

Jawaharlal Nehru National Urban Renewal Mission

Guidelines for Project Appraisal

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JnnurM

Ministry of Urban Employment and
Poverty Alleviation



Government of India

Ministry of Urban Development

**JAWAHARLAL NEHRU
NATIONAL URBAN RENEWAL MISSION**

Guidelines for Project Appraisal

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I. Overview of the Appraisal Process

I. Overview

- (1) The appraisal process will commence upon receipt of proposals and requests from Urban Local Bodies (ULBs)/ parastatal agencies seeking JNNURM assistance for the capacity building and investment support components.
- (2) Appraisal of DPRs will be undertaken by the Technical wings of the Ministry or if necessary by specialized/ technical agencies before placing such proposals for sanction by Central Sanctioning and Monitoring Committee (CSMC).
- (3) Appraisal of the proposal shall be undertaken in a professional and transparent manner through the institutional framework established for this purpose. The appraisal shall adhere to the guidelines stated in this Toolkit.

II. Appraisal of Proposals Seeking Capacity Building, CDP and DPR

(1) **Prerequisites for Accessing Assistance:** The access criteria for seeking assistance for capacity building, preparation of CDP and DPR

(a) Proposals seeking assistance for preparation of a City Development Plan (CDP).

Parameter
City is eligible for assistance. (Refer Annex of “Overview of the JNNURM Assistance” document).
City is willing to undertake reforms.
State government’s commitment to undertake State-level reforms.
Estimate of funding requirement for capacity building is prepared.

(b) Proposals seeking assistance for project preparation and detailing.

Parameter
City is eligible for assistance. (Refer Annex of “Overview of the JNNURM Assistance” document).
CDP is prepared
Identified project is in the eligible sector. (Refer Section V, Eligible Cities, Sectors and Projects of “Overview of The JNNURM Assistance” document).
City is willing to undertake reforms.
State government’s willingness to undertake State-level reforms.
Estimate of funding requirement for project preparation is prepared.

(2) **Appraisal Criteria:** The Technical wing/Agency shall appraise the proposals received for assistance under this component on the following criteria:

- (a) whether the proposal includes the application form along with supporting documents.
- (b) whether the State government and ULB/parastatal agency have committed¹ to undertake and implement reforms and have agreed in principle to execute the MoA.
- (c) procurement of agencies, experts, and consultants is through a competitive process.
- (d) whether the relevant approvals and clearances have been obtained.

¹ Proposals seeking assistance for the preparation of CDP may not be in readiness with regard to their proposal to undertake reforms. Their commitment could be in the form of an in-principle acceptance of reforms, which could be detailed out as a part of the CDP exercise (timelines, milestones/activities, and targets).

(3) **Supporting Documentation for accessing assistance:** The following documents need to be enclosed along with the proposal for assistance

(a) Application form from the ULB/parastatal agency with the following supporting papers:

(i) For preparation of a CDP:

- estimate of assistance required.
- attachments as may be necessary with the application form

(ii) For Project Preparation:

- estimate of assistance required
- CDP
- Timelines with copy of MoA
- Milestones achieved as per MoA

The format of the application is provided in Toolkit 1 Section IV: Application Form for CDP and DPR.

¹ *Proposals seeking assistance for the preparation of CDP may not be in readiness with regard to their proposal to undertake reforms. Their commitment could be in the form of an in-principle acceptance of reforms, which could be detailed out as a part of the CDP exercise (timelines, milestones/activities, and targets).*

Figure 1: Appraisal Process for Capacity Building Assistance: Preparation of a City Development Plan (CDP)

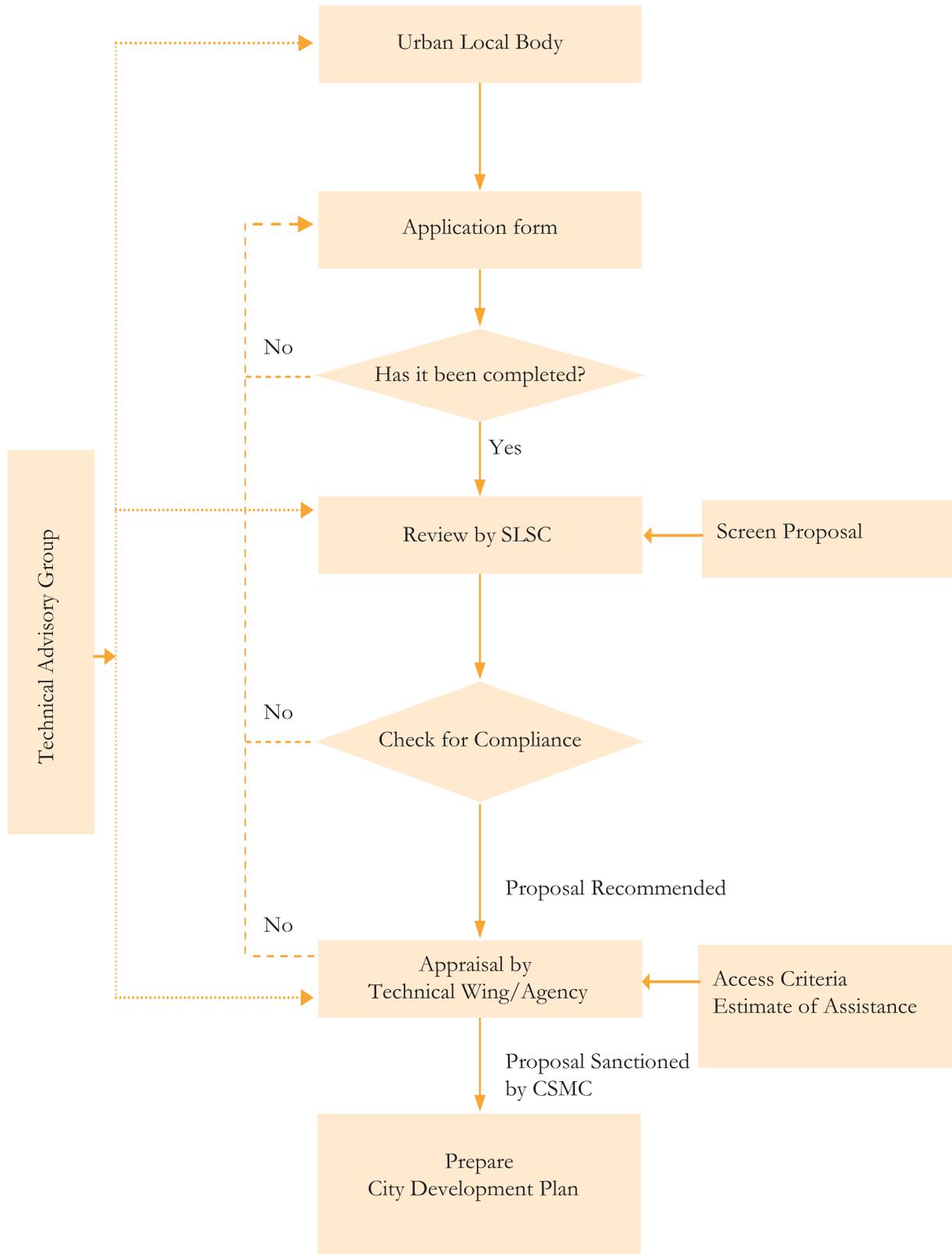
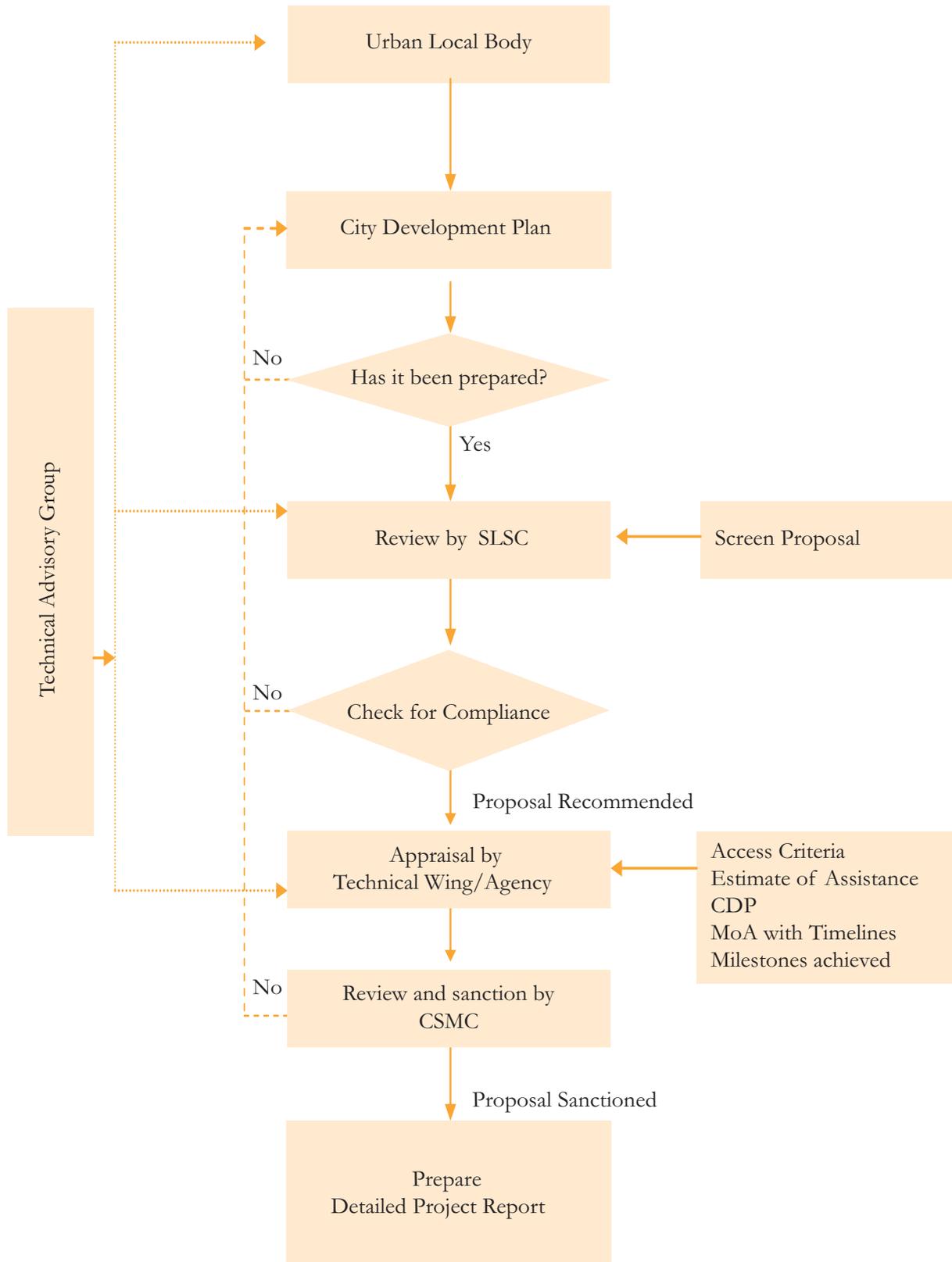


Figure 2 : Appraisal Process for Capacity Building Assistance:
Preparation of Detailed Project Report (DPR)



III. Appraisal of Proposals Seeking Investment Support

- (1) **Prerequisites for Accessing Investment Assistance:** The access criteria for seeking assistance under the investment support component depends on whether:
- a. the city is eligible for assistance.
 - b. the city is willing to undertake reforms.
 - c. the State government is willing to undertake State-level reforms.
 - d. the city has prepared a CDP.
 - e. the proposal is prioritised in CDP.
 - f. the city has prepared a detailed project report comprising techno-commercial analysis, legal assessment, establishment of institutional framework(s), risk assessment, environment and social assessment, financial operating plan, and an implementation plan.
 - g. the proposal complies with statutory requirements.
- (2) **Appraisal Criteria:** The project proposals shall be subject to the guidelines for appraisal summarised in Annex 1. The Technical Wing/ Agency shall appraise the proposals received for assistance under this component on the following criteria:

General Appraisal Criteria

- (a) whether the proposal includes the application form along with supporting documents.
- (b) whether the time frame for implementation and consequent utilisation of funds from JNNURM is clearly defined and is reasonable.
- (c) whether the concerned approvals have been obtained.
- (d) the proposal demonstrates technical feasibility and selection of a least life-cycle cost-based option for implementation as well as sustainability² through financial and economic viability parameters.
- (e) for projects undertaken by Special Purpose Vehicle (SPV) on a Public-Private Partnership (PPP) format, the project has to demonstrate an internal rate of return (IRR) greater than the cost of capital raised for the project. In doing so, the project should provide an economic rate of return greater than the cost of capital and the proposed minimum DSCR should not be less than 1.25.
- (f) in the case of ULB/parastatal agency-sponsored projects, the overall DSCR (including sinking fund and revolving fund), based on future cash flows, should be at least one.

² An investment proposal shall be considered sustainable if its cash flows are able to meet the financial commitments underlying the project, its operations and maintenance expenditure and set aside revenues to provide for replacement investments.

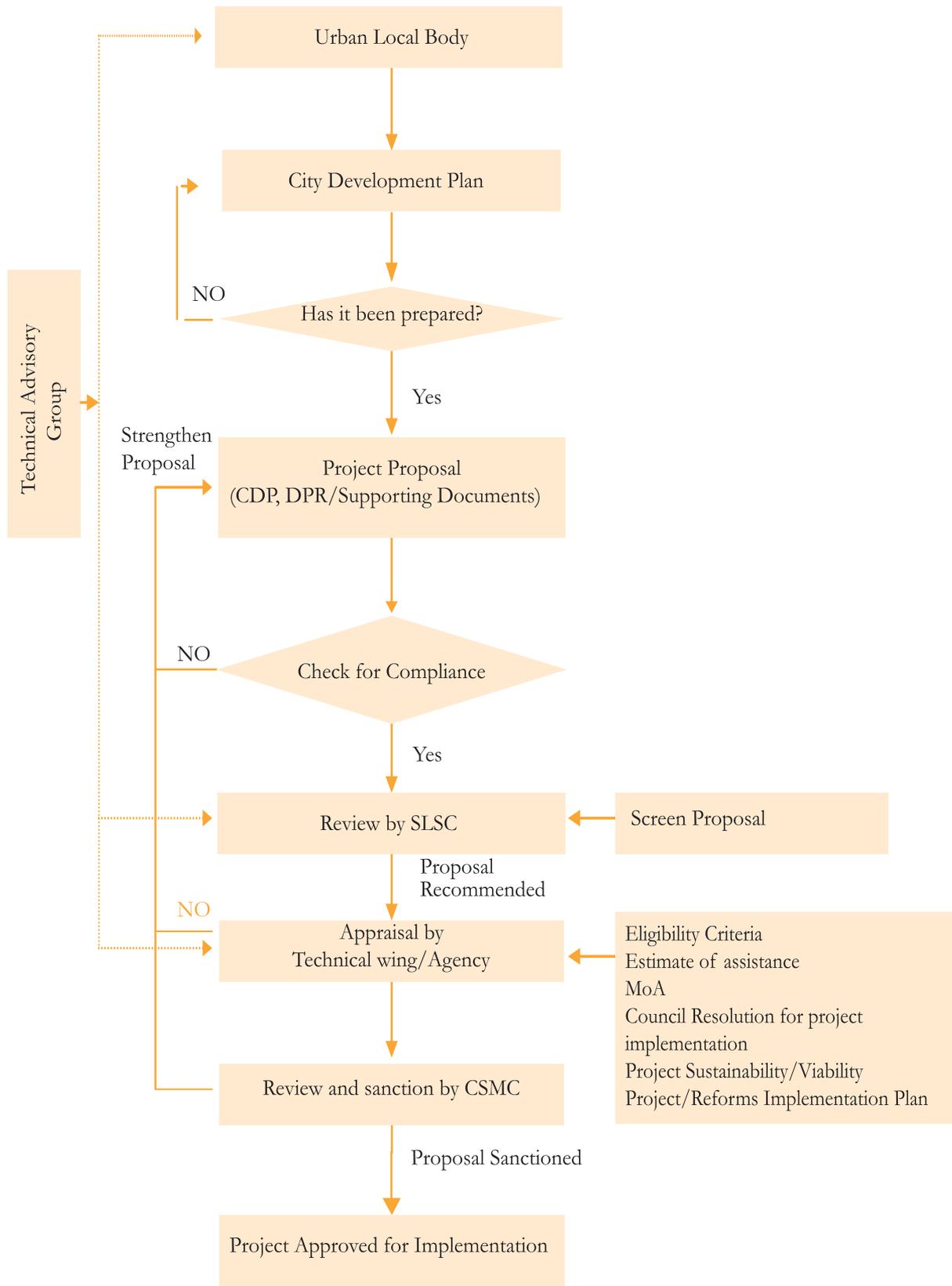
Alternatively an identifiable cash flow from the existing general pool of revenues should be escrowable for servicing the financial assistance.

- (g) the ULB/parastatal agency or sponsor is able to satisfy that it will be able to arrange the balance funding for the project.
- (h) the proposal includes a project-specific reform implementation plan linked to milestones with regard to:
 - (i) Mandatory reforms to be undertaken by the ULB/parastatal agency and State government.
 - (ii) Optional reforms to be undertaken.

Investment Criteria

- (i) No project shall be eligible for assistance under JNNURM if it exceeds the following levels:
 - (a) cities with more than four million population: 35 per cent of project cost.
 - (b) cities with 1-4 million population: 50 per cent of project cost.
 - (c) cities with less than one million population: 80 per cent of project cost.
- (3) **Supporting Documentation for Accessing Investment Support Component:** The following documents need to be enclosed along with the proposal seeking assistance:
 - (a) Application form from the ULB/ parastatal agency along with the application form for the investment component:
 - detailed project report
 - estimate of assistance required
 - (b) Tripartite MoA
 - (c) Council Resolution in respect of ULB/parastatal agency commitment to reforms and any other project-specific measures required for implementation.
- (1) **Appraisal Process for Accessing Investment Support:** The appraisal process for accessing investment support is briefly outlined in the flowchart:

Figure 3: Appraisal Process for Investment Support Component



Annex

Guidelines for Project Appraisal

1. Objective of the Guidelines

The guidelines reflect specific criteria such as core principles and best practices that projects are required to conform to for improving their sustainability and thereby becoming part of the JNNURM policy.

The objective of these guidelines is to: (i) assist in project selection, appraisal and implementation; and (ii) assess compliance with JNNURM's aim of ensuring sustainability.

Project appraisal shall be related to the measures and safeguards that are proposed. This shall form part of the proposal for seeking assistance under the investment support component. The proposals received for sanction of JNNURM assistance shall be subject to these guidelines for all eligible projects in the urban sector, and across all eligible sectors.

2. Guidelines for All Sectors

The project proposals must conform to the following:

- (a) **Prioritisation of Projects:** Proposals should demonstrate that the projects and proposed investments are prioritised in the capital expenditure programme of ULB, as part of a CDP, business /master plan or vision; or recognised as priority investments. The same shall be confirmed by the ULB as its priority.
- (b) **Agenda of Reforms:** The project proposal shall be accompanied by:
 - (i) Commitment of ULB/parastatal agency and State government to adopt mandatory and optional reforms as specified in Section V of the "Overview of the JNNURM Scheme" document. The commitment shall be in the form of a reform implementation plan.
 - (ii) Commitment of the ULB to adopt a service delivery reform approach (see definition below) integrating asset creation with management and financing during its lifespan, so that the intended service is fully sustainable.

The Service Delivery Reform This approach shall mean: (i) the present levels of service delivery are known; (ii) the proposed service delivery improvement programme with achievable targets and milestones (how the municipality is aiming at improvement in the existing service levels over time under a long-term road map); (iii) the investments proposed should aim at improving the current service levels in line with the long-term road map, and not bring down the current service levels unless there is a severe constraint; and (iv) the required institutional strengthening and capacity building measures are planned and implemented along with investments.

- (c) **Financial Aspects and Sustainability:** Project proposals shall present the cost-benefit analysis incorporating a life-cycle cost analysis. The cost-benefit analysis for individual projects of Rs.50 crores or more shall demonstrate a positive net present value (NPV) and an economic

rate of return (ERR) equal to or above the appropriate opportunity cost of capital. This requirement will not be applied to projects with non-quantifiable benefits or those costing less than Rs. 50 crores. Should the NPV be negative or the ERR below the cost of capital, an additional qualitative analysis would be required.

Additionally, in PPP projects implemented through a SPV, the proposal shall demonstrate financial viability based on a targetted IRR of at least 200 basis points above cost of capital.

- (d) **Sector Guideline(s):** Project documentation shall be based on the sectoral development guidelines. The sector-specific guidelines detailed below should be referred to for this purpose.

SECTOR-SPECIFIC GUIDELINES: WATER SUPPLY AND SEWERAGE PROJECTS

Project proposals in the water supply and sewerage sectors would be considered for support if the ULB/sponsor and State government conform to the following:

- ◆ **Considerations in planning:** Plan for proposed improvement in service delivery, outlining the initial steps to be undertaken, milestones to be reached in the initial five-year plan, progressive improvements proposed over the long term (15-20 years). In this respect the milestones shall be targets of service levels proposed to be achieved, such as reduction in system losses/ Unaccounted for Water (UFW), expanding service coverage in terms of population served, delivery of water supply (duration of supply/quality of supply), support activities proposed to be undertaken as a part of this plan including water audit, energy audit, system performance benchmarks (pressure/ flow measurements) to be maintained, consolidation of user connections data base (details of user connections including revenue/commercial data (billing and recovery, amounts paid/due/ arrears), metering (for monitoring of system performance as well as user end delivery), etc. Technical designs shall be based on least-cost solution, taking into account life-cycle costs and demand assessment based on actual consumption estimates.
- ◆ **Integrated Development:** When water supply is augmented, it is required that provisions for wastewater disposal be considered. This should include drainage and sewerage as a parallel (or immediately following) phased activity.
- ◆ **Institutional Development and Efficiency Enhancement:** Aim at increased autonomy of the service provider/ULB in its functioning (initial steps on autonomy shall be suitably designed as required, based on the size and capacity of the ULB), increased efficiency and to progressively achieve full cost recovery. The proposed institutional arrangements and management practices shall take cognizance of the service delivery reform programme suggested.
- ◆ **Participatory Implementation:** Project implementation to be undertaken by the ULB and SPV with some degree of community participation. A social intervention and communication strategy to be included wherever the project includes new poor customers.
- ◆ **Financial Planning:** Development of a realistic business plan including estimates of annual costs and revenues, phased costs including replacement costs, capacity expansion and/or upgrading of treatment/disposal facilities, and planned improvements in performance. Inclusion of sound commercial practices, encompassing private sector involvement, a sustainable plan to include proposed tariffs and their revision, and any other charges considered sustainable and appropriate.
- ◆ **Mechanisms for Sustainable Management:** Provision for creation of a revolving fund through apportioning of revenues to meet debt service requirements and as a maintenance and replacement reserve to fund capital investments in equipment and future expansion.

SECTOR-SPECIFIC GUIDELINES: SOLID WASTE MANAGEMENT PROJECTS

Project proposals in the solid waste sector would be considered for support if the ULB/sponsor and State government conform to the following:

- ◆ **Considerations in Segregation at Source and Reuse/Recycle:** Considerations/introduction of systems/bye-laws/policies and measures to improve source separation and recycling, taking into account existing formal and informal activities and the requirements of different waste reusers/reprocessors.
- ◆ **Collection and Transportation System:** Establishment of an efficient secondary collection and transfer system.
- ◆ **Selection of Disposal Facility:** Introduction of acceptable and reliable treatment and/or disposal system (which could include waste reuse and/or reprocessing to a product of market value (gas, energy, manure, RDF, etc.);
- ◆ **Consideration for Ultimate Disposal:** Identification and establishment of a technically suitable and publicly acceptable long-term landfill facility; land for MSW disposal and treatment must be identified as per MSW Rules 2000 including any amendments thereof.
- ◆ **Enabling Legal Framework:** The ULB shall establish an enabling legal framework for the levy of user charges and their appropriation.
- ◆ **Institutional Arrangement and Efficiency Enhancement:** Adoption and implementation of a code of practice for operation of the MSW system; separate accounting for MSW to allow relevant costs to be identified and quantified; establishment of a technically capable unit clearly responsible for all aspects of MSW to strengthen the institutional framework for managing MSW within the ULB;
- ◆ **Revenues and Cost Recovery:** Introduction of tariffs (user “fee” or “tax” or “betterment levies”), and/or structuring tariffs to recover O&M costs and their revisions over the project period (construction and O&M). Identify and allocate reliable source of subsidies (revenue sources) to make the projects sustainable.
- ◆ **Performance Measurement and Monitoring:** Performance measurement and monitoring system with quantitative performance indicators for collection, transportation, treatment and disposal.
- ◆ **Financial Planning:** A realistic business plan showing estimates of annual costs and revenues, phased costs including replacement costs, capacity expansion and/or upgrading of treatment/disposal facilities, and planned improvements in performance; inclusion of sound commercial practices, with involvement of the private sector; adoption of a sustainable plan to include introduction of appropriate user charges and cess, and provision for allocating a portion of revenues towards replacement expenditure; creation of a revolving fund to provide for debt servicing and as a maintenance/replacement reserve to fund capital investments required for equipment replacement and facility expansion; cost effectiveness of proposed solutions vis-a-vis similar indicators.