FINANCIAL APPRAISAL OF PROJECTS IN GOVT

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What is a project?

- A Project envisages a number of activities to be carried out over the course of the Project period.
- Each project has a definite ‘start date’ and a definite ‘end date’
- Next important aspect is availability of ‘resources’- financial, human and physical. Resources are scarce.
Definition of a project

- Project is a set of activities implemented in a specific time and with specific resources in a specific time and with specific resources to achieve a specific set of objectives.

- Project has two dimensions:
  The domain of work or activities
  The domain of what one seeks to achieve or the objective.
Which is a good project?

- Hallmark of a good project is its SMART Character.
  - S - Specific
  - M - Measurable
  - A - Attainable
  - R - Realistic
  - T - Time-bound
Refined Concepts of Cost and Value – Value for Money

- The concept of price or cost has been further refined into Total Cost Of Ownership (TCO) or Life Cycle Cost (LCC) or Whole-of-Life (WOL) to take into account not only the initial acquisition cost but also cost of operation, maintenance and disposal during the lifetime of the external resource procured.

- The concept of quality is linked to the need and is refined into the concept of utility/value.
Refined Concepts of Cost and Value – Value for Money

- Utility and value, taken together, are used to develop the concept of Value for Money (VfM, also called Best Value for Money in certain contexts).

- VfM means the effective, efficient, and economic use of resources, which may involve the evaluation of relevant costs and benefits, along with an assessment of risks, non-price attributes (e.g. in goods and/or services that contain recyclable content, are recyclable, minimise waste and greenhouse gas emissions, conserve energy and water and minimize habitat destruction and environmental degradation, are nontoxic etc.) and/or life cycle costs, as appropriate.
Refined Concepts of Cost and Value – Value for Money

- Price alone may not necessarily represent VfM.
- In public procurement, VfM is achieved by attracting the widest competition by way of optimal description of need; development of value-engineered specifications/Terms of Reference (ToR); appropriate packaging/slicing of requirement; selection of an appropriate mode of procurement and bidding system.
Time and cost over-runs

- The factors responsible for time and cost over-runs are mainly
  - Inadequate investigations and project formulation. Frequent changes in scope and revision of drawings due to inadequate project preparation;
  - Delay in clearances from various regulatory agencies;
  - Delay in land acquisition;
  - Delay in activities such as supply of equipment by suppliers;
  - Inadequate release of funds;
  - Management problems such as personnel, labour and contractor disputes, mismatch of equipment, etc.; and
  - Unforeseeable reasons such as adverse geo-mining conditions, natural calamities, etc.
Examples of defective tendering (CAG Observations)

Many lacunae are generally observed in tendering process

- Delay in award of work
- Administrative sanction in August 2011
- The work was entrusted to the agency in March 2013
- Improper relaxation of tender premium limit
- As per Government Orders, ceiling of tender premium for all the works should be five per cent. Tender beyond the prescribed limit should not be accepted in the first call.
The estimated cost of Irrigation Project was Rs 1170.25 crore and bid value quoted by the L1 contractor was Rs 1427.70 crore, which was 21.9991 per cent excess over the ECV. The bid was accepted.
Projects are found to have been poorly formulated because of inadequate field investigation, lack of adequate data, inadequate analysis or inadequate attention to environment, forest and rehabilitation aspects. Time and cost over-runs inherently get built into a poorly formulated project from the beginning, if the project parameters are not properly determined or time and cost are understated and the project, during implementation, runs into problems many of which could have been foreseen and avoided.
Examples of defective tendering (CAG Observations)

**Execution and Contract Management**

- Proper contract management leads to timely execution of the Projects and economy in expenditure.
- Preparation of inflated estimate by not availing the exemption of Central Excise Duty – Rs 2.70 crore:
- As per the notification issued (January 2004) by Government of India (GoI), all items of machinery including ancillary equipment and their components/parts required for setting up of water supply plant for drinking and agricultural purposes are fully exempted from payment of Central Excise Duty (CED).
- Delay in commissioning due to lack of power supply:
Examples of defective tendering (CAG Observations)

- Omission of electrical works in original agreements:

- Non-accrual of savings due to non-inclusion of cost variation clause for pressure main component: It was observed from the sanctioned estimate that the length of Pressure Main was to be 28000 RMT and was to cost Rs 60.20 crore. However, the Department neither specified the length of pressure mains nor included a suitable variation clause in the agreement for adjustment of cost of pressure main according to the actual length executed.
Examples of defective tendering (CAG Observations)

- Delay in commissioning due to delay in approaching Railways for approval:
- Adoption of alternative technology instead of conventional technology resulted in additional cost:
Appraisal and Approval of Public Private Partnership Projects

- PPPs are still at nascent stage in India but as reliance on PPs increase, the terms of the projects need close scrutiny.
- A PPP appraisal Committee is to be set up consisting of Secretaries of Finance Dept, Law Dept and the administrative Department, sponsoring the project.
- Project when the capital cost or underlying value of the assets is more than Rs 100 crore, would be brought before PPP Appraisal Committee.
- Once cleared, the project proposal would be put up to the Competent Authority for the final approval.
- In case PPP is based on a duly approved Model Concession Agreement (MCA), then ‘in principle’ clearance by the PPP Appraisal Committee is not required.
Expression of Interest

- After ‘in principle’ clearance of PPPAC, the administrative Department may invite expression of interest in the form of Request for Quotation (RFQ) to be followed by short-listing of pre-qualified bids.

Request for Proposals

- RFP i.e. invitation to submit financial bids should normally include a copy of all the agreements that are proposed to be entered into with the successful bidder.
- After formulating the draft RFP, the administrative Department seek clearance of the PPPAC before inviting the financial bids.
The proposal for seeking clearance of PPPAC should be sent along with copies of all draft project agreements and the Project Report.

All the member departments of PPPAC will forward written comments to the PPPAC. (In case of Central Government, NITI Aayog would send its comments)

Finance Department would be the Nodal Department for examining concessions agreements from the financial angle, deciding guarantees to be extended and generally assesses risk allocation from the investment and banking perspectives. It would also ensure that projects are scrutinised from the perspective of government expenditure.
Appraisal and Approval of Public Private Partnership Projects (contd 4)

IRR
- Internal rate of Return (Economic) and Financial IRR, indicating various assumptions are to be prepared.

Clearances
- Status of environmental clearance required from other Departments are to be obtained (in case of Union Government, it is to be obtained from the State government involved)
- Other supports required from other Departments

GOI Support
- Viability gap funding, if required, from GOI
- GOI guarantees sought for, if required
Other points which are to be checked.

- Concession Agreement
- Criteria for short listing
- Whether short listing will be in one stage or two stage
- Contingent Liabilities of the Government
  - a) maximum termination payment for Government/Authority, default
  - b) Maximum Termination payment for Concessionaire, default
  - c) Any other penalty, compensation contemplated in the agreement
- Dispute Resolution Mechanism
Scope of Work of PPP Cell

- The following is the scope of work of PPP Cell as per the GO

- The PPP Cell is the nodal agency for processing all PPP projects in the State.

- The PPP Cell will serve as the repository of all information relating to PPPs in the State, including on best practices, guidelines, schemes, PPP pipelines, etc.

- The relevant Departments / Ministries of the State will coordinate with the PPP Cell at all stages of project development, keeping the PPP Cell informed of the status of the PPP project proposals.
Subjects dealt by PPP Cell

- Project Advisory to PPP Proposals
- Advisory to Sector Policies, Bills, Guidelines, etc
- Capacity Building
- Knowledge Products
- Handholding activities
- MIS Activities & Website Maintenance
The following are the hand holding activities:

- Advising PPP process to the departments.
- Member in various technical committees for selection of the developers.
- Member in committees for selection of PPP Experts for the HODs.
- Rendering clarifications on various issues in the projects.
- Sharing information on replicable PPP models to the depts.
MIS Activities & Website Maintenance

- MIS Developed with the assistance of CGG. MIS provides Monitoring and tracking System for Projects Development Stages. The web address is:  www.ppp.ap.gov.in
- User id and Password were given to Departments to update the information.
- PPP Cell also updates the available information
- PPP Project reports are generated and send to GOI department as and when called for.
Thank You