MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

SELECTION CRITERIA FOR PROJECTS TO ENTER THE PUBLIC INVESTMENTS PLAN AFTER APPRAISAL BY THE DEVELOPMENT COMMMITTEE

MAY 2021

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A. INTRODUCTION

1. The current Development Committee (DC) guidelines provide for the review and appraisal of projects for feasibility and viability with a view of generating a pipeline of bankable projects irrespective of financial availability in the resource envelope of a given Financial Year (FY). However, while a pipeline of bankable projects is under development, the available fiscal space cannot meet the required financing project requirements. The ever-increasing demands for additional public investments to meet the country's development goals has therefore resulted in over commitment of the resource envelope and increased debt burden. This calls for robust guidelines to streamline admission of new projects into the Public Investment Plan (PIP).
2. In that regard, a project selection criterion is necessary to support the Ministry of Finance, Planning and Economic Development (MFPED) sequence and prioritize projects from a list of a viable pipeline to the Public Investment Plan (PIP) consequently to the budget and allocated a code to facilitate implementation. The pipeline of projects will strictly consist of projects that have been duly appraised by the DC in line with the DC Guidelines and should therefore be at the proposal stage of the project development cycle of the Public Investment Management System (PIMS). This will strengthen the link between appraisal of viability of projects by the DC and the allocation of resources to projects in the budget.
3. The selection criteria will be included in the current DC guidelines and published on the website of MFPED, Budget and Integrated Bank of Projects (IBP).

B. PROBLEM STATEMENT

4. The Development Committee guidelines provided for appraisal of projects based on their viability to create a pipeline of projects ready for financing. However, the current DC guidelines do not provide guidance on how a project gets out of the pipeline into the budget. This has created a practice whereby projects are allocated codes to commence implementation without fulfilling the readiness conditions. This consequently affects project performance which eventually leads to cost overruns and overstay of projects in the Public Investment Plan (PIP) beyond their stipulated period.

5. In addition, projects which reach their completion dates at the end of each FY and are due to exit the Public Investment Plan (PIP) create savings on GOU side. Such resources are retained within in the respective votes to cater for ongoing project commitments. This practice of ring fencing the resources within the respective votes, reduces the flexibility of re-allocating resources to new strategic projects.

C. OBJECTIVES

6. The overall objective of the criteria is to ensure projects with greater returns to the economy and are ready for implementation are prioritized for admission into the PIP and slated for funding. The specific objectives of the criteria are:
    i. To provide a systematic procedure for projects to move from the pipeline of bankable projects to the PIP and the budget.
    ii. To ensure budget discipline and debt sustainability by allowing for sequencing of projects in line with the available fiscal space in the MTEF.

D. METHODOLOGY

7. The prioritization and sequencing process will complement the appraisal criteria in the DC Guidelines and will apply to all projects in the pipeline regardless of the program in which they belong.
8. The project selection process will use the project proposal document in the IBP as source of information. Therefore, votes will be required to regularly update their project proposals until they exit the pipeline into the Budget for implementation. The project pipeline will be available on the IBP website for ease of access by the respective programs and stakeholders.
9. The appraisal will adopt a two stage approach to rank the projects in the pipeline into **Ready projects** at stage one and **High priority projects** at stage two as elaborated below;
    i. The first stage of assessment is undertaken based on a qualitative checklist of all projects in the pipeline to produce a list of projects called "ready projects".
    ii. The second stage of quantitative assessment will use scores to aid in ranking projects into two categories,
        a) High priority (1st priority list),

b) Low priority (2nd priority list).

10. The scores at this stage are clustered using three main parameters to include; strategic alignment to the NDP and Vision 2040, implementation readiness and budget affordability and readiness with their attendant sub categories.

Table 1: List of Parameters

No	Parameter	Sub categories
1	Strategic alignment	a) Alignment to the National Development Plan (strategic fit) b) Regional Balance c) Economic impact to the Country
2	Implementation Readiness	a) Land acquisition and right of Way b) Developed and quality of workplan, procurement and implementation plan
3	Budget readiness	a) Disbursement readiness b) Multiyear requirement Vs Fiscal space in the MTEF c) Interlinkages within the programme

11. The above parameters will be scored on the level of satisfaction to include; High, Medium, and Low as well as not satisfactory. A project proposal will be reviewed and scored where high represents that the condition has been fulfilled/ parameter is of great significance scoring 5, if the condition has been partially fulfilled/fairly significant will receive medium scoring 3 whereas if the condition has not been met at all / or parameter is of low significance the project will score 1 or zero for a condition not met or is not satisfactory.

Table 2: Scoring levels

Parameter Satisfaction	Satisfaction Explanation	Score

High	Condition fully met/Great significance	5
Medium	Condition partially met/fairly significant	3
Low	Low significance Condition not met/lower importance/significance	1
Not satisfactory	Condition not met	0

12. Scores from each section will be aggregated to acquire the total score per project and then ranked into 2 categories.
    i. High priority (1st priority list),
    ii. Low priority (2nd priority list)

Table 3: Rating description for project categorization

Rank	Grand Score
1st Priority list	35 - 40
2nd Priority list Low	0 - 34

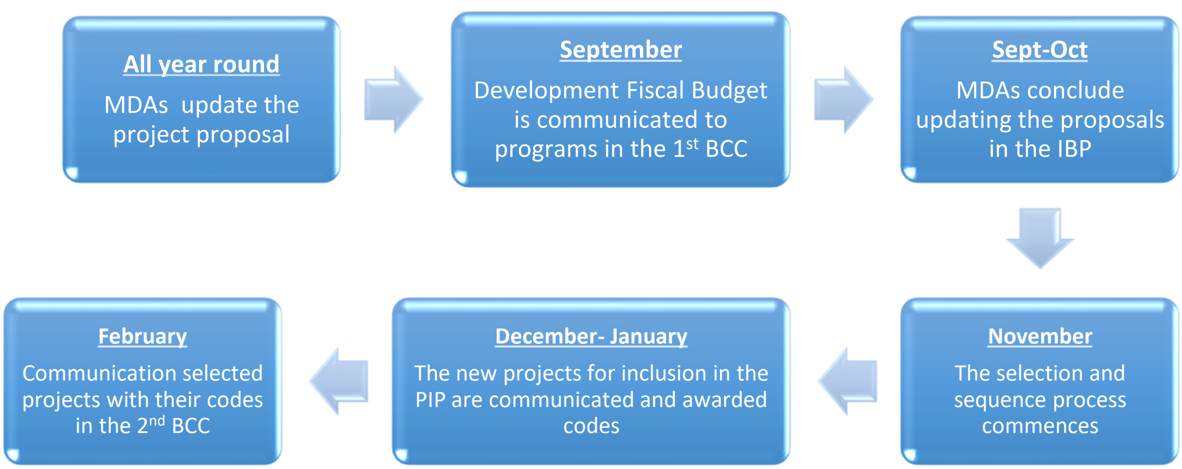
13. All projects with a total score above 35 out of 40 which translates into 86% pass mark will qualify to be in the 1st priority list and hence candidates for financing prioritisation subject to the available development fiscal space in the resource envelope.

E. CRITERIA MAPPED TO THE BUDGET CALENDAR

14. The project selection criteria is aligned to the Budget and DC calendar since the activity is undertaken to inform the planning and allocation of resources in the Budget.

15. This selection process will therefore commence by indicating the available Development budget as part of the MTEF ceilings in a given FY which will be communicated in the first Budget Call Circular (BCC) in September of every FY Year. This will require the respective MDAs to update their projects proposals in the IBP in line with the indicative budget provisions by October of that very year.
16. Basing on the information in the proposal in the IBP, the project selection assessment process for projects to be included in the PIP will commence in November before conclusion and submission of the National Budget Framework Paper in December. The process should end in January to allow for selection and awarding of codes to projects to be included in the Next year's Budget in line with the available resource envelope. The selected projects will be communicated with the second Budget Call Circular by 15th February each year to enable compilation of the Ministerial Policy Statements (MPS).
17. The timelines are summarised in figure one below;

Figure one: Mapping criteria to the Budget calendar



F. PROJECT SELECTION CRITERIA

18. The criteria is divided into two gradual phases which include; a) a qualitative assessment using a check list, and b) quantitative ranking using scores from which a final investment decision will be based depending on the available resources.
19. ***Qualitative assessment:*** The first stage of assessment that is based on the following qualitative checklist;

    i. Is the project aligned to the current NDP?

ii. Does the project demonstrate over all readiness in regard to Environmental and Social Impact Assessment (ESIA) and received the necessary approvals to commence from the National Environmental Management Authority (NEMA) where applicable?
iii. In situations where the project requires land or Right of way, have the costs been catered for under the project work plan/ has the actual Land and Right of Way been secured or the process commenced?
iv. Is the Result and logical framework for monitoring and evaluation in place?
v. Is the project Economic Internal Rate of Return to investment (EIRR) after tax more than 11%?
vi. Is the project Economic Net Present Value (ENPV) and Cost Effectiveness Analysis ratio (CEA) positive?
vii. Is the current Demand and Need for the project still relevant in the year under consideration?
viii. According to the technological module in feasibility study, are the designs and methodology achievable to lead to the set output?
ix. According to the institutional and legal module, are the project interventions including activities legal and the implementing entity has the mandate to undertake them?
x. From the risk assessment undertaken in the risk module, are the mitigation measures applicable?
xi. Does the proposal address gender and equity concern in the project design (Technological module) and stakeholder (distributional module) respectively?
xii. Is there evidence of existence of intra and inter program linkages from the project interventions and outcome?
xiii. Does the project annual cost requirements fit within the available resources for the given FY?

20. ***Quantitative ranking using Scores***: The projects that meet the conditions set in stage one of the checklist will be scored based on three main parameters which comprise of sub

categories[1] that are considered critical success factors for project implementation. All the three parameters indicated in table 1 above are assumed to be of equal importance; therefore, weights will not be applicable.

21. Table 4 below explains the project categorisation criteria. All Votes will be made aware of the scoring methodology since the criteria will be published on various MoFPED websites including the IBP.

Table 4: Categorisation table per project ranking

No	Parameter and Rationale	Scoring methodology guidance
Strategic alignment to NDP and Vision 2040		
i.	**Alignment to the National Development Plan (strategic fit)** NDP III has categorised projects according to their prioritisation.	Score 5 for **NDP III core project.** Score 3 for **presidential directive, Parliament, Regional projects such as EAC, COMESA and AU**. Score 1 for **Other NDP III projects.**
ii.	**Regional Balance:** Interventions that directly target growth in key highly poverty hit regions as identified in the NDP III.	Score 5 for interventions targeting regions **of Bukedi, Busoga, Bugisu, Karamoja, Teso, West Nile, Acholi and Bunyoro,** Score 3 for **interventions that include these regions among others in target beneficiaries,** Score 1 **rank to projects with no intervention in these areas**.
iii.	**Economic impact to the Country**: Demonstrate good use of public resources from a macroeconomic point of view.	Score 5 for projects in the pipeline category whose **ENPV or CEA lies in the 75th percentile of the projects in the pipeline**. Score 3 for **projects whose ENPV or CEA lies in the 50th percentile of projects** in the pipeline.

[1] These parameters can be modified depending the need in each FY

		Score 1 for **projects whose ENPV or CEA lies in the 25th percentile of the projects in the pipeline.**
Implementation Readiness: This looks at variables which relate to land acquisition and right of way, legal requirements, availability of required equipment, human resource, clearance from various stakeholders among others		
i.	Land acquisition and Right of way: Highly impacts project costs and duration	Score 5 for projects that **have completed the land acquisition** or undertaken RAP and those that do not require RAP or land acquisition. Score 3 for projects with **evidence for commencing land acquisition process,** have not concluded but have initiated the land acquisition process. Score 0 for projects **without evidence of commencement on land acquisition/right of way processes** yet will require it.
ii.	Developed and Quality work, procurement and implementation plan	Score 5 for projects **with a feasible and quality work, procurement and implementation plan**. Score 3 for projects that have commenced developing of the plans. Score 0 for projects that have not commenced developing a work, procurement and implementation plan.
Budgeting readiness and Overall MTEF requirement: This relates to parameters that influence inclusion into the resource envelope		
i.	**Disbursement readiness[2]:** Ascertain disbursement readiness	Score 5 for projects that have completed the loan/grants acquisition cycle **whose**

[2] Applies to projects that have been earmarked for external financing.

	for projects targeting external financing.	**disbursement is ready and only awaiting a code. GoU projects that can adequately be accommodated within the available fiscal space will equally score 5 for under this category otherwise score as in category (ii) on multiyear requirements.** Score 3 for projects which are under consideration for loan financing but **have not yet concluded the process (Projects yet to be submitted to Parliament for consideration).** Score 0 for projects that **have been ear marked for external financing but are still at negotiation stage or those that have not commenced negotiation**.
ii.	**Multiyear project requirements** including counterpart requirement vs available fiscal space in the MTEF.	Score 5 for **projects whose Multiyear project requirements falls within 1/3 of the available fiscal space in the MTEF**. Score 3 for projects whose multiyear requirements resource **are 50% of the available fiscal space in the MTEF.** Score 1 for projects whose requirements are **100% (equal to) the available fiscal scape in the MTEF.**
iii.	**Interlinkages within the programme:** Need to maximise coordination of projects within the programme to leverage time, money, and resources.	Score 5 for **interventions that maximize linkages with other votes within the program** in terms of geographical proximity of interventions, sequencing and timing of other interventions within the vicinity, dependency on the completion of other projects, economies of scale opportunities, e.tc.

		Score 3 **for projects with moderate level of interlinkages** within the programs (Linkage with above 3 votes within a program. Score 1 **for projects with no evidence of interlinkages with other votes** within the program.

22. ***Recommendation for a code***: All projects whose score is equal to or exceeds 35 to 40 with a pass mark of 86% comprise the 1st Priority list which will have the first call for allocation of resource. These projects will hence be recommended for codes and consequently included in the Budget and the PIP for implementation. In case resources available are limited, projects in the upper bound in the 1st priority list will have the fast call. Furthermore, where resources are excess and all projects on the 1st priority list have been included in the budget, projects that are in the upper bound on the 2nd priority list will take first priority.
23. The most important parameter to consider at this stage is Budget affordability which leads to budget credibility of the MTEF. The high priority projects will these be assessed according to their programmes to determines the programme Development MTEF. A project should only be recommended for a code if its multiyear requirements fit in the available MTEF to avoid drip financing.
24. Votes whose projects are not recommended for inclusion in the PIP in a given FY because of medium and low satisfaction levels are recommended to concentrate on fulfilling the readiness conditions in order to be considered next FY.

G. CONCLUSION

25. These criteria will be a guiding tool to bridge the pre-investment stage and implementation stages. Despite the presence of a robust appraisal framework, projects still face challenges at implementation because they are admitted in the PIP before they are ready.
26. With the criteria, prioritization and sequencing will be introduced, however for the criteria to succeed, an inventory of viable/ bankable projects needs to be in place. This will require that a **Project Preparation Fund** is put in place to facilitate MDAs' preparation of viable projects irrespective of resource availability.