

Guidelines for Preparation of Project Reports by SLPEs

GOVERNMENT OF ASSAM

DEPARTMENT OF PUBLIC ENTERPRISES

No. PE 90/89/293 Dated Dispur the 5th October '91

From : Shri Prabir Sengupta IAS

Commissioner & Secretary to the Govt. of Assam

To : The Special Commissioner / Commissioner / Secretary to the Govt. of Assam

All Concerned (Administrative Deptts.)

The Chairman / Managing Director / Executive Director/ Chief Executive Officer

All (SLPEs)

Sub : Guidelines for preparation of Project Reports by SLPEs

Sir,

I am directed to inform you that the Department of Public Enterprises, after careful considerations have prepared a set of guidelines for preparation of Project Reports by the SLPEs, which if adhered to, will facilitate the Govt. in obtaining quicker decisions on investment proposals.

I am therefore to request you to spare some time to go through the guidelines and to ensure that all concerned in your department / Organization adhere to the guidelines in preparing investment proposals. The Department of Public Enterprises will welcome any suggestions as regards these guidelines.

Yours faithfully

Enclo : Guideline sd/- (PROBIR SENGUPTA)

Commissioner & Secretary to the Govt. of Assam

Department of Public Enterprises

Memo No. PE 90/89/293-A dated Dispur the 5th October '91

Copy To : (With copy of guideline)

All members of Public Investment Board

All members of Screening Committee

All officers of Deptt. of Public Enterprises

Director, AIMA, Chandmari, Guwahati -3

Guard file

By order etc.

Sd/- ANUP THAKUR

Secretary to the Govt. of Assam

Department of Public Enterprises

C. GUIDELINES FOR PREPARATION OF PROJECT REPORTS BY STATE LEVEL PUBLIC ENTERPRISES

1. INTRODUCTION

1. The Govt. vide notification no. PE 43/88/155 dated 23.06.1989 issued modified instructions on procedures to be followed for obtaining approval of the PIB on investment proposals for setting-up of new public enterprises, in existing enterprises, on cost & time overrun in implementation of an approved project, for augmentation of authorized capital and for providing Govt. guarantee on institutional loans. His notification provided brief guidelines on preparation of preliminary reports, detailed project reports etc.
2. During about last 2 years, it has been experienced that most of the investment proposals do not consider some vital issues to facilitate obtaining decisions quickly by the Screening Committee and the Public Investment Board. It has therefore been considered essential to issue guidelines on preparation of feasibility/project reports.
3. These guidelines do not revoke the need of preparation of Preliminary reports covering:
 - i. The economic and social benefits that would accrue and the extent to which Govt. objectives would be fulfilled.
 - ii. The desirability of implementing the project in public sector to provide the stated benefits in physical & financial terms and why the existing arrangements and other possible alternatives are insufficient for their provision and how the proposed alternatives will improve the situation.
 - iii. Likely sources of funds, amount of institutional finance expected on preliminary negotiations.
 - iv. Arrangement for management, the availability of skilled manpower, steps proposed to train manpower in required skill.
 - v. The possibility of utilizing existing manpower, equipments etc. of the existing organization of the Govt. / PE, keeping in view the need of implementation of a new work culture.
4. These guidelines also do not revoke the remaining provisions of the aforesaid notification unless changed subsequently.

2. GUIDELINES FOR PREPARATION OF FEASIBILITY/PROJECT REPORTS

The Feasibility/Project reports, both for setting-up of new enterprises & in investment in existing enterprises should discuss the following issues as applicable :

1. About the Company: Description of the Company; the sponsors; activities in brief and performance of the company including its subsidiaries both in physical and financial terms in case of existing enterprises etc.
2. Management & organization: Type of organization; particulars of persons in top & middle level of management with qualification & experience; internal control systems for looking after functions; planning, scheduling and budgeting on scientific lines; delegation of powers and responsibility/accountability; labor relations, wage/pay structure; workers' participation in management and working conditions etc.
3. The process & the machinery: Nature of the project, its purpose; process &

- technology, justification for selection of particular technology amongst others; suitability, cost and availability of the plant & machinery supported by proforma invoices of 2/3 alternative suppliers; specification & capacity of each principal machine, compatibility between different machines in the project; availability of stores & spares; equipments and facilities for controlling pollution & effluent disposal; quality control aspects and laboratory equipments required for testing; relative advantages & disadvantages between imported/indigenous machinery; compatibility between imported/indigenous machinery in case of combinations etc.
4. Locational factors: Locational advantages / disadvantages with regard to availability of raw-materials, other essential inputs, proximity to the market, availability of infrastructural facilities like power, transport, water etc., topography, position in relation to flood level; availability of required land in compact area, present use and benefits of industrialization; rehabilitation of affected families; position of ownership - freehold/lease/rental basis etc.
 5. Raw materials & products: Product specification, quality, application, end-uses, product mix, justification of selection of particular mix; output volume and seasonal factors influencing production; sources of raw-materials, availability, quality; prevailing prices, price trends, involvement of foreign exchange, if any for raw-materials and other inputs; inventory level required; packing material type, specification, availability, cost; wastage disposal and bye-products etc.
 6. Staff & labor: Types of skill needed, availability in the area; need of technical know-how and expertise; training facilities required; advance action on human resource skill development; working conditions and labor relation; labor utilization and efficiency; wage/pay structure - long term settlement; piece rate payment, incentive, bonus; disincentives and penalization etc.
 7. Cost & financing: Cost of the project with break-up of fixed costs, computation of working capital with norms; seasonal cyclic variations, contingencies, pre-operative & miscellaneous expenses; equity, grant, loan, margin, repayment schedule, availability of financial resources, investment climate credit measures of FIs etc.
 8. Market conditions & prospects: Consumption pattern of same or identical goods in domestic and foreign markets; classes of buyers, end-uses; country's licensed, installed and actual production capacities; existing competitors - competitive prices, competitors' image; degree of competition and expected market share; selling prices, sales promotional incentives, comparison with competitors; export potential etc.
 9. Cost & economic evaluation: Cost structure - fixed & variable costs; BE analysis; operating profits and profitability in each product line; strategic importance of the project vis-à-vis Govt. policy and development plan, gestation period etc.
 10. Clearances from various regulatory & statutory bodies: List of clearances required, prospects, liaison needed at different levels etc.
 11. Financial evaluation: Anticipated cash-flows and cost estimates of profitability for at least 10 years from commissioning; Financial ratios; analysis of financial statement- liquidity, debt service coverage, internal rate of return and other profitability ratios (In PEs, the cut-off is 12 % now); economic evaluation, if the IRR is unattractive but still the project implementation is considered essential; major assumptions which could

affect performance - sensitivity analysis etc. for the project & for the company as a whole.

12. Social & ecological factors: Impact on employment, on environment etc.
13. Bottlenecks: Anticipated bottlenecks and the manner in which these can be overcome with proper co-ordination.
14. Feasibility: Summing-up of all the above factors - technical & economic viability; analysis of strength & weaknesses of the project - measures suggested to overcome the later.

3. PROJECT IMPLEMENTATION SCHEDULE

If on analysis, the project is found feasible, an implementation schedule is to be drawn-up. In the notification no. PE 43/88/155 dated 23.6.89 referred to above, application of PERT/CPM techniques were suggested in major investments only (exceeding Rs 5.00 Crore in terms of both share capital & loan). But it has been felt that application of PERT/CPM network technique in all investment proposals referred to the Screening Committee & Public Investment Board would help efficient project monitoring to avoid cost & time overrun; to manage resource leveling; performance budgeting; crashing project implementation time etc. The FR/PR should preferably be therefore annexed with a PERT chart with the date of approval of the project by the SC/PIB as zero date. The Department of Public Enterprises will monitor the progress of implementation of the projects approved and data input from the PERT net-work will be called for subsequently.

4. POINTS TO BE LOOKED INTO BY THE ADMINISTRATIVE DEPARTMENTS

As has been contained in the notification no. PE 43/ 88/155 dated 23.06.89 referred to above, the administrative departments should attach appraisal note of the department with the FR. The administrative departments should offer its views on all the points discussed in the report (2.1 - 2.14 & 3) especially highlighting the areas on provision of fund (Equity, Grant, Subsidy); project management set-up, its ability, alternative set-up/agency; views of other concerned departments, and overall view on the feasibility of the project.

5. CASES OF TIME & COST OVERRUN

The guidelines issued vide no. PE 43/88/155 dated 23.6.89 on this aspect will continue to apply. However, cases for referral to the PIB for approval on these accounts should have reports and appraisal of the administrative department covering following aspects :

1. Date of approval of original Cost
2. Original cost with foreign exchange component, if any
3. Revised cost with foreign exchange component, if any
4. Major variations in the capacity/project concept
5. Change in pattern of funding
6. Earlier project schedule
7. Revised project schedule

8. Reasons of time overrun in clear terms
9. Variance analysis of cost increase under :

Escalation

Change in scope/addition

Omissions

Under-estimation

Others

10. Qualification of increase in cost on account of time overrun
11. Present status of physical progress of the project
12. Expenditures incurred and commitments made so far
13. Effect of revision in capital cost estimates on the cost of production and profitability with reference to earlier approved capital cost of the project
14. Adequate justifications for cost overrun with explicit reasons of time overrun, fixation of responsibility on both counts should be there in the report & appraisal note of the administrative department