

**File No. 3/3/2004-PMU**  
**Ministry of Finance**  
**Department of Economic Affairs**  
**PMU Division**

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**Dated: May 9, 2005**

**Guidelines for posing, implementation and monitoring of externally aided projects**

Department of Economic Affairs receives a large number of project proposals from Central Ministries and State Governments for external assistance. The Government of India feels the need to revise the existing system of posing projects for external assistance for its better management and implementation.

**Preparation of the Preliminary Project Report (PPR)**

2. All State Governments, Central Ministries / Departments shall prepare a Preliminary Project Report (PPR) with tentative financial details before they pose a project proposal for external assistance.

3. The PPR should be prepared keeping in view the priorities of the Government of India and the State Government as envisaged in the five year plan document. The development cooperation programmes of bilateral and multilateral funding agencies are aligned with the priorities of Government of India. The PPR should list out the desired development objectives and, as far as possible, quantify the objectives. The PPRs which do not satisfy the minimum requirements for posing the proposal for external assistance would not be accepted or will be returned by DEA for modification / improvement. The PPR should be accompanied by a project abstract containing essential details in a format. An outline of the format is at Annex I.

4. PPRs for the State projects should be routed to the Department of Economic Affairs (DEA) through the Central sectoral ministry. The PPRs of the Central ministries/departments should be sent with the clearance of Planning Commission and conforming to standard extant procedures of Department of Expenditure in this regard. The DEA would then scrutinize the PPR. This will save time and expedite posing of quality PPRs to the external funding agencies as well as eliminate poorly conceived proposals at the threshold.

**Projects in the North Eastern region**

5. As the Ministry of Development of North East Region is the nodal Ministry for North East region of the country, proposals for EAPs for this region should be sent to Department of Economic Affairs through the Ministry of Development of



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North East Region. In case of States of North Eastern Region, clearance of Ministry of Home Affairs (MHA), Ministry of External Affairs (MEA), and Ministry of Development of North Eastern Region would be mandatory in addition to the concurrence of concerned Central sectoral Ministry/Ministries.

### **Fulfillment of debt sustainability criteria**

6. While recommending projects for external assistance, the concerned Central sectoral Ministry and State Government should ensure that in case a project is from a State which is debt stressed (as notified by Department of Expenditure from time to time), that State should first obtain the concurrence of Department of Expenditure for replacing an agreed source of loan within the agreed debt cap with the proposed externally aided project. The project should be recommended by the Central sectoral Ministry/ State Government for external funding to DEA only with due concurrence of Department of Expenditure for accommodating the proposed external loan within the agreed debt cap of the debt stressed state. The Credit Divisions in Department of Economic Affairs should carry out examination of the project proposal with due diligence before posing it for external assistance and convey indicative project outlay / loan amount to Department of Expenditure and the broad terms and conditions of the multilateral or bilateral loan, as prevailing at the time of posing the project for external assistance.

### **Submission of the detailed Project Report**

7. Once the PPR is cleared, the State Government or the concerned Ministry / Department of the Central Government should submit a detailed project proposal (DPR) for external assistance. The detailed project report should adequately reflect the strategic elements of techno-economic (economic viability, social cost benefit, value addition, etc), ecological (land use, ecological sustainability etc), socio-cultural (target population and gender matters, participation, social impact, etc) and institutional (institutional and organizational analysis, capacity building, training etc) dimensions in the project design in measurable terms. It should be in accordance with the generic structure as suggested in Department of Expenditure's O.M. No.1(2)-PF-II/03 dated 7<sup>th</sup> May, 2003 (copy enclosed). An objective oriented project design in a matrix format along with work plan, cost and time schedule indicating target/output, cashflow statement etc. should also be part of DPR. An indicative outline of above matrix is attached for guidance (Annex II). The proposal of the State government should reach DEA through the Ministry concerned in the Central Government along with their appraisal/comments. Proposals of Central sectoral Ministries should have the concurrence of the Planning Commission. DEA would process on the basis of the comments of the Central sectoral Ministry and Planning Commission.

8. If the project constitutes an additional phase of an ongoing project, the proposal should be sent to Department of Economic Affairs with due approvals



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the Central sectoral Ministry and Planning Commission, as the case may be, at least six months before the terminal date for the completion of the ongoing project.

9. Detailed project proposal should be submitted with the approval of the competent authority in the State Government. It should also have the approval from environmental angle from Ministry of Environment & Forests or the State Pollution Control Board, as the case may be, and other statutory and non-statutory clearances.

10. All proposals/ schemes for external assistance by the State Governments should have adequate budgetary provisions. Necessary instructions issued in this regard vide D.O. letters no. 5/1/99-FB-II dated 12<sup>th</sup> May, 1999 and 20<sup>th</sup> September, 1994 may be referred to (copies enclosed).

11. The consultancy cost in the project could be about 10 to 15 percent of the project cost but, in any case, should not exceed 20 per cent of the external assistance.

### **Technical assistance projects**

12. Where preliminary appraisal, PPR, further studies/analyses (e.g. environmental impact study for sustaining ecology, etc), preparation of bidding documents/draft agreement (e.g. power purchase agreement, etc) are proposed to be carried out with the technical assistance of external development partner or its agencies, prior approval of Department of Economic Affairs should be taken.

### **Other procedural requirements**

13. Project should be posed to the EFC/PIB, as the case may be, immediately after the appraisal is completed by the external funding agency and before negotiations are undertaken. It would also be necessary to obtain the approval of the competent authority for the projects. Financial Advisers of the concerned Ministries/Deptts. may initiate timely action for seeking approval of EFC/PIB on a fast track basis and they may also initiate timely action for seeking approval of EFC/PIB for the schemes/ project immediately after lapse of four weeks of the circulation of EFC/PIB Memo. Detailed instructions may be seen in the Department of Expenditure's circulars No. 1(6)/PF.II/91(Pt.) dated 28<sup>th</sup> January, 1993 and No. 1(2)/PF.II/97 dated 28<sup>th</sup> July, 1997.

14. If the project proposal is to be implemented under a reform programme, or reforms are to be brought in through modifying framework conditions (e.g. introduction/abolition/reduction/exemption of tax/cess, user charges, recovery of O&M cost, providing of incentive/subsidy, rehabilitation schemes, etc.) for creating



an enabling environment for implementation of the project, such measures should be completed before the project is sent to Department of Economic Affairs. The project proposal should indicate the role of other organizations (such as NGOs, voluntary organizations/civil societies) in the project implementation, and their accountability. It should also indicate organizational/ institutional set up (ownership) of the project on its completion, for ensuring its sustainability.

15. For all externally aided projects, a project implementation team should be established and it should be held fully responsible for the project execution within the approved time and cost. The team should not have any concurrent responsibility and its continuity during the project implementation period must be ensured. It may also be ensured that appropriate training to the Project team is imparted before the implementation of the Project. The EFC/PIB memo should bring this out clearly. No project would be considered without such arrangements being clearly established.

16. It is again reiterated that no proposal for external Assistance shall be posed directly by any Central Ministry or State Government to the bilateral or multilateral funding agency. The terms and conditions of the external assistance should not be negotiated with the external funding agencies except through Department of Economic Affairs.

17. All the State Governments / Central Ministries are, therefore, requested to follow the procedure set out above for posing of project proposals for all the externally aided projects.

#### **Monitoring and evaluation of projects**

18. All the project authorities shall improve monitoring of the projects by including comprehensive evaluation of the project, both of performance and impact, in the project design itself. Evaluation arrangements for the project, whether concurrent, mid-term or post-project should be spelt out in the project proposal. Concurrent evaluation should focus on in-depth reflection at a point considered significant in the project cycle / programme. This could be at the end of a work phase or whenever special circumstances demand or at the closure of the project. Evaluation may be carried out by expert agencies if it is commensurate with the cost and objectives.

19. Some external funding agencies have very thorough mechanisms for concurrent evaluation of their projects. This may be adopted to improve monitoring and concurrent evaluation of project implementation.

20. Project authorities are expected to submit (a) project completion report on the physical-financial parameters and (b) evaluation report on the project objective-achievement parameters after completion of the project.



21. Two or three years after completion of the project, an Impact Assessment Study may also be conducted on selected projects, preferably by reputed neutral institutions or organizations to ascertain the actual achievement and retention of project objectives vis-à-vis the targeted project objectives. Such long-term impact evaluation is expected to help create a shelf of projects with high impact-retention which should be encouraged and replicated and a negative shelf of projects which were poor in attaining stated objectives and, hence, may be improved.

  
(Vivek Mehrotra)  
Joint Secretary

To,

- 1) Secretaries of all Central Ministries/Departments
- 2) Chief Secretaries of all State Governments
- 3) Division chiefs of all Credit Divisions in DEA

**An outline of the project abstract**  
(for submission of preliminary project report)

1. Name of the project:
2. Sectoral area:
3. Total Financial outlay:
4. Details of the external development agencies (and the amount sought from each):
5. Financial arrangement:

<u>Total external assistance</u>	<u>Counterpart funds being made available by</u>				<u>Total</u>
	<u>Implementing agency</u>	<u>State Government</u>	<u>Central government</u>	<u>Others, if any</u>	

6. Project duration (dates/months/years):
7. Location of project:
8. Previous phases, if any:
9. Statutory clearances required:
10. Statutory clearances obtained:
11. Details of Feasibility Studies done, if any:
12. Implementing agency:
13. Basic design of the project:
  - Goals and Objectives
  - Activities involved
  - Outputs of the project
  - Outcome of the project
  - FC and TC component.



**14. Target population/groups**

**15. Detailed Action Plan (year wise):**

**16. Quantitative and qualitative(verifiable) target indicators:**

**17. Environmental sustainability of the project:**

**18. Land acquisition / Resettlement and Rehabilitation involved:**

**19. Linkages with Similar Projects:**

**(i) Information regarding projects in similar areas undertaken previously (add evaluation reports, if any):**

**(ii) Does the project form part of the sectoral strategy / umbrella project? If yes, who are the other partners with details of the specific activities being undertaken by them:**

AN OUTLINE OF MATRIX

<b>Strategy</b>	<b>Indicators</b>	<b>Sources/Mean of Verification</b>	<b>Assumptions / Risks</b>
<b>Goal</b>  (Linked up with a government priority/programme/policy)			
<b>Objective</b>  (purpose/expected benefits)			
<b>Outputs/Results</b>  Goods/services/materials/expected changes, the target population will get, which they can not achieve on their own without intervention of the project			
<b>Activities</b>  (tasks/actions to be carried out by utilizing resources, viz. human, financial, equipment, etc.)	<b>Inputs/Costs</b>		





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*Government of India  
Ministry of Finance  
Department of Economic Affairs*

ADDITIONAL SECRETARY

**DO.No.F.No.5/1/99-FB.II**  
New Delhi, the May 12, 1999

Dear Shri Rao.

This letter is regarding the procedure for posing project proposals for World Bank assistance. The World Bank have recently informed us that one State Government approached them directly for funding a project, without routing the proposal through the concerned line Ministry and the Department of Economic Affairs.

Please refer to Office Memorandum of 20<sup>th</sup> September '94 (copy enclosed) wherein details of the formalities to be completed before posing projects to external agencies are given. As is clear, project proposals should be routed through the Central line ministries to the Department of Economic Affairs after obtaining necessary clearances.

I request you, kindly, to instruct the concerned officials to pose projects for external assistance only as per the procedure outlined above after due consultation with your Finance Department, in view of the State Government obligations under the ACA procedure.

With Regards,

Yours Sincerely

-sd/-  
(V. Govindarajan)



P.No. 12/12/94 - EFC (Council)  
Government of India  
Ministry of Finance  
D/O Economic Affairs

New Delhi, the 20th Sep., 1994

OFFICE MEMORANDUM

SUBJECT : Need for Planning Commission, PIB, EFC clearances for Projects designed for external assistance from Bilateral/Multilateral Agencies.

Please refer to the O.M. No. 1(6).PF.II/91(pt) dated 28th January, 1993 of the Department of Expenditure relating to Procedure for approval for Externally sided projects/schemes. The following detailed clarification is issued to outline the procedure to be followed before projects are cleared by DEA.

2. The undersigned is directed to say that all foreign assistance from Multilateral/Bilateral agencies is being procured and coordinated by Department of Economic Affairs for the Project Proposals of State Governments/Central Ministries etc., on getting such proposals through the Central Administrative Ministries.

3. There are instances when such proposals/schemes have been posed to EFC/PIB for their consideration, at a stage where the project parameters have already been finalised during negotiations with the donor agencies and are only pending for formal signing the agreements, leaving hardly any room for any modifications in the scheme except at the risk of delaying the whole project.

4. All Ministries/Departments are requested to ensure that all proposals/schemes for foreign assistance should be sent to DEA after ensuring Plan priorities, budgetary clearance, Administrative clearances, including clearances from Planning Commission at an appropriate Stage.

5. Before Posing the Project to Department of Economic Affairs

To further clarify the position, Plan priority as envisaged in the VIII Plan, clearances from State/Central Ministry and Administrative clearance should be obtained at the time of sending project proposals to this department in the first instance for posing to external



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6. Before Final Negotiations with Foreign Agency,

However, when the acceptance of a proposal for appraisal is received, the Planning Commission and Budgetary clearances should be confirmed before further negotiations for signing the agreement are held with foreign donors. In all cases relevant approvals should be confirmed, the EFC/PIB or CCEA, as the case may be, by the Departments before signing the agreements with foreign agencies.

7. While forwarding clearance on draft agreements, the Administrative Department should confirm that all requisite clearances have been obtained from the concerned authorities of the Central Government/State Government to enable us to proceed to negotiate and finalise the agreements.

8. This issues with the approval of Secretary (Expenditure) and Finance Secretary.

*V. Govindarajan*

(V. GOVINDARAJAN)  
Joint Secretary

1. Secretaries to Govt. of India of all Ministries
2. Joint Secretary in charge of Economic And Technical Cooperation in all Ministries.
3. Chief Secretaries of all States
4. Secretary, Finance and Planning of all States
5. Chief Administrators of all Union Territories
6. Secretary, Finance and Planning of all U.T.'s
7. Financial Advisers of all Central Ministries.



52. Procedure for seeking EFC/PIB approval for Externally aided project/schemes.

The existing instructions on this subject issued vide order No. F.1(18)/PF.11/78 dated 2nd April, 1980 wherein the Administrative Ministries were requested to keep their Financial Advisers intimately associated with the formulation of and in all important discussions on such projects with the donor agencies, who in turn would advise the Secretary of the Administrative Ministry and initiate timely action for seeking the approval of EFC/PIB for project.

2. There have been cases where such schemes/projects have been posed to the EFC/PIB for their consideration at a stage where the project parameters have already been finalised during negotiations with the donor agencies and are only pending for formal signing the agreements, leaving hardly any room for any modification in the scheme/project based on the advice of the



appraising agencies including Planning Commission, except at the risk of delaying the whole project. Further, since the project/scheme was not posed earlier to the EFC/PIB, Planning Commission were not involved, which might result in adequate funds not being provided for the purpose in the Plan outlay of the concerned Departments. This would lead to delay in the execution of the project and consequently result in poor utilisation of foreign funds.

3. It is, therefore, clarified that any externally aided project having an outlay of Rs.5 crores and above (including the share of the State Governments, if any), should be posed to the EFC/PIB, as the case may be, immediately after the appraisal is completed by the donor agency and before negotiations are undertaken. It would also be necessary to obtain the approval of the CCEA for projects having a total outlay of Rs.50 crores and above.

OM No. 1(6)PF.II/91(Pt) Dt. 28th Jan., 1993



**65. Generic Structure of 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.