FINANCING AND FINANCIAL APPRAISAL

"Planning and Policies for Road and other Transport Infrastructure"

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TARGETS

- *Road sector is one of the important component of the Transport sector. Accordingly the 12th plan (currently under implementation) aims of upgrading India's road infrastructure to improve mobility and accessibility while reducing the cost of transportation.*

Some of the Main Targets are:

- *National and state Highways would be upgraded to a minimum of two lanes with paved shoulders;*
- *All villages will be connected by all- weather roads;*
- *Completion of NHDP phases I and II (Golden Quadrilateral and North-South-East-West Corridors respectively);*
- *NHDP III and NHDPIV (inter district roads and conversion of single to double lanes respectively) and*
- *Expansion of the National Highway network.*

FINANCIAL OUTLAYS

- *To achieve the above mentioned targets a total investment of Rs. 914536 crore consisting of Rs. 336094 crore from Centre, Rs. 274433 crore from States and Rs. 304010 crore from Private sector was envisaged.*

- *The projected investment by the end of the 12th plan is estimated at Rs. 7,99,203 crore comprising of Rs. 338736 crore from Center, Rs. 294863 crore from States and Rs. 1,65,604 crore from Private sector.*

- *The projected investment by the Center as well as states is likely to surpass the targeted investment.*

- *The investment by the State govt. in the Road sector is funded mainly through Govt. Budgetary Support to execute projects relating to State Highways, Major District Roads, District Roads, Agriculture Market Roads, Village Roads and other allied small roads projects including PMGSY.*

FUNDING OF THE OUTLAYS

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Why we needs Projects Appraisal ?

- *Since the available financial resources are limited as compared to the requirement to execute various projects, the projects are selected for implementation after carrying out their Appraisal.*

- *The basic purpose of systematic appraisal is to achieve better spending decision for capital and current expenditure on schemes, projects and programmes. The main appraisal tools are Financial Appraisal and Economic Appraisal*

Method of Appraisal:

- ***Financial Appraisal :*** *is a method used to evaluate the viability of a proposed project by assessing the value of net cash flows that result from its implementation. Thus Financial appraisal views investment decisions from the perspective of the organization. It assesses the viability of the project based on the direct effects on cash flow of the organization. It considers whether the financial return is sufficient to make the investment commercially viable (profitable).*

Why we needs Projects Appraisal ?

- ***Economic Appraisal :*** *is a type of decision method applied to a project, programme or policy that takes into account a wide range of costs and benefits, denominated in monetary terms or for which a monetary equivalent can be estimated. Economic appraisal is a key tool for achieving value for money and satisfying requirements for decision accountability. It is a systematic process for examining alternative uses of resources, focusing on assessment of needs, objectives, options, costs, benefits, risks, funding, affordability and other factors relevant to decisions.*

- ***Economic appraisal*** *is a methodology designed to assist in defining problems and finding solutions that offer the best value for money (VFM). This is especially important in relation to public expenditure and is often used as a vehicle for planning and approval of public investment relating to policies, programmes and projects.*

ANALYTICAL METHODS : USED FOR APPRISING THE PROJECTS

- *Net Present Value (NPV) . In the NPV method, the revenues and costs of the projects are estimated and then are discounted and compared with the initial investment. The option is that projects with the highest positive NPV be preferred to those with negative NPV.*

- *Discount rate. The discount rate is a concept which is an integral part of the NPV method. The discount rate is used to convert costs and benefits to present values to reflect the principle of time preference.*

- *The current prevailing Test Discount Rate (TDR) is 10% used in appraisal of all Public Sector projects*

Transport Sector Outlay

Sr. No.	Sector	11th Plan Actual	% Share in Total	12th Plan Investment Targets	% Share in Total	12th Plan Anticipated Investment	% Share in Total
1	**Road & Bridges**	4,60,286	61.8%	9,14,536	53.2%	7,99,203	61.7 %
2	**Railways**	1,99,939	23.9%	5,19,221	30.2%	4,02,532	31.1%
3	**Port (including Inland Water)**	48,846	6.5%	1,9,7781	11.5%	66,357	5.1%
4	**Airports**	35,537	4.8%	87,714	5.1%	27,592	2.1%
	Total Transport	***7,44,308***	***100%***	***17,19,252***	***100%***	***12,95,687***	***100%***

- ***For the 12th Plan period the Road Sector is likely to realize 87.4% of the targeted investment, Railways 77.5%, Ports (including ILW) 33.5% and Airports 77.6%.***

Steps in Project Appraisal

- ***Project Assessment:*** The project cycle considers the logical sequence of events which provides a structure whereby the targets of a project/development programme are set; it also provides indicators, whereby project progress and achievements may be assessed.
- ***Investment Appraisal:*** Investment is defined as real capital formation such as the production or maintenance of machinery or housing construction; these types of investment will produce a stream of goods and services for future consumption. Investment appraisal is the evaluation of prospective costs and revenues generated by an investment in a capital project over its expected life. (DCF,NPV,IRR,etc)
- ***Social cost Benefit Analysis: C***onsiders the direct costs and benefits of a project but also the wider costs and benefits at the level of the national or regional economy of a country. Social cost-benefit analysis is used mainly for projects where there is public sector investment and where there are wider development aims over and above those of generating revenues and profits.

Steps

- Valuation techniques of Revealed Preference and Contingent Valuation for the measurement of project impacts that either lack a market price or which can be used to calculate shadow prices and the unit analyses the strengths and weaknesses of these valuation techniques. It also covers cost-effectiveness analysis in situations where project benefits are not measurable and assesses the most appropriate project evaluation techniques for different economic sectors. It provides a critical review of the advantages and limitations of social cost-benefit analysis.
- Issues of Risk and uncertainty: It covers the different types of risk and uncertainty implicit in projects, and some of the techniques for dealing with risk and uncertainty and their strengths and weaknesses. Risks may include physical (climate, weather, earthquakes and other natural disasters), financial, monetary (foreign exchange movements), planning and security risks. As well as risk, to which a probability of occurrence may be assigned, there is another element in project appraisal – uncertainty, to which a probability cannot be assigned.

Steps

- Important issues associated with the impacts of projects on the distribution of income in country and how SCBA may be used to take these distributional issues into account. When appraisals are being carried out in the context of poverty reduction strategies, the impact on distribution is crucial.
- Environmental and Social Impacts Assessment (ESIA) of projects. Many governments, project financiers and project developers require Environmental Impact Assessment (EIA) or ESIA as part of the *ex ante* project appraisal process.
- ***General Principle:*** While designing new schemes/sub-schemes, the core principles to be kept in mind are economies of scale, separability of outcomes and sharing of implementation machinery. Schemes which share outcomes and implementation machinery should not be posed as independent schemes, but within a unified umbrella program with carefully designed convergance frameworks.

General Current Approach

- Every scheme should have a sunset date and an outcome review. In the past, every scheme was revisited at the end of each plan period. After 12th FYP, the medium term framework for schemes and their sunset dates will become coterminous with Finance Commission Cycles.

स्वच्छ भारत

एक कदम स्वच्छता की ओर

THANKING YOU