

## **Guidelines & Procedure for preparing and posing State Sector Proposals for funding under Externally Aided Projects.**

All the foreign assistance from multilateral/bilateral agencies is being procured and coordinated by GoI through Department of Economic Affairs in respect of all the proposals of States as well as Centre. It has a role in terms of prescribing limits, if any, for external borrowing sector-wise or lender-wise, developing a pipeline of projects, negotiating external assistance and monitoring implementation. No Ministry/State can reach & contact donor agency directly. The priorities & procedural requirements vary from donor agency to donor agency as per bilateral/multilateral relations with the concerned country/international institution and also keep on changing with the passage of time. External aid made available to GoI in the form of loans, credits and grants forms part of the resources generated for implementing the schemes and projects. It finances a percentage of the expenditure. Expenditure not covered by external aid has to be provided in the budget as counterpart funding.

There is a standard procedure laid down by Department of Economic Affairs (DEA), GoI for State Governments, while preparing a proposal for funding from an external funding agency. At the State level the State Government has also constituted a State Level Screening Committee under the Chairmanship of Additional Chief Secretary(Finance and Planning) to review/approve such proposals of external funding. Similar mechanism has also been desired at the State level while posing a proposal for funding from an external funding. The procedural requirements of the DEA, Ministry of Finance, GoI and the Planning & Finance Department at the State level are as follows:

### **Procedural Requirements of DEA, Ministry of Finance, GoI .**

Following points need to be considered for each and every proposal While preparing a proposal in respect of State Sector projects for funding from an external funding agency:

1. Generally, it is the past experience that any proposal for EAPs from the State is often prepared in a fashion which only reflects the State's individual needs of a specific sector & and in no way reflects the current priorities and procedures of Donor Agency to which State intends to pose such proposal. Being the nodal department for the entire nation, DEA is not in a position to rewrite such proposals and hence such proposals often get simply rejected by the Donor Agency as they do not fit into that particular Donor's current programs or guidelines for funding. Hence, departments at State level while preparing a proposal

need to check each donor's priorities for both India and the World and the priorities of the donor agency that the State intends the DEA to approach, should be clearly reflected in the proposal.

2. Donor agencies are generally reluctant to fund projects that are not formally approved by the State Government as being of high priority to that State. The donor agencies sometimes need be given information on how the State has ensured that State inputs will be effectively supplied to the proposed project, on-time and on-budget during the life of the project. Counterpart funding has been made an integral part of any externally aided project so as to ascertain the degree of commitment of the State towards the project being posed and that the project is in a demonstrated priority area of the State. Evidences of such commitments/priority should be reflected in proposed project itself. Donor Agencies need to be convinced that the proposed project has support at the highest level of Government in the State.
3. All the issues related to standardization of units etc. also need to be addressed in accordance with the stated policies, strategies and procedures of the chosen donors. State itself should give consideration to these matters prior to submission of the proposal. E.g. lakhs be expressed as 100,000 and crores as 10,000,000. It is often advantageous to express units of measure in the metric system rather than in imperial units as this avoids misunderstanding at the donor end as a result of incorrect conversions.
4. It is very important that state/central funded projects & previous phases under EAPs implemented by the department are clearly referred to in the proposal for EAP funding for increasing the chances of approval of present proposal as it provides donor agency with a degree of comfort concerning the State's/implementing agency's capacity to manage such a project. Careful study of previous projects of the same type as proposed, also reveal flaws that have hindered the sustainable outcomes of the projects under the Lesson Learned by informal discussions with proposed Donor Agency. The State's EAP proposal should, where possible, refer to such lessons learned, and demonstrate to the proposed donor how the new proposal has taken note of these lessons. It is suggested that all the implementing departments should prepare simple databases on all previous major projects implemented by the department so that same could be used to generate factual material on similar projects.

5. With the increased flow of proposals to DEA/Donor agencies for funding under EAPs, Donor Agencies are now far more interested in achievement of sustainable milestones and outcomes of EAPs than the simple expenditure of funds. Donor agencies need to be convinced that the State can effectively manage the proposed project. Many projects involve a substantial financial, personnel resource and physical resource allocation by the State to complement the external inputs. With main focus on expenditure & it's reporting to Auditing/Accounting agencies of GoI, projects do lack in

providing monitoring and evaluation of other project outcomes. Therefore it is important for departments to carefully describe the existing resources and systems for project monitoring and evaluation in their EAP proposal.

6. The DEA is the official channel for all EAPs of State to Donor Agencies. DEA desk officers are in contact with all EAP funding agencies and have a clear understanding of donor priorities and procedures. Informal discussions with the DEA desk officers responsible for a particular country or agency can provide valuable assistance in proposal preparation.
7. Once the State line agency, the State planning/finance authority and State Level Committee for EAPs have addressed all of the issues and potential donor agency is finalized on the basis of State priorities & guidelines of donor agency, the implementing agency of the State/PMU can have an insight into possible areas of their proposed project, which need to be strongly focused upon in any future formal proposal by arranging an informal visit to DEA to have an informal meeting, where possible, with officials of concerned division in DEA & donor agency that appears to be the most likely to grant funding to the project proposed as most agencies are willing to informally discuss project proposals from the States. This visit should focus on the broad suitability of the project proposed to that particular donor. This visit should never aim at gaining any form of formal approval from that agency, as it is clear GOI policy that any formal approach to any donor agency can only be made by the DEA. Donor involvement at an early stage of EAP proposals can often eliminate later problems and possible hold-ups.
8. Involvement of the State's Finance/Planning Department is essential for State Government for ensuring that EAP proposals are of good quality, financial viable and accurately reflect approved State policies and

priorities. This will be ensured by State level Committee constituted under the chairmanship of Additional Chief Secretary (Finance/Planning) for approving the State Sector projects for funding under EAPs.

9. As all the donor agencies follow different financial year/cycle, concerned State authorities should familiarise themselves with the Project Cycle of the chosen donor so as to avoid wastage of human as well as material resources as the State would have to wait until project funding could become available again. This will also give a realistic time frame for posing the proposed project.
10. As all the components & activities proposed under the projects are to be translated into financial terms, hence, project costing is a specialized area relying upon a good commercial knowledge of current market pricing both in India and international level. As is clear from the guidelines of most of the

donor agencies, local staffing, land acquisition costs, project office establishment, rental and operational costs, recurrent project operational costs

such as vehicles or other transport costs, local labour wages and residential costs, local Government officers involved in the project's wages and residential costs etc. should often be paid for by the recipient State/Government rather than the Donor Agency and therefore should be included in counterpart funding portion (own contribution part/local cost) of the project proposal rather than in the request for funding from the Donor Agency.

11. For avoiding unnecessary delays, implementing agencies should nominate a project-related person as contact person who should be constantly accessible and with whom the Donor Agency can correspond on a regular basis. Given the frequent position changes of senior Government officials, each department must establish a "chain of command" for each EAP proposal concerned that will provide the donor with an assurance that the project will continue to be well managed over the project proposal, and subsequently implemented project life.
12. Depending on the Donor Agency and type of external assistance sought, State must establish and adhere to a Work plan for each proposal. It is often observed that once an EAP is submitted to the DEA,

no one from the implementation department/State follow-up the same and such projects often are put into the list of dormant projects thereby resulting in the wastage of resources & efforts. If a Work plan is set from the very start, constant checks can be made on what is happening to the proposal and required amendments be made as & when required. This will ensure rapid project proposal turnaround.

13. As there is very large competition for EAPs in India amongst all the States, only well conceived, prepared & good-looking proposal will always have more chance of success than a common, unprofessional in its presentation proposal. Hence, spell checking, choice of words, use of technical terminology etc. should be used rigorously on each and every proposal through Desktop Publishing mechanism.

All the details about donor agencies, concerned contact authorities in Department of Economic Affairs and guidelines of GoI for availing external assistance under Externally Aided Projects can be accessed from the following links of Bilateral Cooperation & Multilateral Institutions Divisions:

<https://dea.gov.in/divisionbranch/bilateral-cooperation-division>

and

<https://dea.gov.in/divisionbranch/multilateral-institutions-division>

### **Procedural Requirements of State Level Screening Committee from the concerned Departments for posing proposals for external funding.**

On the analogy of procedural requirements of GoI and consequent upon the amendment in the Guidelines of Government of India for posing, implementation and monitoring of externally aided projects dated 17<sup>th</sup> May, 2018, before routing the State Sector proposals to GoI, all such proposals henceforth will be reviewed/approved by a State level screening committee constituted by Finance Department vide letter No. Fin-2-C(12)-4/2011-II dated 12<sup>th</sup> June, 2018 (copy enclosed) before sending to GoI.

The following procedure is to be followed at State level for posing a project for external financing enclosing the documents mentioned there-against:

- Concept paper for the Project on the latest format i.e. Preliminary Project Report (PPR) as modified by GoI & circulated to all Administrative Secretaries of Government of Himachal Pradesh by Planning Department vide letter No.

PLG(EAP)1-1/2017-18-Misc dated 9<sup>th</sup> April, 2018 is to be prepared as per "Guidelines for posing, implementation and monitoring externally aided projects issued by DEA vide letter No. 3/3/2004-PMU dated May 9, 2005 further amended vide F. No. 3/9/2015-BPC&T dated 17<sup>th</sup> May, 2018. Guidelines issued by State Government vide letter No. PLG(EAP) 1-1/2010 dated 13<sup>th</sup> April, 2010 may also kindly be adhered to strictly while preparing the proposals for external funding.

- State Sector proposals are to be routed by the State Government on PPR through the concerned Line Ministry to Department of Economic Affairs, Ministry of Finance, Government of India.
- Each department sending proposals of their sector for funding under EAP may also prepare a memorandum alongwith above referred PPR for the consideration of state level committee. The said memorandum should clarify the following issues:
  1. Justification for investment on each component of the proposal as the State Government has to consider the inter-sectoral priorities while posing them further to GoI for funding under EAPs.
  2. Firm commitment of the department for strict adherence to project duration (start as well as sunset dates) to avoid any time & cost overrun leading to creation of additional liability on the State exchequer. This acts as a major hurdle in negotiating state proposals of other sectors with GoI & donor agencies.
  3. Memorandum should also include a brief note on other projects already being implemented or posed for funding from external funding agencies in the sector. The latest status of these projects/proposals with specific mention of priorities assigned to them by the department with the reasons for assigning the priorities in that order may also be highlighted. Department may also ensure that some other project may not get sacrificed at the expense of present proposal.
  4. Responsibilities of different agencies for project management and implementation should be elaborated. The institutional arrangements, organizational structure at various levels, human resource requirements, as well as monitoring and evaluation arrangements should be clearly spelt-out and any component creating additional liability on State Government should be specifically mentioned.
  5. Options for cost sharing and cost recovery (user charges) should be mentioned.

6. All issues relating to engendering project, project sustainability, stakeholder commitment, operation-maintenance of assets created after project completion etc. should also be addressed in memorandum itself.
7. Since gender is a cross cutting issue, proposal should include a strategic framework of activities incorporating gender perspective and concerns at all levels and stages of proposal. Gender equity should be ensured through mainstreaming rather than addressing gender as a special issue.
8. The potential risks/conflicts/problems/legal implications can be resolved in participatory approach by involving local bodies in decision making. Such involvement can also generate greater willingness for stakeholders to invest their time, labor and other resources in a project they own thereby stretching the value of invested funds.
9. The local bodies & their clientele should be involved in the design of all project components, especially related to basic amenities for general public like health, sanitation, water supply, waste management etc. Design and implementation according to beneficiaries' felt needs generally leads to better post-project cost recovery.
10. Proposals likely to lead assets creation for the beneficiaries/local community, should also address issues related to operation & maintenance of such assets after the completion of project through participatory approach with local bodies and sustainability of such projects can be ensured by handing these assets over to local bodies for further O&M
11. As administrative costs are not eligible for external funding/assistance, these costs should be met by way of internalizing the manpower requirements within the existing strength of the department. No additional staff should be recruited for the implementation of the project and vehicle requirements should be met from within the existing fleet strength of the department.
12. Proposal should contain an explicit undertaking from the department that no recurring liability will be created at the end of the project.
13. Undertaking by the department that any additional costs resulting from inordinate delay in meeting the timeline while implementing the project will be met out of the regular budgetary outlays of the department. Inputs, processes, outputs, outcome and impact should be objectively conceived.

14. Memorandum should mention explicit criteria for beneficiary identification and current socio-economic profile of the target beneficiaries and the expected changes in this socio-economic status after successful completion of the project in objective terms.
  15. If a similar project has already been implemented by the department, a separate note may be including indicating completion, sustainability, scalability, replicability and impact related issues briefly.
- After preparing the State sector proposal on the prescribed format (PPR) as per procedure & guidelines of GoI/State, PPR alongwith memorandum clearly addressing above raised issues, should be forwarded by concerned Administrative Secretary to the Planning Department for consideration/ approval of the State Government.