

No. NHIII/P/16/78

*Dated the 27th May, 1980*

To,

All Technical Officers of the rank of S.E. DS(P&B)/DS(R)/All Under-Secretaries/D.O.II/D.O.III/all sections in the Roads Wing.

*OFFICE MEMORANDUM*

Subject : Submission of cases to Expenditure Finance Committee/Public Investment Board — Clarification in regard to the procedures for obtaining approval of the Board

A copy of the Ministry of Finance (Department of Expenditure) O.M.No. F.1 (80)/PF-II/78 dated 2nd April 1980 is circulated herewith for information/guidance.

*COPY OF O.M.NO.F. 1 (80)/PF-II/78. DATED THE 2ND APRIL, 1980 FROM THE MINISTRY OF FINANCE (DEPTT. OF EXPENDITURE) NEW DELHI. ADDRESSED TO ALL MINISTRIES/DEPTTS. OF GOVT OF INDIA AND OTHERS.*

Subject : Public Investment Board/EFC — Clarifications in regard to the procedures for obtaining approval of the Board.

The undersigned is directed to say that clarifications have been sought from time to time on certain points relating to the procedure to be followed for obtaining approval of the EFC/PIB for investment decisions. The points raised have been examined in detail and the position is clarified as under :

1. Criterion for deciding the forum — EFC or PIB — for projects which are not of a commercial nature.
  - 1.1. **In accordance with the existing orders, EFC considers schemes/programmes/projects costing Rs 1 crore and above but less than Rs 5 crores. The PIB, on the other hand, takes investment decisions on proposals costing Rs 5 crores or more for public investment to produce goods and to provide services. In actual practice, however, a decision as to whether a particular scheme costing even more than Rs 5 crores requires a reference to the PIB or not is taken on merits keeping, amongst others, the following factors in view :-**
    - (1) **Whether the scheme can lend itself to appraisal with reference to demand, choice of technology, location, economic and financial return;**
    - (2) **Whether the scheme will be financed by grants/loans or subsidies with a very small component attributable to buildings, equipment, etc.**
    - (3) **Whether the scheme involves capital investment.**
  - 1.2. **It has been decided that as it is not possible to lay down criterion covering all types of cases, the present flexible practice of deciding individually whether EFC or PIB should be the forum for approval should continue.**
  - 1.3. **In the case of large programmes, which are difficult to break down into separate identifiable projects, the total expenditure in a Plan period incurred by the Central and State Governments on a scheme included in Plan, should be regarded as the criterion for deciding whether approval of the EFC/PIB will be necessary. This will also hold good in the case of schemes continuing from earlier plan periods and spilling over to the next plan. In the case of specific identifiable schemes/projects, however, the total estimated cost of the scheme/project itself (and not the expenditure in a Plan period) should be got approved by the EFC/PIB.**
  - 1.4. **It may be stated for information that all recurring expenditure like staff costs, contingencies etc. upto the date of commissioning of the scheme or project should be included in the amount of or which approval of EFC/PIB is sought. Also schemes/projects with (a) non-recurring expenditure between Rs 1 and 5 crores (b) recurring expenditure more than Rs 20 lakhs per annum, and (c) staff costs more than Rs 10 lakhs per annum in the case of plan schemes and Rs 5 lakhs per annum in other cases, require approval of EFC.**
  - 1.5. **Interest during construction of a project should also be included in the capital cost of the project to be approved by EFC/PIB.**
2. **Need for obtaining clearance of EFC/PIB for renewals and replacements of plant and machinery including capital repairs.**

It is clarified that expenditure proposals for renewals, replacements and repairs on items included in the approved programme for renewals and replacements (and for which provision is made in the budget) of the undertaking concerned are not to be referred to the EFC/PIB. Other expenditure proposals not covered by this exemption should continue to be referred to EFC/PIB for investment decisions. It should be ensured that all cases where there is substantial change in scope, should be brought up before EFC/PIB, as the case may be.

3. Stage at which PIB approval should be sought in respect of projects assisted by the World Bank.
  - 3.1. **At present, projects to be assisted by the World Bank are discussed in a series of inter-departmental meetings with which the Planning Commission, Department of Expenditure, Administrative Ministries and the Financial Advisers concerned are fully associated. The World Bank representatives are also associated at an appropriate stage before completion of the appraisal of the project by the World Bank and submission of the report thereon. The**

parameters of the project do not, in some cases, however, get settled until half-way during the discussions. In this context, a question has been raised whether the approval of the EFC/PIB for a project should be sought before it is taken up for discussion and appraisal by the World Bank or after appraisal of the Project by the World Bank.

- 3.2. It should be noted that in such cases the Project gets a concrete shape only during the course of discussions with the World Bank representatives as stated above. It has, therefore, been decided that it would neither be useful nor feasible to seek the clearance of the EFC/PIB at a stage prior to commencement of discussions with the World Bank representatives. The administrative Ministries should keep their Financial Advisers intimately associated with the formulation of and in all important discussion on such projects. Based on the progress in the inter-Departmental meetings, the Financial Advisers should advise the Secretary of the Administrative Ministry and initiate timely action to seek the approval of the EFC/PIB for the Projects.

4. With a view to streamlining the EFC/PIB procedures, the following instructions are also circulated :

*Role of F.A. in processing of EFC/PIB cases*

- 4.1. Under the IFA system introduced in most of the Ministries in 1975, the FA of the Ministry should be associated in the formulation of all schemes and projects, right from the beginning. It is, however, observed that some Ministries prepare EFC/ PIB proposals without consulting the FA, circulate them to all the appraising agencies, and endorse copies to the FA also for his comments. This practice is not in accordance with the spirit of the IFA system. The Ministries where IFA system has been introduced are, therefore, requested to formulate and process expenditure proposal for EFC/PIB, in close association with their FAs and circulate for appraisal only the proposals as concurred in by the FA or alternatively include and discuss FAs comments in the draft EFC/PIB memorandum circulated for appraisal. Once such proposal get evolved in association with the FA in this manner, the appraising agencies can offer really substantive and major comments, without covering the area normally looked into by the FA.

*Note for the Public Investment Board/E.F.C.*

- 4.2. It has been observed that no uniform practice is being followed at present by the Ministries in the preparation of the note for circulation amongst the members of the PIB/EFC. While some Ministries prepare a single note including therein the comments of their FA, other Ministries and their FAs prepare separate notes for circulation. Many a time the comments of appraising agencies and replies thereto of the Ministries are also appended to PIB/EFC memorandum. This causes inconvenience to the members as they have to go through long and sometimes contradictory notes which makes identification of real issues difficult. The administrative Ministries etc, therefore, requested to prepare, after receiving comments from all appraising agencies a comprehensive, self-contained but brief note which should contain the salient features of the project and deal with the comments of the FA and appraising agencies so that all the relevant details of the finalised proposal are available at one place. If essential, the comments of a particular appraising agency may be dealt with briefly in the PIB/EFC note of the administrative Ministry and details etc. incorporated suitably in annexures. The fact that the note has been seen by the FA and the Secretary of the Administrative Ministry should invariably be indicated in the concluding paragraph thereof.

*Time-limit for furnishing comments*

- 4.3. In order to ensure speedy finalisation of schemes/projects, it is essential that the appraising agencies associated with the processing of investment proposals finalise their comments and communicate the same to the sponsoring Ministries within a reasonable time-limit. For this purpose, a time-limit of 15 days in EFC cases and one month in PIB cases has already been prescribed vide para 3(ii) of this Ministry's O.M. No. F. 1 (18)/PF-II/78 dated the 23rd Nov. 1978. However, the aforesaid time-limit will apply from the date on which complete information required for appraisal of a scheme/projects is furnished as explained in this Ministry's O.M. No. F.1 (18)/PF-II/78 dated the 1st Feb. 1979. The administrative Ministries etc. are requested to note the above position so that the examination of the schemes etc. is completed as quickly as possible.

*Nodal section to issued orders on EFC procedure*

- 4.4. So far E(Coord) Section has been issuing orders on the procedures relating to EFC. Since it is essential to retain as much uniformity as possible in the procedures applicable to both EFC and PIB cases, Plan Finance-II section has taken over from E(Coord) the responsibility for issuing

instructions of EFC procedure. This change may be noted and communications on this subject may be addressed in future to plan Finance-II Section of the Plan Finance Division in the Department of Expenditure.

5.9. Ministry of Agriculture etc. are requested to note these clarifications/instructions and also bring them to the attention of the Public enterprises under them in a suitable manner.

6. Hindi translation of the O.M. is being issued separately.

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