies-Project Appraisal Division (Planning Commission) Bureau of Public Enterprises, Department of Economic Affairs and Plan Finance. Representatives of the concerned division of the Planning Commission dealing with the subject as also of all Ministries/Departments of the Government of India, like Railways, Department of Electronics, Department of Environment, etc., who are concerned with the project, shall also be invited for the meeting. Where, for successful implementation of the project, complementary investments are to be made by other agencies, as for instance, on provision of water supply, laying of roads, setting up of railway facilities etc., then representatives of these agencies shall also be invited for the meeting. Where import of technoloyg/equipment/raw material or external funding is visualised, it is to be ensured that a representative of the Department of Economic Affairs attends the meeting. The minutes of the Pre-PIB shall be appended to the memorandum to the PIB and the main points raised at the Pre-PIB meeting should be specifically referred to and dealt with in the body of the PIB memorandum. The papers for the Pre-PIB meetings shall be circulated to all the invitees at least six weeks before the date of the meeting so as to give sufficient time to these agencies to examine the proposal in depth and offer their comments, if possible in writing, before the meeting itself.

2. In order to enable the PIB to have a complete picture of the proposal, the memorandum to the PIB should be in detail, setting out in financial and physical terms all aspects of the project, and should, *inter alia*, contain information on all items listed in this Ministry's O.M. No. 1 (6)/PF. II/82 datd 2.11.1982. The PIB Secretariat has been authorised to return the PIB memoranda which do not contain all the relevant information and are considered incomplete.

3. While forwarding 40 copies of the PIB memoranda to the PIB Secretariat, the Administrative Ministry shall also simultaneously send copies, directly to each of the appraising agencies so as to enable them to examine and offer their comments on the proposal. In the normal course, the proposals would be brought before the PIB for its consideration in about four to six weeks from the date of receipt of the memoranda so as to allow sufficient time to the appraising agencies to forward their comments.

4. The memorandum to the PIB shall clearly set out the project cost as well as the phasing as arrived at on the basis of the feasiblity report/revised cost estimates report. The memorandum shall also indicate the approved annual/Five Year Plan outlays and, where there is a gap between the requirement and availability of funds, there should be a clear indication of how it is proposed to bridge the gap. In the case of new project proposals, if there is a gap between the requirement of funds and the availalbe Plan provisions, the Administrative Ministry concerned should take up the matter with the Planning Commission and the Finance Ministry and only after this issue is satisfactorily settled, should the proposal be brought to the PIB for an investment decision. The memorandum to the PIB shall also set out the details of the expenditure, if any, that will have to be incurred by other agencies, to ensure successful functioning of the project. In such cases, the information obtained from these other agencies regarding the availability of funds for meeting the same, should also be set out in the PIB memorandum. This aspect should, in particular, be gone into in detail in the Pre-PIB meeting.

5. It has been observed that in a large number of cases, a major portion of the time over-run and cost over-run is attributale to major scope changes in the project after it had been approved for implementation. Large omissions as well as under-provisioning for even essential items have also been noticed in many cases. It is necessary to ensure that investment decisions are taken only on the basis of well prepared feasibility reports. In the memorandum for the Pre-PIB meeting the Administrative Ministry shall, therefore, set out in detail the various pre-investment activities that have been undertaken, and in the Pre-PIB meeting one of the main items to be covered would be the adequacy of the pre-investment activities for determining the broad parameters of the project and the cost estimates with a reasonable degree of accuracy. In the memorandum to the PIB, the comments of the appraisal agencies, as indicated in the Pre-PIB meeting, on the adequacy of the pre-investment activities undertaken, should be specifically highlighted. Where the discussions at the Pre-PIB, and in the PIB meetings reveal misgivings about the adequacy of the pre-investment activities and the reasonableness of the cost estimates and project parameters, the PIB would return the proposal for the preperation of a fresh feasibility report based on more intensive studies.

6. Where the initial investment clearance is given on the basis of feasiblity report and not a detailed project report, the existing instructions stipulate that the Administrative Ministry should bring to the PIB the firmed up cost estimates along with the detailed project report within a period of one year. In many cases, the firmed up cost estimates are not being brought to the PIB within the stipulated period of one year, while in a few cases, the detailed project report is not being presented to the PIB at any stage. It is also noticed that where major changes are made in the scope of the project after its approval, these changes are not brought to the notice of the PIB till a very late stage, leaving the PIB with no option but to approve the revised project profile as proposed. It is necessary that in the event of major changes having to be made in the scope of the project, the proposal is brought before the PIB for its consideration at the earliest. With this end in view it is hereby reiterated that where the initial approval is based only on a feasibility report, the Administrative Ministry concerned shall bring to the PIB the firmed up cost estimates along with the detailed project report within one year of the date of approval of the project. In those cases where it is expected that the preparation of the detailed project report would take some more time, the reasons for this should be brought

to the notice of the PIB within the sipulated one year period, along with the latest cost estimates, and details of scope changes, if any, considered necessary up to that stage, and the PIB shall set a fresh date by which the firmed up cost estimates and the detailed project report are to be brought before it for its consideration. In all these cases, where large scope changes are considered necessary, the Administrative Ministry shall, to the extend possible, keep the commitments to the minimum till these have been brought to the PIB and its clearance obtained. It shall be the responsibility of the Financial Adviser of the Administrative Ministry and the Finance representative on the Board of the public sector undertaking concerned to ensure that this requirement is fulfilled and towards securing this objective they shall stop further release of funds if the firmed up cost estimates/detailed project report are not brought before the PIB by the stipulated time.

7. A number of instances of large cost over-runs have come to notice where funds in excess of the approved cost estimates have been released, before the clearance of the PIB for the revised cost estimates was sought. It shall be the responsibility of the Financial Adviser of the Administrative Ministry and the Finance representative on the Board of the public sector undertaking concerned to ensure that the revised cost estimates are brought to the PIB for consideration before the actual expenditure exceeds the approved cost estimates and towards this end they shall ensure that funds are not released in excess of the approved cost estimates before the revised cost estimates are cleared by the PIB.

8. Weaknesses in organisational structure and deficiencies in managment are also seen to contribute to cost and time over-runs. The memorandum to the PIB should, therefore, contain a section on the past/current record of performance of the undertaking in implementation of projects. The details of the cost and time over-runs together with the deficiencies, if any, noticed in the organisation and the steps proposed to be taken to set things right should also be spelt out. The organisational arrangements proposed to be put on ground for implementing the prosposed project, together with the details of the senior management staff already identified for implementing the project should also be indicated. This section should also contain information in repsect of basic parameters like production turn over, profitability etc. of the undertaking for the preceding five years and the projections for succeeding five years.

9. In respect of all projects approved for implementation on the basis of the PIB's clearance, the Administrative Ministry shall send to the Bureau of Public Enterprises and to the PIB Secretariat a report every quarter reviewing in detail the progress made in the implementation of the project till it is completd. The forwarding of the progress report in respect of any project shall be stopped only after the completion report has been sent.

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF EXPENDITURE
(PLAN FINANCE DIVISION)

No. 1 (6)/PF-II/82 *Dated the 2nd November, 1982*

OFFICE MEMORANDUM

Subject : Form of P.I.B. Memorandum

Unlike the EFC Memorandum, the PIB procedure does not provide for preparation of the PIB Memorandum in a particular format. The matter has been considered in the light of information contained in PIB Memorandum prepared for different projects by various Ministries. While it is realised that it is not possible to prescribe a proforma for universal application, it is necessary to ensure that the system provided for flow of certain essential inforamtion relating to each project to the PIB through the Memorandum. The type of information considered essential for this purpose has been identified and included in the Annexure. While it is open to every Ministry to prepare the PIB Memorandum in such a form as to contain all relevant information relating to each project according to its peculiarity for taking the investment decision, it is requested that the PIB Memorandum is so drafted as to ensure that the minimum information indicated in the Annexure is contained therein. It is not essential that the text of the PIB Memorandum must contain all the information. Some of these could be set out an Annexures to the Memorandum.

2. It need not be emphasised that all other information vital for consideration of the investment proposal should also be set out in the PIB Memorandum.

3. Ministry of Agriculture etc. are requested to implement these instructions with immediate effect.

4. Financial Advisers are requested to ensure compliance with these instructions before clearing a PIB Memorandum for consideration by the PIB.

SECTION-I

1. Name of the Project

2. Whether it is a case for fresh approval or firmed up or revised cost estimates
(Additional information for firmed up cost estimates/revised cost estimates as in Section-II will have to be furnished)

3. Name of the implementing agency

4. Administrative Ministry

5. Location (State/District/Town)
6. Agency which prepared the feasibility Report/Detailed Project Report/Detailed Cost Estimates.
7. Date of Preparation of FR/DPR/DCE
8. Demand-supply-gap and the contribution of the project to bridge the gap. Projection for export, if any, may also be indicated.
9. Principal raw material/components and source thereof indicating annual imports in quantity and value.
10. Where import of technology is involved, brief justification for the same.
11. Major facilities with capacity of each facility (i.e. Ammonia Plant, Urea Plant, Utilities etc. in a Fertiliser Project or Gascracker. PVC, LDP etc. down-steam plants in a petro-chemical Project).
12. Product-mix and capacity for the end product.
13. Captial cost with break up under broad headings (like plant & equipment utilities etc.).
    In the case of firmed up cost estimates/revised cost estimates, information about last approved cost may also be supplied.
14. Foreign Exchange component
15. Specific investment per unit (e.g. per tonne of coal, per tonne of fertilizer, per tonne of steel, per MW of power).
16. Base price for cost estimates.
17. Basis of cost estimates.
18. Degree of reliability of cost estimates (excluding future escalations).
19. Whether clearance from environmental angle has been obtained and whether adequate provisions of combat environmental hazards has been made.
20. If it is an expansion proporal, comparison of cost with a grass root facility.
21. System cost not included in the estimates.
    (e.g. investment on the linked coal mine in the case of a power project or investment on Railways/Port facilities etc.)
22. Completion schedule
    (Include all activities)
23. Production build-up
24. Phasing of investment.
25. Likely expenditure during plan period and the approved plan provision.
26. Justification for taking up the project, if not included in the approved Five-Year Plan.
27. Sources of financing, indicating the extent of budgetary support required during the plan period.
28. Cost of production per unit.
29. Selling price per unit.
30. Value of annual output.
31. Financial IRR, indicating assumption about extent of capacity utilisation.
32. Economic IRR without premium on foreign exchange.
33. Annual foreign exchange savings (excluding value of imported raw materials components, royality, etc.)
34. Direct employment generation.
35. Annual subsidy, if any, for sale at administered prices.
36. Assumptions made in the proposal which are uncertain (apart from current cost and prices).
37. Alternatives considered in making the proposal.
38. Project management set up, existing or proposed.
39. Information about the number of projects which will implemented concurrently by the same implementing agency, and if the organisation is geared to tackle all of them.
40. Reservations/comments of appraising agencies.

SECTION-II

(Additional inforamtion in the case of firmed up or revised cost estimates)

41. Date of approval of original cost of firmed up cost.
42. Original or firmed up apporved cost together with FE component.

43. Present cost together with E.E. component.

44. Major variation in the capacity or the project concept if any from the earlier approved proposal.

45. Change in pattern of funding, if any.

46. Earlier project completion schedule.

47. Revised project completion schedule.

48. Brief reasons for time over-run in clear terms.

49. Various analysis of cost increase under :—

    (a) Escalation

    (b) Change in scope/addition

    (c) Change in statutory levies

    (d) Omissions.

    (e) Under estimation.

    (f) Others.

50. Quantification of increase in cost on account of time over-run.

51. Present status of physical progress of the project.

52. Expenditure incurred and commitments made so far.

53. Effect of revision in capital cost estimates on cost of production and profitability with reference to earlier approved capital cost of the project.