Report on

REFORMING INVESTMENT APPROVAL & IMPLEMENTATION PROCEDURES

May 2002

Part-I
(Investment approval procedures-
Government and Public Sector Projects)

FOREWORD

In pursuance of the need felt by the Government to recast their investment approvals and regulations framework with a view to ensuring that the scarce resources are used effectively, a Committee to examine extant procedures for investment approvals and implementation of projects and suggest measures to simplify and expedite the process of both public and private projects was set up by the Cabinet Secretariat, Government of India in September 2001. A sub-group of that Committee was to specifically look into various issues relating to investment in schemes and projects in the private sector.

The Committee, besides having a number of interactive sessions among its members, also met in smaller groups for detailed deliberations. Separately a study was also commissioned with McKinsey&Company on ''Strengthening the Investment Approvals Mechanisms' for Government projects.

The Committee has discussed the upstream issues entailed in the various stages, viz., from identification of Government and public sector projects and schemes up to the investment approval. The Committee's recommendations on various upstream issues are covered in Part-I of the report. The recommendations on the downstream issues would be covered in the second part of the report to be presented separately.

The Committee acknowledges the invaluable contribution of Shri V. N. Kaul who, as convenor, till his elevation as Comptroller & Auditor General of India guided its initial deliberations. Shri A. K. Basu, Shri C. M. Vasudev and Shri K. V. Irniraya, during their tenure as Members, contributed significantly in arriving at many of the recommendations.

New Delhi
May 2002

Shyamal Ghosh *P.V. Jayakrishnan*

Vinod Vaish *Pradip Baijal*

S. Prabhakaran *C.S. Rao*

N.S. Sisodia *B. K. Misra*

Dr. Rakesh Mohan *Dr. Pradipto Ghosh*

V. Govindarajan
(Convenor)

CONTENTS

LIST OF ANNEXES

EXECUTIVE SUMMARY

- Government considered that there was a need to recast the project approvals and regulatory framework with a view to speeding up the process and ensuring that scarce resources are deployed effectively. A Committee was set up by the Government in September 2001 to examine the extant procedures for investment approvals and implementation of projects and suggest measures to simplify and expedite the process for both public and private investment. A Sub-Group of that Committee was to look into issues specifically relating to investment in schemes and projects in the private sector.
  Separately, the Indian Oil Corporation commissioned a study with McKinsey&Company on 'Strengthening of Investment Approvals Mechanism" in Government. The Committee had the benefit of considering their report while finalising its own recommendations.

- While the procedures for approval of public and private projects are different, with public projects appraised and approved at appropriate levels in the Governmental/Organisational set up and private projects requiring financial closure, the requirements of various permissions and approvals as well as the regulatory framework during operation are similar for both types of projects. The committee has largely focused on the various upstream issues relating to issues that arise from conceptualisation to the stage of investment approval. The sub-group, on the other hand, is examining, at length, various downstream issues hampering implementation of projects, i.e., issues that arise from the stage of investment approval to implementation. Part-I of the Committee's report deals with the upstream issues. The downstream issues, which are common to both the public and private sector projects, will be covered in Part-II of the report, to be presented separately.

- Besides delays in approval of projects and in getting necessary permissions for implementation, poor quality of project formulation and appraisal has also been identified as a major roadblock in implementation of the projects. Failures to upfront identify and address issues such as land availability, environmental & social impact, involuntary settlements, etc., affect project implementation at a later stage.

- The Department of Expenditure, in February 2002, during the course of deliberations of the Committee enhanced the appraisal and approval powers at various levels. The approval powers have been revised after 1992. Higher powers have been delegated to some Ministries, Empowered Commissions, and Navratna & Miniratna PSEs.

Capacity Constraints and their Effect on Projects

- Inadequate capacity among the existing staff engaged in the formulation, appraisal and evaluation of projects is identified as a major reason behind poor quality of projects.
- The fear of audit and inordinately long time in concluding investigations also impact the working of personnel engaged in projects.

Project Evaluation

- The findings of the evaluation studies of completed projects would be an important input while formulating new projects.

Proposed Project Cycle

- The Committee has proposed a generic structure of the detailed project report. Revised project cycle that involves formulation and appraisal of projects by experts and its approval at the Government level has also been recommended. (Annex-VIII). The time frame for appraisal of projects under the revised project cycle is available at Annex-IX.

Main Downstream Issues

- The Sub-Group on 'Simplification of Procedures for Projects in the Private Sector' is separately looking into the downstream implementation issues. Part-II of the Committee's report, on the downstream issues, would be presented separately. Some of the major issues that also impact the project approval, regulatory environment and investment decisions of investors are as under:

  Review of Extant laws

  - A plethora of laws and regulations govern the approval, implementation and operation of projects. Simplification of the procedural requirements prescribed under various Acts has not kept pace with the liberalization and changes in the structure of the economy. Multiplicity of laws regulating related aspects of project administration, inspection and reporting requirements make the administration as well as compliance difficult.

  Regulatory Environment for Projects

- Regulatory and reporting requirements under different Acts require prolonged interface between the authorities and the project. A study jointly conducted in January 2002 by CII and World Bank on 'Competitiveness in Indian Manufacturing' based on firm level survey has shown that about 16% of the management time in India is spent on dealing with Government officials on regulatory and administrative issues. The study also notes that States with better investment climate impose lesser burden on the management.

Transparency in Project Approval Process

- Lack of transparency in the prevailing systems for approvals and of regulations impose a burden on the project promoters often leading to delays in getting necessary approvals for implementation of projects. Greater transparency in the regulatory framework through easy availability of specific information about the procedural and documentary requirements, agencies responsible for issuing such approvals, time frame prescribed for decision, etc., would reduce delays.

Role of State Governments

- States have a crucial role in project implementation, as States implement most of the legislations regulating projects. Strengthening Single Window Approval Mechanism, introducing 'Single Composite Application Forms', simplifying interface between regulatory authorities and entrepreneurs and greater use of IT, among others, facilitate implementation and operation of projects.

Recommendations

A. Upstream Issues

I. Procedural

i. Project Appraisal Unit (PAU) may be established in the Planning Commission as the primary appraising agency for all public projects entailing investment of Rs. 25 crores and above. Projects from Navratna/Miniratna PSEs involving budgetary support or contingent liability on the part of Government or beyond their approval authority would also require appraisal by PAU. This limit may also be made co-terminus with Plan period requiring review every five years.

ii. The PAU may be established by strengthening the existing PAMD with experts recruited for specific fields to the extent necessary. Services of experts from other departments/agencies/other sources, etc., may be availed for sector specific requirements.

iii. TORs for preparing the detailed project reports would also be reviewed and approved by the PAU

iv. The powers delegated at various levels may be made co-terminus with the Plan period requiring a review every five years. Enhanced powers could be delegated to Ministries dealing with larger projects.

II. Project Management & Evaluation

i. Project management skills need to be strengthened by identification of a core team for its implementation, strengthening coordination with concerned Ministries/Departments and training the personnel on the best practices on project management.

ii. In order to avoid repetition of effort in monitoring of projects by the Administrative Ministries and MSPI, it is necessary that the monitoring in the Ministries and MSPI be networked permitting on-line monitoring. The Monitoring unit in the MSPI would need to be strengthened for monitoring and concurrent evaluation of projects.

iii. MSPI may conduct post project evaluation of selected public projects with investment of Rs. 100 crores and above and other priority sector projects. Each detailed project report must specifically mention whether the results of previous projects are available and how these have been used in project design.

III. Capacity Building

i. The requirements of the detailed project report and the criteria for meeting these requirements may be specified by the PAU to enable the Ministries to assess the areas where capacity building is required.

ii. Project formulation skills in the Ministries and PSEs need to be upgraded and specialization promoted. Orientation trainings may be organized for the existing staff with assistance from Multilateral Financial Institutions. (MFIs)

iii. Members of the Facilitation Teams, to be established in the Administrative Ministries, to be given orientation training through IIMs and other Management Institutes of repute on modern project management and best practices.

iv. Existing staff responsible for project evaluation may be given orientation training on different evaluation methodologies.

v. Training and reorientation of functionaries in various Government departments/ agencies on e-governance and computer usage. Officers of the level of Section Officer and above to undergo compulsory usage focused computer training.

vi. Industry specific skills for various processes as well as sector specific skills for specific sectors like financial services need to be strengthened within the audit/vigilance agencies.

vii. While capacity-building initiatives would be an ongoing exercise, measures to address the deficiencies in the existing set up need to be completed in a time bound manner, say one year.

a. Downstream issues

I. Procedural

i. The extant laws need re-casting to bring down the number of clearances, processing time and complexities in administration by making the system transparent and easy to comply with Acts which have outlived their utility may be scrapped. Provisions dealing with similar objectives need to be brought under one Act for ease of implementation and compliance.

ii. A detailed analysis of each approval requirement needs to be carried out for re-engineering of the regulatory process as under:
   a. Automatic permission upon filing of documents (Traffic Light approach)
   b. Deemed approval upon expiry of the period prescribed for approval.
   c. Grant of approval by outside agencies authorized for granting such approvals.
   d. Approvals statutorily required.

iii. Greater transparency in the administration of approvals is required for information on investment policies, sectorwise approval requirements, agencies responsible, procedural requirements and prescribed time frame, etc.

iv. Greater use of IT in administration of approvals and information to citizen, gradually leading to electronic transactions with regulatory authorities, is necessary.

II. Institutional Arrangements

i. Industrial Investment Facilitation Board (IIFB) may be established to consider the grant of approvals to projects with investments of Rs. 100 crores and above. Time limits for the grant of various non-statutory approvals may be prescribed by IIFB in consultation with the concerned Administrative Ministries. IIFB may also take up re-engineering of the regulatory processes in consultation with the concerned Ministries.

ii. Cases involving excessive delays in approvals may be referred to a Group of Ministers to be constituted for consideration and resolution of such cases.
iii. Facilitation Teams may be established in Administrative Ministries for major projects in the infrastructure and priority sectors for identifying and removing bottlenecks and ensuring better co-ordination among concerned Ministries/Departments.
iv. Empowered ‘Single Window System’ may be introduced at the State level to monitor and implement the single window concept.

CHAPTER-I

Introduction

1.1 In pursuance of the need felt by the Government to recast their investment approval and regulation framework with a view to ensuring that the scarce resources are used effectively, the Cabinet Secretariat vide its Order No. 212/9/2001-CA.IV dated 24.9.2001 set up a Committee with Shri V.N. Kaul, Secretary, Ministry of Petroleum & Natural Gas as convenor, to examine the extant procedures for investment approvals and implementation of projects and suggest measures to simplify and expedite the process for both public and private investments. A copy of the Order dated 24.9.2001 setting up the Committee is at Annex-I.

1.2 Following the appointment of Shri V. N. Kaul as Comptroller & Auditor General of India, Shri V. Govindarajan, Secretary (IPP) was designated as the convenor of the Committee vide Cabinet Secretariat order dated 19.3.2002.

1.3 A Sub-Group, with Shri V. Govindarajan, Secretary (IPP) as convenor, was also constituted to look into various issues relating to investment in schemes and projects in Private Sector. A copy of the order constituting the Sub-Group is enclosed as Annex-II.

1.4 The Committee in its first meeting on 4.10.2001 decided the modalities of deliberations, integration of various inputs including the Base Papers of concerned Ministries and Public Sector Enterprises, case studies commissioned by Prime Minister's Office, studies commissioned by Ministry of Statistics & Programme Implementation and reports of previous committees and studies.

1.5 Separately, the Indian Oil Corporation commissioned a study on ‘Strengthening of Investment Approvals Mechanism’ for Government projects with M/s. McKinsey&Company. A copy of the Executive Summary of this report is enclosed as Annex-III

1.6 The Committee subsequently met on 14.3.2002, 8.4.2002 and 22.4.2002 to deliberate upon the issues and recommendations. In addition, the committee also met separately in small groups for detailed discussions.

1.7 The Committee has examined the extant procedures for the investment approvals and implementation of projects. These recommendations would be equally relevant to projects/programmes/schemes. Projects entail a set of interrelated activities aimed at achieving desired objectives by producing specified and recognizable end results with specific resources within a specified period of time. In the case of schemes, investment, implementation and the flow of output are almost concurrent. Programmes are collections of smaller projects or schemes. For this reason, concurrent evaluation is more commonly employed in programmes and schemes, whereas in the case of projects terminal and post-evaluation methodologies are normally adopted. While the economic rate of return is a relevant concept in projects, in the case of social sector schemes the output may be less amenable to assignment of monetary value and hence the concept of cost-effectiveness becomes relevant.

1.8 Part-I of the report contains recommendations on reforming the investment approval mechanism in Government. Part-II of the report on simplification of procedures for implementation of projects is under finalisation and will be presented separately.

1.9 The Committee has examined the extant procedures for the investment approval and implementation of projects/programmes/schemes. In the report, the term project has been used in a generic sense and includes programme/scheme for the purpose of this report. These recommendations would apply equally to the projects/programmes/schemes.

1.10 The Committee acknowledges the valuable contributions and suggestions made by various Ministries, Public Sector Enterprises and consultants. A complete list of references and contributions of the Ministries, PMO, Institutions and consultants is available at Annex- IV

1.11 The Committee acknowledges the special contribution by Shri V. N. Kaul who, as convenor, till his elevation as Comptroller & Auditor General of India guided the initial deliberations of the Committee. Shri A. K. Basu, Shri C. M. Vasudev and Shri K. V. Irniraya, with their rich experience, provided valuable inputs and contributed significantly in arriving at many recommendations.

1.12 The Committee also wishes to place on record the contributions of Shri M.S. Srinivasan, Joint Secretary and Shri Umesh Kumar, Director of the Department of Industrial Policy & Promotion, whose untiring efforts have helped us; meet the stringent deadlines in the preparation and presentation of this report.

CHAPTER-II

General Issues Related to Approval and Implementation of Projects

2.1 Part-I of the report of the Committee has concentrated mainly on the upstream issues relating to Government and Public Sector projects, i.e., issues that arise from the conceptualization to the stage of investment approval. The Sub-Group has separately been looking into the downstream issues, i.e., those from stage of investment approval to the implementation of the project and also some of the operational issues. Recommendations on simplification of procedures for various approvals will be covered in Part-II of the report. The issues covered under the upstream and downstream categories are:

Upstream Issues

2.2 The issues that arise from the stage of conceptualisaion of the project to the investment approval in case of public projects are covered under upstream issues. These would also include any permission, license, approval, etc., necessary before investment approval.

Downstream Issues

2.3 Downstream issues, on the other hand, would include all the implementation and operational issues starting from the stage of investment approval in case of a public project or financial closure in case of private project up to the commencement of commercial production. It would also include the various statutory approvals/clearances required for commissioning the project. Downstream operational issues would include the operational phase of the project after its commissioning.

Causes Behind Poor Quality of Project Decisions & Delays in Implementation

2.4 The Government of India and its PSEs together invest almost Rs. 130,000 crores annually in projects and schemes in infrastructure, social development and industrial development sectors. With progressive liberalization of the economy and opening up of a large number of sectors to private and foreign direct investment, the private sector has a major role in investment, which will assume even greater significance in the years ahead.

2.5 It has, however, been observed that the liberalization of the economic policy and changes in the structure of the economy has not translated fully into attracting greater investments due to a variety of reasons. Existing procedures for project formulation, appraisal & approval particularly for government projects, inadequacies in the existing management system and inadequate skills in project formulation, appraisal and management are some of the major reasons behind delays in the investment approvals and implementation of projects. Some of the main upstream factors affecting these projects are:

Process related

- Significant time lag between the grant of ‘in principle’ approval and submission of detailed feasibility report for appraisal.
- Poor quality of project formulation resulting in delays in decision-making and implementation in many cases. Issues that should have been identified and addressed at the formulation stages, but were missed out, also cause delays in implementation, overruns, need for revision of cost estimates and a fresh set of approvals.
- Multiplicity of agencies, viz., DOE, EFC, PIB, etc., for project appraisal leading to delays in decision-making. Many agencies provide inputs at the stage of project appraisal often resulting in overlap and redundancy in their roles.
- Involvement of many agencies at the stage of project formulation and appraisal also makes it difficult to fix responsibility.
- Delays in project appraisal and approval beyond the prescribed time.
- Absence of professional project management approaches that have evolved recently, particularly in the private sector. This includes cross-functional teams to determine best project configuration, early identification of key personnel to manage the project, skill based staffing, continuity of project teams and rigorous evaluation.
- Inadequate use of IT in decision-making.

Organisational Issues

- Weak performance management systems in the Government and public sector resulting in lack of urgency to adhere to decision making time limits or to be held accountable for results. Weak target setting and evaluation.

Capacity Constraints

- Lack of specialized skills in project formulation and appraisal
- Absence of professional advice on project formulation and appraisal
- Limited codification of knowledge and maintenance of database, compendium of standard appraisal techniques and documentation formats.

CHAPTER-III

Extant Procedures for Formulation, Appraisal and Approval of Public Sector Projects - Project Cycle

3.1 A public sector project, either of Government or its agencies viz. PSEs, etc., has to pass through many stages from its conceptualization to approval before it is taken up for implementation. Private projects on the other hand have to get permissions, as required, and achieve financial closure before these could be taken up for implementation. While there is this difference in the approval mechanism, the subsequent stages for implementation of the project are similar for both public and private projects in terms of the approvals/permissions required and other reporting, record keeping and statutory requirements.

Project Cycle of Public Project - Conceptualization to Implementation

3.2 A project in the public sector would typically go through the following cycle from conceptualization to implementation at the Central Government level. Similar stages exist at the State level with the approval level being much less than that at the Central level. Very often the projects get approved at the level of the Chief Minister and the State Finance department usually has a greater say in the appraisal and approval of the projects and the elaborate process of approval at the Cabinet level which exists in Government of India is generally non-existent at the State level.

Identification of Project

3.3 A project is identified based on the National and State priorities, sectoral setting and competing claims from other activities and sectors. Concerned Ministries in the Centre/ State Governments identify specific projects with the help of public sector enterprises and other expert agencies. Approval of the Planning Commission and separately of the Administrative Minister/FM/CCEA is required for launching a new plan scheme in the Central Sector or a new Centrally Sponsored Scheme. Planning Commission has laid down a two-stage process, first - an 'in-principle' approval, followed by a full Planning Commission approval after the project/scheme has been appraised by EFC/PIB. Based on the pre-feasibility report, the project is considered for 'in principle' approval by the Planning Commission for inclusion in the Plan.

Project Preparation

3.4 Project preparation is the next stage of the project cycle involving analysis of the technical, financial and institutional considerations, alternate strategies and the selection of the best alternative.

3.5 For infrastructure projects in Power and Coal, this exercise is part of Stage-1 clearance. For Stage-1 clearance, a fair estimate of the cost is prepared after considering technical, financial and institutional parameters including the study of the various alternatives and the best alternative. In this stage the project has to obtain all statutory clearances, particularly relating to environment and techno-economic clearance by CEA, CWC, etc. The document thus prepared is also referred to as pre-feasibility report. During this stage, preliminary activities including preparation of full feasibility report and obtaining necessary statutory clearances and basic land acquisition are taken up.

3.6 The feasibility report is a more detailed exercise and may take up to two or three years depending upon the size and complexity of the project. The feasibility report covers all aspects of the project including a more realistic estimate of the cost and benefits, fund flow for the project, etc. The project preparation is usually carried out using the expertise available within the Ministry/PSEs or by outsourcing to professional bodies.

Project Appraisal

3.7 Appraisal of the project involves a detailed analysis on technical, economic, financial and institutional parameters. Appraisal process starts after the feasibility report in the prescribed format has been prepared and circulated to all the institutional members of SFC/EFC/PIB. All projects above Rs. 15 crores also require appraisal by the Project Appraisal and Monitoring Division (PAMD) of Planning Commission and Plan Finance Division of the Department of Expenditure. A time limit of 4 weeks has been prescribed for appraisal of projects by PAMD.

3.8 Ministries/Departments are required to obtain the following approval/clearances before the proposal is submitted for appraisal:

a) 'In-principle' approval of Planning Commission for inclusion of the project in the Five Year Plan/Annual Plan.
b) Provision of adequate funds, required for implementation of the proposal.
c) Comments/concurrence of Financial Adviser of the Ministry for proposal is enclosed along with the EFC/PIB memo.

3.9 After inter-ministerial consultations, the proposal is considered by the Expenditure Finance Committee (EFC) or Public Investment Board (PIB), as the case may be, which takes a final view on the viability of the project/scheme and makes suitable recommendation to the approval authority.

3.10 In case of proposals to be approved by SFC, Planning Commission has simplified the procedure. The Ministry/Departments can convene SFC meetings without inviting Planning Commission representatives provided the scheme has been included in the Plan (in principle approval) with adequate funds.

3.11 A total time schedule of 20 weeks has been prescribed for appraisal by EFC/PIB under the present procedure as per the details available at Annex-V

Project Approval

3.12 After appraisal, the project is taken up for consideration for approval after budgetary provisions have been made. Till February 2002, the Minister of the concerned Ministry was the competent authority to sanction projects/schemes involving outlay of less than Rs. 20 crores. The Minister of the concerned Administrative Ministry and the Finance Minister were the competent authority to sanction projects/schemes with outlay between Rs. 20-50 crores. CCEA was the competent authority for projects/schemes with outlays over Rs. 50 crores. With enhanced delegation of powers effective from 18th February 2002, projects/schemes involving investments above Rs. 100 crores now require approval of the cabinet. A copy of the order dated 18th February 2002 by Department of Expenditure enhancing the delegation of authority at various levels is at Annex-VI.

Implementation

3.13 After approval, the project is taken up for implementation. This often requires a number of approvals/ permissions, both statutory as well as non-statutory, to be taken from both Central as well as State Departments/Agencies. Besides direct supervision of the implementing agency, the concerned Ministry and the Ministry of Statistics and Programme Implementation also monitor and supervise central projects. Similar arrangements exist at the State level for State projects.

Evaluation

3.14 Evaluation, with respect to the objectives set out for the project, is carried out by the project authorities in the prescribed format after project's completion. Often these evaluation studies are not systematically used for taking lessons for future projects due to lack of organisational arrangements either in the concerned Ministry or Ministry of Statistics and Programme Implementation.

3.15 The extant project cycle, as discussed above, is shown in the flow chart available as Annex-VII.

Approval of Projects at State Level

3.16 The process is almost similar for projects approved at the State level with the Planning and Finance departments normally appraising the projects and the approval at the level of the Chief Minister through the Finance Department.

CHAPTER-IV

Review of the Extant Process of Appraisal and Approval

4.1 It is seen that apart from the bottlenecks created due to delays in approvals of projects and in obtaining various permissions /approvals, poor quality of project formulation and its appraisal also impact implementation of projects. Inadequacies in the project formulation and appraisal often lead to cost and time overruns and the inevitable requirement of revision in the project cost estimates making a fresh round of approvals necessary, further delaying its implementation.

Project Formulation

4.2 While delays in the approval of projects, and in obtaining other permissions necessary for their implementation, continue to be a constraint, poor quality of project formulation and its appraisal have been identified as major roadblocks in implementation of projects. Failure to identify any constraints in the availability of essential requirements of land, environmental impact, etc., at the time of project formulation itself could cripple the implementation of the project at a later stage.

4.3 Project preparation commences after inclusion of the proposal in the Plan. While some departments/PSEs have reasonably well developed project formulation skills internally, others generally avail services of professionals. The project document prepared either internally or by the experts engaged for this purpose is appraised at appropriate level under the delegated powers. Inadequacies in the DPR noticed at the stage of appraisal would require such issues to be revisited. The Ministry/Line Agency would draft the TOR for the DPR. Since most projects would have their own specific issues to be addressed, it would not be possible to prescribe a generic TOR for the DPR.

4.4 It is vital that the TORs for the DPR drafted by the sponsoring Ministry/Line Agency are reviewed by the experts at the stage of finalizing the TOR itself so that the requirements of the final DPR can be addressed in the TOR at this stage itself. This would avoid complications later at the stage of project appraisal, and save considerable time.

4.5 The project documentation, besides covering the justification for the project/scheme, various alternatives, economic and financial returns, implementation alternatives, etc., must also address other critical issues which impact project implementation, viz., land acquisition, environmental & social impact, involuntary settlements, etc. A generic structure of the DPR is covered at greater length in Chapter-V.

4.6 Project formulation, including pre-feasibility studies, and drafting of TORs being specialized jobs, require special skills and expertise. Capacity building measures for the personnel entrusted with the responsibilities of project formulation, therefore, assume special significance. Besides skill up-gradation of such personnel, services of outside experts may be availed as may be necessary.

Strengthening the Project Appraisal Mechanism

4.7 The need for creating specialization in the project appraisal mechanism can hardly be over-emphasized. Rigorous examination of the project proposal by experts would not only improve the project content but would also ensure best utilization of investment. In view of the resource constraint, prioritization of the projects/schemes is necessary so that only financially viable projects providing adequate returns are taken up. Multiplicity of schemes with similar objectives leading to the resources getting thinly spread also needs to be avoided. This requires strengthening of the project appraisal process. It is proposed to provide for an expert body for appraisal of all public sector projects involving investment exceeding Rs. 25 crores by setting up a Project Appraisal Unit (PAU) in the Planning Commission.

4.8 The PAU would be set up by strengthening the existing PAMD in the Planning Commission with the addition of experts recruited from relevant fields. Setting up of a new body is not envisaged. PAU will comprise an in-house core team of experts in the fields of financial management, economics, environmental and social impact analysis, etc. Experts from other Departments/agencies may be co-opted into PAU for specific sectoral analysis. If such expertise is not available in the Governmental set up, PAU may employ the services of outside experts as may be considered necessary. The PAU would, besides appraisal of all public projects involving investments of Rs. 25 crores and above, also prescribe and review the TORs for the preparation of DPRs for such projects. The financial limits for appraisal of projects by PAU may be made co-terminus with the Plan period to be reviewed every five years.

Expediting the Approval Process

4.9 The project proposal after appraisal is taken up for approval at appropriate levels under the prevailing delegation of powers. In the case of Navratna/Miniratna PSEs greater powers have been delegated. It has been experienced that after appraisal, approval of the public projects does not take long and generally no bottlenecks except the delegation of authority have been experienced.

4.10 The Cabinet Secretariat has prescribed guidelines in June 2000 for inter-ministerial consultations after EFC/PIB stage for obtaining investment approval. Delays in these consultations also contribute to delays in approval of projects.

4.11 Delays in formulating proposal for Revised Cost Estimates and bringing it before the appraisal forum and approval authorities also contribute to delays in the implementation of projects besides cost and time overruns.

4.12 McKinsey in their report have recommended converting some of the critical Ministries into Commissions and conferring greater powers on other Ministries and PSEs. These issues are covered in the following paragraphs.

Empowered Commissions in Select Ministries

4.13 McKinsey's report has recommended establishing 'Empowered Commissions' in place of the existing Ministry structure in 3-4 high priority sectors with large project investments. The model of converting existing Ministry structure into Commissions has been recommended to provide for faster decision-making, clearer individual roles and greater operational flexibility. Under these recommendations, such Commissions would have both full time and part time Directors from concerned Ministries apart from professionals and would be authorized to take decisions on individual projects once the overall budget has been finalized.

4.14 The Committee, after careful consideration, is of the opinion that the concept of 'Empowered Commission' in place of the existing Ministry structure may not be appropriate as the Commission model would only replace the existing approval mechanism, which has not been a constraint in the project cycle. Projects requiring statutory clearances will also not be suitable for the 'Commission' model as all the statutory approvals from concerned authorities would still be required before the project can be approved by the Commission. It is felt that with greater emphasis on the project formulation and its appraisal, the project approval process would get considerably streamlined. The powers delegated for appraisal and approval of projects have been enhanced in February 2002 and the Committee is separately recommending making these co-terminus with the Plan period to be revised at least every five years. This would further simplify the project approval process. Under these circumstances, the Commission model for select Ministries will not be suitable. Instead enhanced powers may be delegated to such Ministries for clearance of projects with scrutiny and appraisal of such projects by the PAU.

Enhancing the Approval Authority of Ministries

4.15 The Committee had examined at length the need for greater delegation of financial powers at various levels. Under the prevailing procedures, approval authority of a project would depend upon its estimated cost. Till February 2002, projects with investments exceeding Rs. 50 crores required approval by CCEA. This limit applied from 1992 when the Transaction of Business Rules were amended to enhance the outlay limit for investment proposal by CCEA from Rs. 20 crores to Rs. 50 crores. Even when delegation of power for appraisal forum was revised in 1997, no changes in the delegation of power for investment approval were made.

4.16 The Committee appreciated the need for a revision in the delegation of powers and was examining this issue. During the course of deliberations of the Committee, the Department of Expenditure has, vide its order dated 18th February 2002, taken action to revise the delegation of powers at various levels. The comparative position of the appraisal and investment approval powers applicable from 1992 and revised in February 2002 is shown below:

4.17 Appraisal Authority:

Project/Scheme Outlay		Approval Authority
Earlier Limit (From 1992)	Present Limit (From 18th February 2002)	
Up to Rs. 1.5 Crores	Up to Rs. 5 Crores	Ministry in normal course.

Above Rs. 1.5 Crores but less than Rs. 15 Crores	Above Rs. 5 Crores, but less than Rs. 25 Crores	Standing Finance Committee (SFC) of Ministry.
Rs. 15 Crores And above but less than Rs.50 Crores	Rs. 25 Cr and above but less than Rs. 100 Crores	Expenditure Finance Committee (EFC) chaired by Administrative Secretary.
Rs. 50 Crores and above but less than Rs.100 Crores	Rs. 100 Crores and above but less than Rs.200 Crores	Expenditure Finance Committee (EFC) chaired by Secretary (Expenditure).
Rs. 100 Crores and above.	Rs. 200 Crores and above	Public Investment Board/EFC chaired by Secretary (Expenditure). Project/scheme where financial returns are quantifiable will be considered by PIB, others by EFC.

4.18 Approval Authority

Project/Scheme Outlay		Approval Authority
Earlier Limit (From 1992)	Present Limit (From 18th February 2002)	
Less than Rs. 20 Crores	Less than Rs. 50 Crores	Administrative Minister
Rs. 20 Crores and above but less than Rs.50 Crores	Rs. 50 Crores and above but less than Rs.100 Crores	Administrative Minister and the Finance Minister
Rs. 50 Crores and above	Rs. 100 Crores and above	Cabinet/CCEA

4.19 The powers for approval of revised estimates and incurring expenditure on pre-investment activities have also been revised. Cases requiring expenditure on project preparation activities higher than the prescribed norms are considered in the Committee of PIB (CPIB). A copy of the Department of Expenditure's order No. 1 (3)/PF.II/2001 dated 18th February 2002 is available as Annex-VI.

4.20 The Committee is of the view that these limits would be appropriate for the time being but would need to be reviewed periodically. It is recommended that these powers might be made co-terminous with the Plan period and reviewed every five years.

Authority Delegated to the PSEs

4.21 Substantially enhanced powers have been delegated to the Navratna/ Miniratna PSEs. It is, however, recommended that projects of Navratna/ Miniratna PSEs involving budgetary support, contingent liability on the part of the Government or exceeding the delegated authority to the Miniratna PSEs should also be subjected to appraisal by the PAU, as in the case of other public projects.

CHAPTER-V

Recommended Project Cycle & Detailed Project Report

5.1 The present project cycle suffers from the deficiency of non-appraisal of the project by experts. Appraisal at the level of EFC/PIB is official level appraisal, which is in practice more a part of the approval mechanism than a scientific appraisal of project proposal. It is vital that the DPR is examined by experts before the proposal is taken up for consideration for approval. Based on the analysis of issues hampering project formulation, appraisal and approval, the following project cycle is proposed:

Project Identification: Feasibility Report

5.2 The project preparation may be considered to commence with the preparation of the feasibility report by the Ministry/LA, which will form the basis for its inclusion in the Plan. The feasibility report would essentially address the same policy issues as the DPR to be prepared later for appraisal, viz., need and justification for the project, alternatives, economic and financial returns, initial environmental and social impact analysis, extent of land acquisition and involuntary resettlement, evaluation of past projects and how these would be used in project design, implementation arrangement, phasing of expenditure, etc. Concerned Ministries/Line Agencies would be responsible for preparation of the feasibility report. Professional assistance may be taken as may be necessary. It would be useful to associate the concerned Ministries from the stage of preparation of feasibility report itself.

Inclusion in the Plan

5.3 After preparation of the feasibility report, approval of the Planning Commission and separately of the Administrative Minister/FM/CCEA is required for launching a new Plan scheme in the Central Sector or a new Centrally Sponsored Scheme. Planning Commission has laid down a two-stage process - first an ‘in principle’ approval followed by a full Planning Commission approval after the project/scheme has been appraised by EFC/PIB. After the ‘in principle’ approval, the scheme is included in the Plan of the Ministry/Department. Ministry of Finance adopts the Ministry and scheme wise allocation of funds, carried out by the Planning Commission, for inclusion in the budget proposals.

Review and Approval of TOR

5.4 After the ‘in principle’ approval of the Planning Commission and inclusion in the plan, DPR is to be prepared. This work may be outsourced to professionals in case sufficient expertise is not available within the Ministry/PSE/LA. In order to avoid inadequacies in the TORs used for preparation of DPRs, it is recommended that the draft TORs prepared by the Ministry/LA are reviewed and vetted by the PAU in the Planning Commission. In order to reduce the number of references to the Planning Commission/PAU, it is recommended that the draft TOR be sent to the Planning Commission/PAU at the stage of seeking ‘in principle’ approval along with the feasibility report.

Preparation of Draft DPR

5.5 Following the approval of TOR and ‘in principle’ approval of the project/scheme, the concerned Ministry/Line Agency would take up preparation of the draft DPR. The capacities of the personnel engaged in preparation of the DPRs in the Ministries/Line Agency would need to be upgraded and to the extent necessary skills are not available within the Ministry/Line Agency, services of professionals may have to be outsourced. Multilateral Financial Institutions (MFIs) may be requested for meeting such training needs under their technical assistance programmes. The DPR must address all issues related to the justification, financing and implementation of the project. A typical generic structure of the DPR is discussed at length later in this chapter.

Review of Draft DPR by the PAU

5.6 The draft DPR would be appraised in the PAU. For this purpose site visits may also be undertaken, if necessary, to confirm the assumptions made and data employed in the DPR. After appraisal by the PAU, the concerned Ministry/Line Agency will prepare the final DPR incorporating the suggestions proposed by PAU. A time limit of 4 weeks is considered sufficient for the appraisal of projects by PAU. It is necessary that the DPR be sent to the relevant Ministries only after its appraisal by experts in PAU so that a final and complete project proposal only is sent to the Ministries.

Inter-Ministerial Consultations

5.7 DPR after incorporating the suggestions by PAU, would be circulated to the relevant Ministries who would be given a reasonable time, of say 15 days, for their comments before official level appraisal.

5.8 Under the extant process, appraisal of projects with quantifiable financial returns take place at three stages: consideration of feasibility report at Pre-PIB meeting, appraisal of final proposal by the competent authority and final consideration by PIB. Under the recommended project cycle, since the project would have been subjected to expert scrutiny and appraisal before inter-ministerial consultations, the requirement of pre-PIB may be dispensed with for projects with investments up to Rs. 500 crores.

Official Level Appraisal and Approval

5.9 The DPR along with the appraisal note would be sent to the PIB. The PIB, which is an official review mechanism, will consider whether or not the project acceptance criteria have been met, and examine the differences of opinion, if any, between the sponsoring ministry and the PAU, but will not require either agency to revise its technical findings/views, and may also factor in other non-technical considerations in its analysis. The PIB will then present the full picture giving both points of view and its own recommendation to the decision making authority, viz., the Cabinet Committee on Economic Affairs, for consideration and decision.

5.10 Inadequate allocation of funds has also been identified as a major factor behind cost and time overruns in projects. It would be necessary that at the stage of seeking approval of the competent authority, the sponsoring Ministry provides a list of all approved projects, their planned phasing of expenditure, actual expenditure and the proposed budget allocation for examination of the adequacy and justification of budgetary allocation.

5.11 Environmental and other clearances are required for some projects before these can be considered by PIB for official level appraisal and such clearances are, therefore, upstream clearances. Environmental Impact Assessment would need to be carried out and environmental clearance obtained before the project can be taken up for Stage-II clearance by PIB. Simplification of procedures for environmental and other clearances will be covered in Part-II of the report.

5.12 The recommended project cycle, as discussed above, is shown in the flow chart available as Annex-VIII. The time frame proposed for the appraisal of the projects under the recommended project cycle is at Annex-IX.

5.13 The Committee is of the opinion that greater emphasis on project formulation and expert appraisal would improve the quality of projects and also anticipate and address at the stage of project formulation itself issues, which may later affect its implementation. While the project formulation and approval stages would involve additional efforts and perhaps time, the qualitative improvement in the project formulation and appraisal by experts would help in reducing overall delays in the implementation of projects. The recommended time frame (Annex-IX) prescribes a time period of 16 weeks for the appraisal of project. Wherever the recommended time frame is not adhered to at 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.

5.14 It is recommended in this context, that the Ministry of Finance, Department of Expenditure may formulate, in generic terms, a comprehensive set of project acceptance criteria for different categories of projects and get it approved by the CCEA. The technical appraisal by PAU and official review by the PIB will both consider the project proposals with reference to these criteria.

Generic Structure of Detailed Project Report

5.15 The Committee recommends that the DPR for projects may adopt the following generic structure:

1. Need for the project: What are the policy objectives to be realized by the project? These objectives must be ranked in order of importance.

2. Project benefits and target population, expected distribution of project costs and benefits among its primary beneficiaries and other groups.
3. Lessons learned from the review and post-evaluation of similar projects implemented earlier, how the project proposes to benefit from these lessons/ evaluation studies of past projects in the sector and how these are reflected in the project proposal.
4. General description of the project. What it does and how? What alternatives to the project have been considered? Reasons for selecting the proposed alternative. Alternative locations, basis for prioritization of the location.
5. Technologies involved in the project. Formal evaluation of the candidate technologies and reasons for the technological choice.
6. Financial and economic analysis of the project and realistic assessment of 'with' and without' project situation,
7. Means of financing the project: This section would cover evaluation and prioritization of alternative financing means, amount and phasing of contributions from various sources viz. Government, financial institutions, Multilateral Financial Institutions, contribution by the beneficiaries, requirement of Government guarantee, etc.
8. Social (including equity) impact analysis of the project, beneficiaries participation in the preparation and implementation of the project, adverse social impact of the project, if any, and measures proposed for their mitigation, impact of the project on the weaker sections of the society and the strategy for their involvement.
9. Environmental impact analysis of the project to cover main environmental impacts of implementation of the project and measures proposed to mitigate adverse impacts, whether the Environmental Impact Assessment (EIA) has been carried out.
10. Issues in land acquisition for the project: Whether the project involves any acquisition of land, whether such land acquisition could have been avoided, whether any diversion of forest lands is envisaged, whether other alternatives have been considered and examined.
11. Resettlement plan (in case involuntary resettlement is involved)
12. Responsibilities of different agencies for project implementation: This section should include the estimated period of implementation, organisational arrangements envisaged for implementation of each project component, participation of beneficiaries and other organizations in project implementation, arrangements for co-ordination such as Steering Committee,

arrangements for maintenance of the project assets after the project is completed, etc.

13. PERT/CPM chart for project implementation
14. Proposed 'zero date' of project commencement taking into account other approvals, if any, required before implementation can commence.
15. Identification and assessment of project risks and how these are proposed to be mitigated
16. Parameters for project monitoring and post-evaluation, organizational arrangements for monitoring such as Project Monitoring Unit (PMU), mid term review, concurrent and/or post-project evaluation.
17. Success criteria for the project: This should indicate the key performance indicators for measuring the success of the project in meeting its objectives.

5.16 While the above generic structure for the DPR would suffice the requirements of a typical project, the concerned Ministries may provide sector specific additional information in the draft TOR for preparing the DPR.

CHAPTER-VI

Project Management, Facilitating Mechanisms, Capacity Building & Evaluation

6.1 Even after a project has been approved for being taken up, it still requires a large number of approvals/clearances for its implementation and commissioning. Annex-X shows the types of clearances required for project implementation. While most of these approvals would be required after investment approval, some like environmental clearance, techno-economic clearance, coal and fuel linkages, etc., are required for investment approval and would, therefore, be part of upstream issues. Procedural simplification for various approvals including environmental clearance, is being covered in Part-II of the report. Smooth and timely implementation of projects requires considerable handholding till their commissioning. This need is markedly higher in case of private projects where considerable delays and obstacles are met with during the course of getting these approvals from regulatory authorities.

6.2 At present the Foreign Investment Implementation Authority (FIIA) functions in Government of India for assisting the FDI approval holders in obtaining various approvals and resolving their operational difficulties. FIIA has been interacting periodically with the FDI approval holders and following up their difficulties for resolution with the concerned Administrative Ministries and State Governments. It has been observed that such an interactive mechanism is very effective and useful in articulation and resolution of difficulties and bridging the communication gap between regulatory authorities and foreign investors.

Strengthening Facilitation Mechanism

6.3 It is necessary that institutional facilitation arrangements are in position for projects other than FDI projects also. It is recommended that an Industrial Investment Facilitation Board (IIFB) be set up to follow up implementation of all projects with investment above Rs. 100 crores, both in the public and private sectors.

6.4 Secretary, Department of Industrial Policy & Promotion, Government of India, would be the Chairman of the IIFB with Secretaries of the Ministries of Law, Power, Labour, Small Scale Industries, Environment & Forests and Road Transport & Highways as members. IIFB could co-opt officials of concerned Ministries/ State Government, as needed depending upon the projects considered. IIFB would follow up the cases of delays in the grant of approvals in respect of projects with investments of Rs. 100 crores and above. In addition, any investor experiencing difficulties in obtaining approvals may also approach the Board irrespective of the investment limits. IIFB would also set up a sub-committee to prescribe time limits for grant of various non-statutory approvals in consultation with the concerned Administrative Ministries.

6.5 IIFB would refer cases involving excessive delays in approvals to a Group of Ministers to be constituted for consideration and resolution of such cases. The GoM could co-opt the Minister of the concerned Department.

6.6 IIFB should interact at least once every three months with the investors on the factors impeding implementation of projects and scope for further simplification of procedures. While IIFB would be looking at specific difficulties faced by all projects, FIIA would continue to look after specific cases of foreign investment where project promoters encounter difficulties in implementation.

Facilitation Teams for Mega and Priority Projects

6.7 Facilitation Teams (FTs) may also be set up in the concerned Administrative Ministries for facilitating the implementation of projects with investments above Rs. 100 crores and for other priority projects/schemes of the Ministry. FTs would be looking after both public and private projects including their upstream approval requirements, viz., environmental, forest clearances, etc. The FTs under the Chairmanship of Secretary of the Administrative Ministry will include the Internal Financial Advisor, concerned Joint Secretary, representatives of Ministries/State Government involved in regulatory clearances besides representatives of the Ministries of Environment & Forest for projects requiring environmental/forest clearances. FTs would guide the project from approval to implementation and identify bottlenecks and remove them. FTs will review the progress of implementation and ensure better co-ordination among the Ministries/State concerned with the implementation of the project.

Project Management

6.8 Management of the projects can be strengthened by a number of measures such as identification of a core team of personnel, strengthening co-ordination with other Ministries/Agencies responsible for granting necessary approvals, developing project formulation and appraisal skills, outsourcing specialized skills where these are not available in the department or other organizations, etc. This would also require changes in the existing tendering, vendor rating systems as well as developing sector specific skills in the audit and investigating agencies.

Project Monitoring

6.9 While concerned Administrative Ministries and the Facilitation Teams would monitor the implementation of their projects, MSPI would monitor the implementation of projects with proposed investment of Rs. 25 crores and above and prepare consolidated reports. In order to avoid repetition of effort in the Administrative Ministry and MSPI, it is necessary that the monitoring in the Ministries and MSPI be networked permitting on-line monitoring. The Monitoring unit in the MSPI would need to be strengthened for monitoring and concurrent evaluation of projects.

Role of Civil Services

6.10 Capacity building and creating a strong performance culture in the civil services would improve the efficiency and effectiveness of decision making in the Government. Besides highlighting the need for capacity building in the civil services, McKinsey's report has suggested introduction of the system of participative performance evaluation and performance linked compensation. While measures for capacity building for project formulation, appraisal, implementation and evaluation are being covered in the following recommendations on capacity building, making recommendations on the specific civil services reforms is not within the mandate of the Committee.

Capacity Building

6.11 Weaknesses in the project formulation and appraisal and lack of specialization in these areas have a great influence on the quality of projects. Besides causing delays at the stage of project formulation and appraisal itself, the project might need midcourse corrections resulting in both cost and time overruns and need for a fresh round of appraisal and approval.

6.12 The PAU as the specialized project appraisal body will essentially be created by strengthening the present PAMD in the Planning Commission by recruiting experts from appropriate fields. These qualified personnel would provide expert inputs to the PAU along with outside experts to be engaged for specific sectoral analysis on need basis. The existing staff in the PAMD would be playing a critical role by virtue of their vast experience of handling public projects. Such staff, despite their professional qualifications, would need orientation training for project formulation and appraisal. Multilateral Financial Institutions (MFIs) may be requested for meeting such training needs under their technical assistance programmes.

6.13 Members of the Facilitation Teams (FTs), to be set up in the Administrative Ministries to facilitate the implementation of projects, would need to be trained in modern project management techniques. IIMs and other Management Institutions of repute may be requested to conduct short-term courses for members of the FTs to provide a comprehensive orientation to the modern project management techniques and best practices in project management. Completion of such trainings may be made a pre-requisite to participation of the concerned officers in the Facilitation Teams.

6.14 In order to derive maximum benefits from the economic reforms and to attract greater investments, the work culture in Government also needs to be changed in line with the present day technologies and practices. Besides promoting specialisation, position-specific training for staff in key positions, skill upgradation, performance management and access to the best practices in project management would be necessary. Regular training of the staff at cutting edge level is necessary to bring about and sustain this attitudinal change.

6.15 Officials at and above the level of Section Officers must be imparted training in the use of computers on most commonly used application packages and any specific package related to the department.

6.16 The Committee recommends that the requirements of the DPRs and the criteria for meeting these requirements may be specified by the PAU as the expert body for appraisal of projects. It would, thereafter, be up to the individual Ministries to internally assess the areas where capacity building is required and take appropriate steps for capacity building in these areas. While capacity-building initiatives would be an ongoing exercise, measures to address the deficiencies in the existing set up need to be completed in a time bound manner, say one year.

Greater Use of IT Tools

6.17 Despite heavy investments by Government in the basic information technology infrastructure, its benefits have not percolated down to the cutting edge level. While the use of basic information technology infrastructure like computers is far greater today than it was a few years back, its application in day to day operational issues varies from Department to Department and State to State. IT is being used extensively for intra department communication and sharing of information in some Departments but its use across Departments and for real time processing of information is still rather limited.

6.18 With the basic hardware and communication system in place, the work culture in the Governmental set-up needs to be aligned to information technology mode. This would require an integrated inter-Ministry as well as intra-Ministry effort. The operating systems and procedures as well as office procedures would need to be redesigned so that they become amenable to information technology tools. Electronic transmission and sharing of information, both within and across the Departments, online discussions and clarifications through e-groups, virtual online team rooms, etc., could be some of the immediate steps towards reducing delays in transmission of information and examination across Departments. This would also require standarisation of the data requirement among the Departments dealing with the subject.

6.19 It would be necessary that a roadmap for the use of IT in information sharing and decision-making be laid down. This would involve the role of each of the Administrative Ministries for the up-gradation of their internal systems and hardware, wherever required, and standardization of database. At the second stage interconnecting Ministries and State Governments and systems for online decision-making will be required.

Project Evaluation

6.20 Feedback from the completed projects, particularly on the deficiencies in project formulation, appraisal and difficulties in implementation is an extremely useful input for future projects. Institutional arrangements are, therefore, necessary for the post project evaluation of completed projects. In order that the evaluation is free from bias, it would be necessary that the evaluation be conducted by an appropriate independent agency, outside of the parties associated with the formulation, appraisal and implementation of the project including those responsible for various approvals/clearances.

6.21 It is recommended that post-project evaluation of selected projects, with investment of over Rs. 100 crores and projects from priority sectors to be identified by CCEA, is conducted by the MSPI. DPR must also cover the post-project evaluation methodologies.

6.22 A centralized evaluation unit for project evaluation may be set up in MSPI by redeploying the existing personnel assigned for similar functions in the Planning Commission, after giving them reorientation training on evaluation methodologies. Persons with necessary expertise may be co-opted from other Ministries/Agencies avoiding any conflict of interest. Post project evaluation being a professional exercise would require skills similar to the project formulation stage and expert inputs would be required. Since post-project evaluation would require services of experts, as much outsourcing to expert agencies as is possible should take place.

6.23 It is important that the findings of the post evaluation studies are used at the time of formulation of new projects to avoid recurrence of the past deficiencies. It is, therefore, important that institutional arrangements are in place to utilize the experience of evaluation of past projects in new projects. It is recommended that the DPR for any project must invariably include a reference to the previous evaluation studies on the subject and how the lessons therefrom have been integrated in the project proposal.

Modifying the Role of Audit/Vigilance Agencies

6.24 McKinsey in their report have suggested modification in the role of audit and vigilance agencies to prevent overlap, setting up the Referral Boards before initiation of prosecution by investigating agencies and to reduce 'audit load' on implementing agencies. After detailed discussions on these recommendations, the Committee appreciates the need for a mechanism for prior review of cases before initiation of formal investigations. It feels that Independent Advisory Boards, comprising retired civil servants and persons of impeccable integrity, for tendering advice before prosecution by policing agencies would be extremely useful in case of Ministries like Defence, having major procurements. Similarly it is felt that an overall time frame must be specified within which the investigation needs to be closed. The Committee, however, feels that these issues need in-depth examination and possibly another group may look into these issues in consultation with concerned agencies

6.25 The Committee agrees with McKinsey's recommendation on the need for strengthening the specific functional skills within the audit and vigilance agencies. Sector groups created by CVC for insurance and banking need to be extended to other activities and agencies. It is felt that such skills need not be sector specific but instead be process-specific such as procurement of goods, contracting for public works, etc. Where no material deficiencies with regard to prescribed processes are observed, a presumption that the implementation agency has acted correctly must follow. Sector-specific skills would be necessary for financial sector.

Chapter-VII

Project Implementation - Downstream Issues

7.1 Even after the investment approval in case of a public project and financial closure in case of private projects, numerous Acts and Regulations govern their implementation and subsequent operation. While the economic reforms initiated in the past decade have liberalized the entry restrictions and permitted easy entry into most sectors with virtual abolition of the 'license raj', procedural reforms for various approvals/permissions required have lagged behind. While some efforts have been made towards simplification of procedure under the relevant laws through delegation of greater authority, the very rationale behind continuing with the requirement of many of these approvals/permissions in the present economic and technological scenario has not been addressed. Such bottlenecks continue to hamper implementation of not only private but also public projects. Some of the major impediments encountered in the implementation and operation of projects are:

- Multiplicity of laws governing the same or similar set of issues.
- Requirement of separate clearance/approval from same authority
- Requirement of approvals from multiple authorities for an activity
- Outdated procedural requirements lagging behind technological advancements
- Too many points of contact between the project promoter and regulatory authorities.
- Lack of transparency in the administration of clearances/approvals
- Large number of returns to be filed/registers to be maintained during the operational phase of the project.
- Little use of IT across departments and lack of communication among departments/agencies.

7.2 The Sub-Group on 'Simplification of procedures for Projects in the Private Sector' is separately looking into these issues in greater detail and recommendations on downstream issues will be presented separately in Part-II of the Committee's report. Some of the issues such as reforms in legislative framework, effective facilitation mechanism, etc., also influence the upstream issues as the statutory approval requirements also impact the project approval. Similarly, pro-active facilitation mechanisms at the Central and State levels would help obtain necessary permissions quickly. This would also raise the confidence of the investors, which will be a critical factor influencing future investment decisions.

Reforms in Legislative Framework

7.3 Approval, implementation and operation of project are also subject to compliance with the requirements of numerous Acts administered by various offices of a number of Departments, both at State and Central level. While many approvals like Techno-Economic Clearances (TEC) for power projects, Environmental clearances, etc., require statutory procedural requirements to be complied with, in many other cases, legal requirements of registration and permissions, etc., are necessary.

7.4 Besides the complex procedural requirement for various approvals and delays involved in getting these approvals, separate laws regulating similar activities further complicate the regulatory environment. For instance separate laws regulate the payment of wages, bonus, gratuity and minimum wages. Similarly separate laws exist for various aspects related with the safety of the establishment, welfare of labour, protection of environment, etc.

7.5 Many legislation regulating the industries were enacted over 50-100 years ago reflecting the guiding spirit and objectives prevailing at that time. Even after a near total transformation in the economic and technological environment, the regulatory framework has not changed much. With the passage of time and growing concerns on issues related to environment, security, safety, public health, natural resource management, etc., the regulatory framework has become more complex with increased interface between the regulatory authorities and the entrepreneur.

7.6 The plethora of laws and regulations existing in India need re-casting for streamlining of project clearances aiming at:

i. Reduction in number of clearances and interlinkages
ii. Consolidation by avoiding overlap and obsolescence
iii. Reduction in complexities and processing time
iv. Amenability to IT tools, facilitate computerization and networking
v. Transparency of procedures and grievance redressal mechanism
vi. Ease of compliance and monitoring

7.7 The extant laws regulating the industry need to be reviewed and consolidated. Laws that have become redundant and are no longer relevant in the liberalized economic scenario may also be considered for repealing. Consolidation of legislative framework would facilitate its compliance and implementation. The Sub-Group will be making detailed recommendations on these issues in Part-II of the Report.

Regulatory Environment for Projects

7.8 A large number of regulatory and reporting requirements such as periodic renewal of license/permission, elaborate and complex system of maintaining records and registers, inspections by number of regulatory bodies, filing returns, etc., also govern any project.

7.9 A study conducted in January 2002 by the CII-World Bank on 'Competitiveness in Indian Manufacturing' based on firm level survey has shown that in India about 16% of management time is spent on dealing with Government officials on regulatory and administrative issues. This is a direct measure of the regulatory burden and compares poorly with Latin America & OECD Countries and China.

7.10 Responses from the firms have also shown that the frequency of visits by regulatory authorities varies according to the investment climate in the states with the states having better investment climate tending to impose lesser burden on the management than other states. The average number of visits per year by Government Officials has been as low as 5.5 in Tamil Nadu and 5.9 in Delhi compared to 13.4 in Andhra Pradesh, 14.9 in Punjab. Uttar Pradesh accounts for the highest average number of visits per year by government officials at 43.1 where as the average for the 10 surveyed States is 11.5. While the average regulatory burden on SMEs is less than the large units, the regulatory burden per employee is over 14 times more in the SMEs compared to large units.

7.11 The study has also shown that the mean delay at customs while importing is 10.3 days in India compared to 7 days in Thailand and South Korea. The impact of such delays shows up prominently in sectors like textiles, which imports raw material and exports finished apparel. The average delay at customs is 11 days while importing and 4.5 days in exporting. The total delay of 15.5 days accounts for almost one third of the average production cycle of 45 days. This, besides creating attendant problems of working capital requirement, also adversely affects the competitiveness of the product in international markets.

Re-engineering of Regulatory Processes

7.12 In the above background, a fresh look into the entire regulatory processes related to various aspects of project clearances and its subsequent operation has become necessary. The extant regulatory processes would need re-engineering to cater to the present economic and business requirements.

7.13 In order to simplify the regulatory environment, re-engineering of the regulatory processes under different Acts and regulations would be necessary for:

a. Automatic permission upon filing of documents (Traffic Light approach)
b. Automatic approval upon expiry of the period prescribed for approval. (Deemed Approval)
c. Approval from competent outside agencies authorized for granting such approvals. (Outsourcing Approval)
d. Approvals statutorily required.

7.14 The Finance Minister, in his 2002-2003 budget speech, has announced an incentive fund of Rs. 500 crores for incentivising initiatives of undertaking regulatory reforms at State level. Funds under some other special projects could also be linked with the re-engineering of the regulatory processes at the State level.

7.15 It is recommended that the proposed Industrial Investment Facilitation Board (IIFB) may also take up re-engineering of the regulatory processes and incentivising the states for undertaking regulatory reforms in consultation with the Ministries administering different legislations, in a time-bound manner. The IIFB may avail the services of experts as considered necessary.

Interface Between Project and Regulatory Authorities

7.16 By minimizing interaction between project and regulatory agencies for inspections, reporting and other regulatory requirements, the operating environment for projects will be conducive to growth. The number as well as frequency of inspections can be reduced by clubbing duties of different inspecting authorities and by sending representatives of concerned departments as a team. With advancement in technologies and experience gained by the industry, it should be possible to revise the frequency of various clearances, permissions or duration of licenses. The authority for periodic inspections can also be given to accredited certifying agencies that would be responsible for various statutory compliances by the units inspected. The requirement of maintaining registers and reporting can be rationalized with greater use of electronic filing. The Sub-Group is looking into these issues at greater length.

Transparency in Approval Process

7.17 Lack of precise information on the procedure and documentary requirements for various approvals, agencies responsible for granting such approvals, etc., also delays the approval and implementation of projects. The process of approvals from various Departments/Agencies of the Government needs to be made more transparent. By clearly spelling out the policy framework for investment approvals, procedural requirement, agency responsible for such approvals, and time frame for decision making on the department's website and making it public through other modes, the regulatory environment can be made more transparent. The Sub-Group is looking into these issues at greater length.

Initiatives by State Governments

7.18 Pro-active role of State Governments is necessary for removing impediments in the implementation of projects. While most legislation regulating the approval and regulatory framework are Central, their implementation is at the State level. Case studies commissioned by the PMO have also shown that over 70% of the implementation issues actually pertain to the State Governments.

7.19 Many progressive States have of late shown strong commitment to removing impediments in the way of smooth implementation of projects by strengthening the Single Window Mechanism, introducing 'Single Composite Application Forms', simplifying the interface between regulatory authorities and the entrepreneur and by greater use of IT in the regulatory framework and reporting methods.

7.20 Single Window System would need to be established and strengthened at the State level in order to cut down delays in the grant of various approvals/permissions. This, along with the introduction of Single Composite Application Forms for necessary clearances, could remove most of the difficulties in getting necessary approvals. Single Window System would need to be sufficiently empowered to translate the single window concept into reality. Since different departments/agencies are responsible for the grant of approvals, the Single Window System to be effective should be able to monitor the grant of approval and intervene in case the concerned departments/agencies fail to grant these approvals within the prescribed time.

7.21 At the State level also facilitation mechanisms would be required where periodic interactions with the investors on any specific difficulties being encountered in the implementation of projects and need for simplification of procedures could be discussed.

7.22 The Government of Andhra Pradesh is considering extension of the Labour Laws (Exemption from Furnishing Returns and Maintenance of Registers by Certain Undertakings) Act, 1988 to establishments employing up to 100 persons and extending the self-certification scheme to ESI and EPF Acts and to provide for compounding fee for minor offences under Labour Laws. Self certification in labour laws now available only for infotech, biotech and export oriented units is proposed to be extended to all industrial units except in case of hazardous industries. Dissemination of information on such measures to other states for possible emulation of such good practices could be considered. The Sub-Group is looking into these issues at greater length, and its recommendations would be included in Part-II of the report.

Chapter-VIII

Recommendations

The recommendations of the Committee on upstream issues, i.e., from conceptualization of the project to investment approval are contained in this Part-I of the report. The recommendations on the downstream issues, i.e., from investment approval to implementation of the project and its operational phase would be presented in Part-II of the report to be presented separately.

8.1 Project Formulation and Appraisal

i. The project formulation stage must flag all issues, which are likely to affect its implementation later, such as land acquisition, environmental impact, diversion of forest land, social impact, etc. A generic structure of the feasibility report has been suggested at paragraph 5.15

(Paragraph: 5.15)

ii. A Project Appraisal Unit (PAU) may be established in the Planning Commission as the primary appraising agency for all public projects with investment exceeding Rs. 25 crores. PAU will also review the TORs for preparing the DPRs of projects. Projects requiring appraisal by PAU would need to get their TORs for preparing DPRs cleared by the PAU. In order to reduce the number references to the Planning Commission/ PAU, it is recommended that the feasibility report and draft TOR for the DPR may be sent simultaneously to the Planning Commission/ PAU. The financial limit for appraisal of project by PAU may also be made coterminous with plan period necessitating a review every five years.

(Paragraph: 4.7, 4.8, and 5.4)

iii. TORs for preparing DPR and also the DPR for projects of Navratna/ Miniratna PSEs involving either budgetary support or contingent liability on the part of the Government or exceeding the approval authority of such Navratna/ Miniratna PSEs should also be appraised by the PAU like other public projects.

(Paragraph: 4.21)

iv. The PAU would be set up by strengthening the existing PAMD staff in the Planning Commission with the addition of suitable experts, for the financial, economic, environmental appraisal of projects. The Unit may avail the services of specialists available with other departments. Services of outside experts may also be availed as may be required.

(Paragraph: 4.8)

v. Wherever the recommended time frame is not adhered to at 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.

(Paragraph:5.13)

8.2 Project Approval

a. Increased Delegation of Powers to the Ministries

i. While the Committee was deliberating on this issue, the Department of Expenditure has, on February 18, 2002, issued orders enhancing the powers delegated to various levels for appraisal and approval of projects and revised estimates. The Committee feels that these limits would be appropriate for the time being but would need to be reviewed periodically. It is recommended that these powers might be made coterminous with the plan period requiring a review every five years. Enhanced powers could be delegated to Ministries dealing with larger projects.

(Paragraph:4.14 & 4.20)

ii. At present, all projects being posed to PIB are considered in the Pre-PIB meetings. Since the feasibility report/DPR would be subjected to an expert appraisal where any inadequacies in the proposal would be addressed, the Pre-PIB process may be dispensed with in respect of projects with outlays up to Rs. 500 crores and such proposal may be considered by PIB directly after appraisal by PAU and inter-ministerial consultations.

(Paragraph: 5.8)

b. Powers of the PSEs

i. The Navratna and Miniratna PSEs already enjoy higher levels of delegation of powers and proposals of Navratna PSEs not requiring any budgetary support do not require the approval of the Government. There is no need for any change in the powers delegated to the Navratna/Miniratna PSES. As stated at paragraph 8.1(iii), projects from such PSEs involving either budgetary support or contingent liability on the part of the Government or exceeding the approval authority of such Navratna/ Miniratna PSEs should also be appraised by the PAU like other public projects.

(Paragraph: 4.21)

c. Acceptance Criteria

i. The Ministry of Finance, Department of Expenditure may formulate, in generic terms, a comprehensive set of project acceptance criteria for different categories of projects and get it approved by the CCEA. The technical appraisal by PAU and official review by the PIB will consider the project proposals with reference to these criteria.

(Paragraph: 5.14)

8.3 Project Evaluation

i. Independent evaluation of selected projects with expenditure of Rs. 100 crores and above and other priority projects must be carried out by MSPI to identify deficiencies in formulation, appraisal and implementation of projects.

(Paragraph: 6.21)

ii. Findings of the evaluation studies must be used at the time of formulating new projects and each feasibility report/DPR must specifically mention in a separate section whether results of previous evaluation of similar projects are available and how these have been used while formulating the project.

(Paragraph: 6.23)

8.4 Capacity Building

i. The requirements of DPR and the criteria for meeting these requirements may be specified by the PAU. It would, thereafter, be up to the individual Ministries to identify areas where capacity building is required.

(Paragraph: 6.16)

ii. Project formulation skills in the Ministries and PSEs need to be upgraded and specialization promoted. Personnel responsible for project formulation in Ministries/ PSEs would require orientation training. MFIs may be approached for assistance in training the personnel under their technical assistance programme. Services of experts for project formulation may be availed as considered necessary.

(Paragraph: 5.5)

iii. Existing staff in the PAMD with requisite qualifications would need to be given orientation for project appraisal. MFIs may be approached for assistance in training such personnel under their technical assistance programme.

(Paragraph: 6.12)

iv. Members of the Facilitation Teams (FTs) to be set up in the Administrative Ministries to facilitate implementation of projects would need to be trained in modern project management techniques and best practices in project management. IIMs and other Management Institutions of repute may be requested to conduct short-term courses for the members of the FTs to provide a comprehensive orientation to the modern project management.

(Paragraph: 6.13)

v. Existing Staff for project evaluation in the Planning Commission and the MSPI to be utilized in the Centralised Evaluation Unit in the MSPI would need to be given orientation training on evaluation methodologies.

(Paragraph: 6.22)

vi. Officials at and above the level of Section Officers must undergo compulsory usage based trainings in the use of computers on most commonly used application packages and any specific package related to the department.

(Paragraph: 6.15)

vii. Specific functional skills need to be developed within the audit and vigilance agencies. Such skills may be either process-oriented as in the case of procurement of goods, contracting of works and services, etc., or sector-specific as in financial sector.

(Paragraph: 6.25)

viii. While capacity-building initiatives would be an ongoing exercise, measures to address the deficiencies in the existing set up need to be completed in a time bound manner, say one year.

(Paragraph: 6.16)

8.5 Project Implementation-Downstream Issues

Once the public project receives the approval or a private project achieves financial closure, the requirement of other statutory and non-statutory approvals is similar. The Sub-Group on 'Simplification of Procedures for Projects in the Private Sector' is looking into the downstream issues for projects in private and public sectors. The Committee will be presenting its recommendations on the downstream issues separately as Part-II of the report. Some of the main issues, which also impact investment approval, are:

I. Procedural

i. Reforms in Legislative Framework: The extant laws regulating the industry need to be reviewed and consolidated. Laws that have become redundant and are no longer relevant in the liberalized economic scenario may also be considered for repealing. Consolidation of legislative framework would facilitate its compliance and implementation.

(Paragraph: 7.7)

ii. Re-engineering of the Regulatory Environment: A detailed analysis of the each approval requirement needs to be carried out for re-engineering of the regulatory process as under:

a. Automatic permission upon filing of documents (Traffic Light approach)
b. Deemed approval upon expiry of the period prescribed for approval.
c. Grant of approval by outside agencies authorized for granting such approvals.
d. Approvals statutorily required.

The ‘Industrial Investment Facilitation Board, proposed for being set up as a central facilitation body, may take up this task to be completed in consultation with concerned Administrative Ministries in a time bound manner. Services of experts may also be availed as considered necessary.

(Paragraph: 7.13 & 7.15)

iii. Transparency in Administration of Approvals: A net-enabled information system should be developed to provide information on investment policies, sector wise approvals required from both Central and State Governments, the agency responsible for approval, its contact address, procedural requirements for the approvals, prescribed time frame, etc. To begin with such net-enabled information system could be developed by each department of the Central and State Government as part of their website. This could subsequently be interconnected across departments to provide all related information from one point.

(Paragraph: 7.17)

iv. Greater use of IT: Central Government as well as State Governments must take up e-governance measures by laying down a road map for the use of IT in information sharing and decision making by upgrading their internal systems and standardization of database and subsequently interconnecting Ministries and State Governments.

(Paragraph: 6.19)

II. Institutional Arrangements

i. An Industrial Investment Facilitation Board (IIFB) may be established in the Department of Industrial Policy & Promotion, for follow-up of the grant of approvals by the Ministries and

Agencies of Central Government. The Board would review the grant of approvals to projects with investments of more than Rs. 100 crores. In addition any investor experiencing difficulties in obtaining approvals may also approach the Board irrespective of the investment limits.

(Paragraph: 6.3 & 6.4)

ii. Secretary Department of Industrial Policy & Promotion, Government of India, would be the Chairman of the IIFB with Secretaries of the Ministries of Law, Power, Labour, Small Scale Industries, Environment & Forest and Road Transport & Highways as members. IIFB could co-opt Officials of concerned Ministries/ State Government, as needed depending upon the projects considered. IIFB would set up a sub-committee to prescribe time limits for the grant of various non-statutory approvals in consultation with the concerned Administrative Ministries

(Paragraph: 6.4)

iii. IIFB would refer the cases involving excessive delays in approvals to a Group of Ministers to be constituted for consideration and resolution of such cases. The GoM could co-opt the Minister of the concerned Department.

(Paragraph: 6.5)

iv. IIFB should interact at least once every three months with the investors on the factors impeding implementation of projects and scope for further simplification of procedures. While the Board would be looking at specific difficulties faced by projects in private sector, the Foreign Investment Implementation Authority (FIIA) would continue to look after specific cases of foreign investment where project promoters encounter delays in implementation.

(Paragraph: 6.6)

v. Facilitation Teams comprising representatives of Ministries involved in the regulatory clearances and the concerned State Government may be established for projects, both public and private, with outlays of Rs. 100 crores and above and other priority projects to be identified by CCEA, for coordination and follow up with different agencies for issue of necessary approvals.

(Paragraph: 6.7)

vi. Establishment of empowered Single Window Mechanism at the State level either under a special legislation *or* through alternate arrangements such as amendment in the Rules of Business, etc., needs consideration. The State Level Single Window Agency should be empowered to lay down the time frames for approvals, review the issue of approvals by concerned agencies/departments, accord approvals in case concerned departments/agencies do not grant these approvals in a predetermined time frame, and also give appropriate directions to the concerned agencies/departments.

(Paragraph: 7.20)

ANNEX-I

No.212/9/2/2001-CA.IV
Government of India/Bharat Sarkar
Cabinet Secretariat / Mantrimandal Sachivalaya
Rashtrapati Bhavan

New Delhi 110004 the 24th September, 2001.

Office Memorandum

In pursuance of the deliberations of the meeting held on 4th September, 2001 under the Chairmanship of the Prime Minister, to discuss a fiscal stimulus initiative for the economy, it has been decided to set up a Committee to examine the extant procedures for investment approvals and implementation of projects and suggest measures to simplify and expedite the process for both public and private investment.

2. The Committee will comprise the following

1. Shri V. N. Kaul, Secretary, Ministry of Petroleum and N.G. - Convenor
2. Shri P. V. Jayakrishnan, Secretary, Ministry of Environment and Forests
3. Shri A.K. Basu, Secretary, Ministry of Power
4. Shri C. M. Vasudev, Secretary, Department of Expenditure
5. Shri Shyamal Ghosh, Secretary, Department of Telecommunication
6. Shri Vinod Vaish, Secretary, Ministry of Labour
7. Shri Pradip Baijal, Secretary, Department of Disinvestment
8. Shri V. Govindarajan, Secretary, Department of IPP
9. Dr. Rakesh Mohan, Adviser to FM and Chief Economic Adviser, DEA
10. Shri K. V. Irniraya Secretary, M/o Statistics & Programme Implementation
11. Dr. Pradipto Ghosh, Additional Secretary, PMO
12. Shri N.S. Sisodia, Additional Secretary, Cabinet Secretariat - Member Secretary

3. While the above Committee will suggest measures to simplify the procedures, a Sub-Group headed by Secretary, IPP will make specific suggestions regarding effecting simplification of procedures relating to private investment. These suggestions would be incorporated in the main report.

4. The Committee will be services by the M/o Statistics & Programme Implementation.

5. The Committee will submit its report by 31st January, 2002.

Sd/-
(C.K. Mishra)
Director
Tel No. 379-2204

ANNEX-I-A

No.212/9/2/2001-CA.IV
Government of India/Bharat Sarkar
Cabinet Secretariat / Mantrimandal Sachivalaya
Rashtrapati Bhavan

New Delhi the 19th March, 2002

Office Memorandum

Reference this Secretariat OM of even number dated the 24th September 2001 regarding setting up a Committee to examine the extant procedures for investment approvals and implementation of projects and suggest measures to simplify and expedite the process for both public and private investment.

2. Shri V. Govindarajan, Secretary, D/ Industrial Policy & Promotion, will be the Convenor of the said Committee, with immediate effect in place of Shri V. N. Kaul, Secretary, Ministry of Petroleum & Natural Gas, who has been appointed as Comptroller and Auditor General of India.

3. Other terms and conditions of the Committee remain unchanged.

Sd./-
(Ravi Mittal)
Director
Tel. No. 379-2204

To

All members of the Committee.
All Ministries /Departments.

Copy for information to:

(i) Shri V. N. Kaul, C&AG of India.
(ii) Shri Brajesh Mishra, Principal Secretary to the Prime Minister.

Sd./-
(Ravi Mittal)
Director
Tel. No. 379-2204

ANNEX-II

No. 5/5/2001-FIIA
Government of India
Ministry of Commerce & Industry
Department of Industrial Policy & Promotion
******

Udyog Bhavan, New Delhi.
Dated, the 9th October, 2001.

OFFICE MEMORANDUM

In pursuance of the Cabinet Secretariat's O.M. No. 212/9/2/2001-CA.IV dated 24th Sept. 2001 regarding fiscal stimulus initiative for the economy, it has been decided to set up a Sub-Group headed by Secretary, Industrial Policy & Promotion to make specific suggestions regarding effecting simplification of procedures relating to private investment.

2. The Sub-Group will comprise the following: -

a	Secretary, Department of Industrial Policy & Promotion	**Chairman**
b	Secretary, Department of Disinvestment	Member
c	Secretary, Ministry of Power (To be represented by Special Secretary)	Member
d	Chief Economic Adviser, Department of Economic Affairs	Member
e	Additional Secretary, Ministry of Statistics & Programme Implementation	Member

3. The Sub-Group may invite specifically any other Department depending on requirement.

4. The sub-Group will submit its report by the end of January 2002.

Sd/-
(Umesh Kumar)
Director
Tel. No. 3016951.

To

1. All members of the Committee
2. Principal Secretary to the PMO
3. Shri C.K. Mishra, Director, Cabinet Secretariat, Rashtrapati Bhavan.
4. JS (MSS)

Sd/-
(Umesh Kumar)

ANNEX – III

EXECUTIVE SUMMARY OF MCKINSEY'S REPORT

The Government of India (including the central PSUs) invests over Rs. 130,000 crores a year in projects and schemes spanning infrastructure, industry and social development. The potential impact of these investments on stimulating the economy and promoting development is tremendous. However, the effectiveness of these investments is less than desired, as poor project formulation, delays in approval and no clear pinpointing of responsibility mar the process. Therefore, a need was felt at the highest level to recast the government's investment approvals and regulations framework to ensure that the scarce resources are deployed most effectively. A Committee of Secretaries, chaired by Shri V.N. Kaul, was set up with this objective.

McKinsey & Company has been working with the Committee of Secretaries, in association with the Prime Minister's Office and the Cabinet Secretariat over the last 12 weeks, to identify issues affecting the government investment approvals mechanism and to make recommendations on how these could be resolved. In this effort, we focused on the upstream process, i.e., from the conceptualisation of projects to the investment approval. We conducted the project in three phases of roughly 4 weeks each, i.e., Phase 1: Identifying the bottlenecks in the approvals process; Phase 2: Defining the broad solution space; and Phase 3: Detailing the changes needed in the approvals mechanism.

The team's objective was to bring three diverse perspectives to bear- the collective experience of the government, leanings from other governments, and relevant practices from the private sector. We interacted extensively with all relevant ministries and agencies in the government to understand the issues, and examined existing data, reports and studies related to investment approvals. We also obtained the perspectives of members of the Committee of Secretaries, special advisors to the government and independent experts. Second, we developed an in-depth understanding of how investment decisions are taken in countries such as the UK, Singapore, New Zealand, Norway and the US, which have undertaken comprehensive administrative reforms. Finally, we drew in the experiences of large private sector corporations, particularly around how the best companies appraise and manage projects, how they incentivise their organizations for performance, how they manage and use knowledge effectively, and what good governance and review practices they employ.

The remainder of this executive summary outlines our key findings on bottlenecks in the approvals process, our recommendations and what it will take to implement the required changes.

BOTTLENECKS IN THE APPROVALS PROCESS

The diagnostic revealed several recent efforts to streamline investment approvals. These include setting deadlines for various stages of the appraisal and approval process; creating the Ministry of Programme Implementation to monitor projects; installing performance reviews at the ministry level; creating empowered bodies for telecom and highways; delegating additional financial powers to Navratnas, Miniratnas and Ministries; and setting up task forces to streamline procedures for public, private and foreign investment.

Despite the improvements resulting from these efforts, the upstream approvals process for government schemes and projects continues to be characterised by delays across the board and poor quality project formulation and appraisal. This is because the root causes of delays and poor quality decisions lie deeper. The underlying causes we have identified can be categorised into three types – process-related issues, organisational constraints and regulatory issues. The diagnostic clearly revealed that while the approval process is a constraint, the real issues lie deeper – in the basic organization structure and performance management systems adopted by the government.

- **The process-related issues** include an overly centralized process with too many projects going through the EFC/PIB and CCEA, responsibility fragmented across 5-8 agencies for a single project and inadequate use of information technology (even basic facilities like e-mail). In addition, there is an absence of professional project management techniques across every stage of the project, from formulation through appraisal, approval implementation and commissioning.

- **On the organisational front,** government decision-making is plagued by a weak performance culture given that target-setting and performance evaluation for individuals and at the ministry level is indifferent. In addition, there is a lack of critical skills in financial and project appraisal, and IT. Finally, the use of knowledge in decision-making is inadequate.

- Finally, on the **regulatory front**, the fear of audit has created a 'play-it-safe' culture resulting in delayed or sub-optimal decision-making.

It is also clear that several other governments and the private sector have made rapid strides in improving their investment approval and execution mechanisms. These have been contrasted with out situation and, where relevant, lessons have been drawn.

The detailed findings from the diagnostic are presented in Chapter 1.

RECOMMENDATIONS

To address the issues outlined above, we have six broad recommendations, outlined below. These are explained in greater detail in Chapter 2.

1. **Increase delegation to ministries and ensure greater accountability.** This would include: (a) creating empowered and accountable Commissions for 3-5 high-priority sectors with large project investments (on the lines of the Telecom Commission. NHAI and Space Commission); (b) for other ministries, increasing delegation to Rs. 200 crores with the approval of the Finance Minister; (c) creating cross-ministry project facilitation teams for critical projects above Rs. 500 crores; and (d) instituting clear target-setting and review mechanisms within ministries.

2. **Create a nodal project appraisal and review unit**, recognising the need for specialised project management skills and the difficulty associated with creating these skills across all ministries. In addition to appraisal, this nodal agency would undertake stage-gate reviews of large projects with the objective of facilitating and de-bottlenecking. The agency should consist of a small operating core supported by a large network of external experts, through which it will conduct reviews and on-site assessments. The agency should be located at the Planning Commission, and should be formed by merging and strengthening the PAMD and the MoPI.

3. **Create a high-level task force to improve knowledge management and use of information technology** with the objectives of (a) creating knowledge banks of experts, analytical techniques, project experiences and sector trends, to help formulate projects and improve the quality of appraisal and review; and (b) increasing the use of basic information technology such as e-mail, virtual team rooms, public calendars, etc. in communicating information and in coordination. This should be a top-down initiative including external industry experts, and operating through decentralised working teams in areas such as e-governance, knowledge management, IT training and hardware/software up gradation.

4. **Upgrade skills through a combination of internal up skilling and outsourcing expertise.** This would include (a): strengthening financial and project appraisal skills in the project appraisal and review unit, Ministry of Finance and among Ministry Financial Advisors, by creating a core-financial cadre, enforcing qualification guidelines, instituting mandatory training programmes, and secondments from outside the government; (b) outsourcing specialist technical skills for appraisal and review; (c) building familiarity and usage amongst; (c) servants with basic IT tools through regular mandatory training and (d)

establishing mechanisms for bringing in external best practices into the government on a regular basis.

5. **Modify the role of audit agencies for greater effectiveness.** This would involve: (a0 clarifying the roles of the audit and vigilance agencies to avoid overlap; (b) implementing the concept of independent referral boards comprising carefully chosen individuals with sector expertise and impeccable integrity to provide advice before investigations proceed for prosecution; (c) creating/strengthening the audit teams for key sectors, especially those that are technically complex, such as telecom and petroleum; (d) limiting the total timeframe within which an investigation needs to be closed; and (e) undertaking a set of initiatives at PSUs to ensure better expenditure decisions and interface with the audit agencies.

6. **Strengthen the performance management system for the civil services** by (a) ensuring clarity of objectives and targets for all officers (director and above); (b) modifying the evaluation process from a confidential, one-way system to a development and target-oriented one – introducing mandatory annual performance feedback discussions, defining guidelines to moderate performance ratings, and redesigning the ACR form to provide description of performance at various rating levels; (c) linking performance with consequences, by instituting interviews and peer and upward feedback for key promotions (to JS, AS, Secretary), ensuring consistent non-performers are weeded out, and introducing 10 per cent variable compensation; and (e) undertaking more formal career management and succession planning for all officers of the rank of JS and above, by strengthening the Civil Services Board and ensuring coordination across cadres through a cell in the Cabinet Secretariat.

In addition to making recommendations at the overall level, we have also applied these suggestions to three ministries – Petroleum & Natural Gas, Power and Rural Development – with the aim of testing them and making them as specific as possible. These detailed recommendations are laid out in the Appendices.

IMPLEMENTATION

For each of the six reform themes outlined above, we have defined specific actions that need to be taken for change to occur. Overall, it is essential that this effort be approached with the mindset of a long-term change programme, including a visible, high-powered implementation agency and consultations with stakeholders, rather than a specific set of near-term decisions implemented solely at the discretion of individual ministries.

The recommendations should be implemented in three phases: 0-6 months, 6-12 months and 12-24 months. The individual recommendations have been sequenced as below:

1. **Phase 1 (0-6 months)** includes the changes the government can implement in the near term, such as increasing the delegation limits of ministries (with FM approval) to Rs. 200 crores, creating the nodal agency for project appraisal and review, instituting facilitation teams for large projects and undertaking targeted skill building and training. Implementing these changes will lead to a reduction in delays in the approvals process within a couple of months.

2. **Phase 2 (6-12 months)** includes reforms that need further detailing and will take longer to implement, but will build the foundation for long-term health. Initiatives that would be undertaken in this phase include the creation of Commissions in Power and selected other sectors, the introduction of expert reviews by the nodal agency, implementation of skill building strategies and the creation and use of knowledge databases.

3. **Phase 3 (12-24 months)** encompasses reforms that will result in fundamental changes in the way the government functions. These reforms include long-term capability building, new systems of managing performance and careers within the civil services, changes in the functioning of the audit agencies and a revamp of the government budgeting processes.

Implementation responsibility should lie with a high-powered group of Secretaries with strong involvement of the Cabinet Secretariat and the Prime Minister's Office. Led by a senior secretary or even the Cabinet secretary himself, this body should be supported by a small, handpicked programme office with an independent budget, to oversee the various working groups and task forces required.

A detailed discussion on the sequencing of individual recommendations and the nature of the implementation responsibility is provided in Chapter 3.

* * *

The government stands at the threshold of major change. The need for change has been recognised, and a willingness to do things differently has begun to percolate through the various ministries and agencies. Decisive, top-down action at this time could significantly change the speed, quality and effectiveness of public investments.

ANNEX-IV

LIST OF REFERENCES

S.No.	Subject	Agency
1	First draft of the report of the Sub-Group on Simplification of procedures of projects in Private Sector	Sub-Group under the Convenorship of Secretary (IPP), Department of Industrial Policy and Promotion with Secretary Ministry of Disinvestment, Advisor to Finance Minister, Special Secretary, Ministry of Power and Additional Secretary, Ministry of Statistics and Programme Implementation as other members
2.	Interim Report of 'Study on System of Clearances required for various types of projects in Public and Private Sector.'	The study was conducted by Ministry of Statistics and Programme Implementation (Project Monitoring Division) with the assistance of Advance Design and Engineering Limited, New Delhi.
3	Report on 'Strengthening Investment Approval Mechanism'	Study commissioned with M/s. McKinsey&Company by Ministry of Petroleum and natural Gas on the recommendation of the COS.
4	Comments of the Ministry of Power with specific recommendations.	Ministry of Power's comments have been received in response to the draft recommendations made to the Sub-Group under the convenorship Secretary (IPP).
5	Comments on the draft report of the Sub-Group on simplification of procedures in private sector.	Adviser to the Finance Minister, Department of Economic Affairs.
6.	Base Paper on clearance of projects - a note on procedures and approach.	Ministry of Environment and Forests.
7.	Base Paper on simplification of procedures for private investment.	Department of Industrial Policy & Promotion
8.	Report on simplification of procedures governing industries.	Administrative Staff College of India, Hyderabad, submitted to Department of Industrial Policy & Promotion.

9.	Study by NCEAR (July, 99) on Foreign Direct Investment in India - Problems and prospects.	Department of IPP
10.	Comments on various Ministries on the note circulated by Ministry of Environment on clearance of projects.	Ministry of Environment and Forest.
11.	Comments of the Ministry of Shipping on procedures and evolving procedures for speedy clearances.	Ministry of Shipping
12.	Base Paper on simplification of procedures for investment approval and implementation	Department of Telecommunication, Economic Research Unit.
13.	A note for COS regarding clearance of projects. Investment/expenditure and guidelines for appraisal and approval informing fresh financial limits of Plan Scheme/Project.	Department of Expenditure, Plan Finance (O.M. No. 1(3)/PF.II/2001 dated 18th February.
14.	Synthesis study carried out on 13 specific projects	Prime Minister's Office.
15.	Studies in progress	It has been informed by the Ministry of Environment and Forest that a special study is in progress on Environmental clearance by M/s. McKinsey&Company
16.	World Bank Procedures on Project Approval	World Bank
17.	Project Approval Procedures	Planning Commission of India
18.	Study on 'Competitiveness in Indian Manufacturing'	CII-World Bank
Suggestions from Public Enterprises		
18.	Environment Clearance related issues.	GAIL
19.	Suggestions about land acquisition	HPC, IOC, BPC

ANNEX-V

TIME LIMITS FOR APPRAISAL OF PROJECTS/SCHEMES

(i)	Circulation of the Feasibility Report by the Ministries after receiving it from the PSEs to various appraisal agencies (Any examination within the Ministry could be done simultaneously while the Reports are examined by the Appraisal Agencies).	1 week
(ii)	Pre-PIB meeting to be held thereafter.	6 weeks
(iii)	Issue of minutes of the Pre-PIB meeting by Financial Adviser of the concerned Ministry.	1 week
(iv)	Circulation of the PIB Memo.	4 weeks
(v)	Appraisal Note of the Project Appraisal Division of the Planning Commission (in case further clarifications are required to be furnished by the Ministries to the PAMD, they should do it within the stipulated date so that the time limit is adhered to)	4 weeks
(vi)	Submission of PIB Note to the PIB Secretariat in the Department of Expenditure after the receipt of the PAMD Note.	1 week
(vii)	PIB Meeting to consider the proposal thereafter.	2 weeks
(viii)	Issue of the minutes of PIB.	1 week

Note: Same time limits are to be followed for EFC cases (except stage of Pre-PIB consideration).

ANNEX –VI

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

New Delhi, the 18th February, 2002

OFFICE MEMORANDUM

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

A need has been felt to prioritise 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 completive 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 investment/expenditure are being prescribed.

2. **Appraisal of Plan schemes projects**: -

	Financial limits of Plan scheme /project	**Appraisal Forum**
(a)	Up to 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 the 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 PSU's 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 up to Rs. 500 crores has been dispensed with and the proposals will be considered by PIB directly.

2. 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	Minster of Administrative Ministry and the Finance Minister
Rs. 100 crores and above	Cabinet /CCEA
Proposals for new autonomous organizations irrespective of outlay	Cabinet /CCEA

(b) Revised Cost Estimates:

(b)(I) RCE cases less than Rs. 100 crores:

(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 up to 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.

(b)(2) RCE cases of Rs. 100 crores and above::

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

(ii) The first RCE, which is up to 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 up to 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 (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 appraised 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 even though 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
Up to 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 up to Rs. 10 crores for preparation of DFR and pre-investment activities excluding land acquisition/infrastructure facilities, if not funded from Budget and PSU is profit making.	Ministry/Department concerned.
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-D.O. (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 components 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.

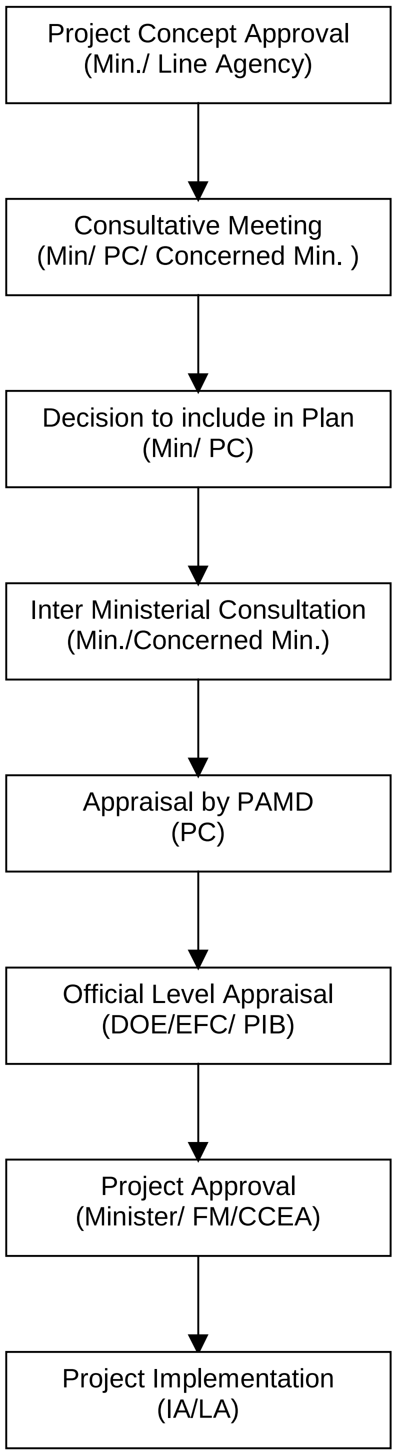
Sd./-
(R. N. Choubey)
Joint Secretary (PF II)

Secretaries of all Ministries /Departments
FA'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

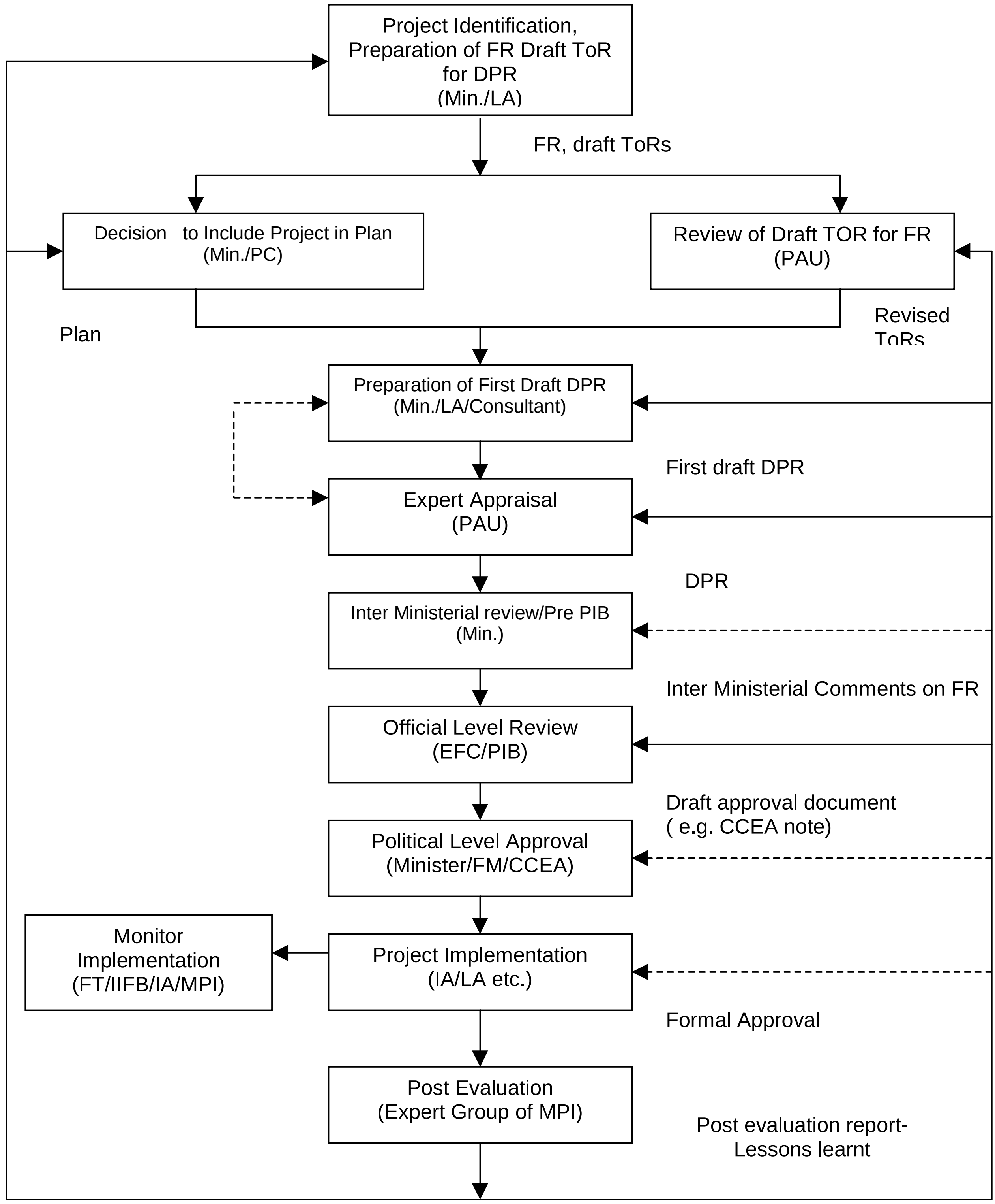
ANNEX-VII

PRESENT PROJECT CYCLE



ANNEX-VIII

RECOMMENDED PROJECT CYCLE



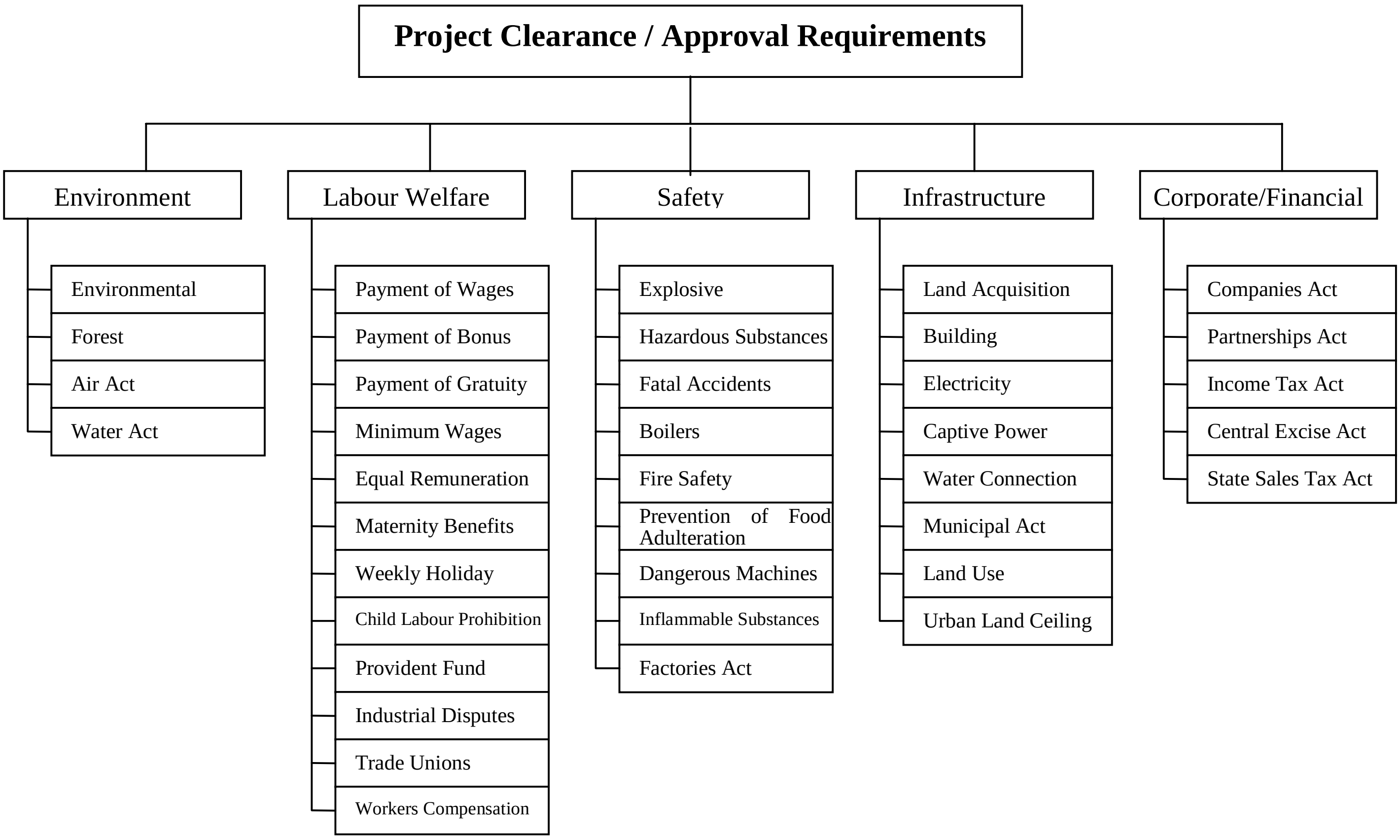
ANNEX-IX

TIME FRAME FOR APPRAISAL OF PROJECTS/SCHEMES UNDER RECOMMENDED PROJECT CYCLE

(i)	Circulation of the draft Detailed Project Report (DPR) to PAU	1 week
(ii)	Appraisal of draft DPR by the PAU	4 weeks
(iii)	Revision of the DPR based on appraisal by PAU	3 weeks
(iv)	Send copy of DPR to the concerned Ministries for comments	2 weeks
(v)	Submission of PIB Note to the PIB Secretariat in the Department of Expenditure.	1 week
(vi)	PIB Meeting to consider the proposal thereafter.	4 weeks
(vii)	Issue of the minutes of PIB.	1 week

ANNEX-X

DOWNSTREAM APPROVAL REQUIREMENTS



Level of Approval

Environmental :	From Central and State Government
Labour welfare:	From State Government
Safety:	Explosives from Central Government, others from State Government
Infrastructure:	From State Government and Local bodies
Corporate & Financial:	From Central Government, State Sales Tax from State Government