

## FROM THE RINGSIDE

Ask right questions for right diagnosis

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*"It is not the policies that are failing so much as the machinery for implementing them."*

This was The Economist's recent assessment of the reasons for India's persistent failure to provide quality infrastructure and social services. It is easy to support this assessment with outcome statistics, summaries of slippage from promises and targets, cost overruns, and even simply public opinion polls. It is harder to see how to reverse this "failure of the machinery."

There are several challenges. First, asking the questions that help distinguish between appropriate responses. Second, prioritising the search for answers to minimise costs. Finally, detailed information on performance has to be widely available and accessibly summarised to maintain the incentives to acknowledge and address failure.

Take, for example, the widespread and long-standing failure to spend allocated funds. Once a year or so, the media pillories the Central and the State Governments for not spending their allocations for rural roads, electrification, or other programs. The Finance Ministry and the Planning Commission spar about whether the "surrenders" should lead to reduced allocations next year. And then the next round of allocations comes.

The generic solutions have been unsuccessful. "Performance management" can mean many things. Zero-based budgeting that reduces budgets proportionally to the surrenders could only encourage departments to get better at wasting funds, unless the monitoring of impact and project quality improves. Cutting programs that have surrendered funds runs the risk of punishing people for a state's failures.

Asking a few questions to determine where the machinery is breaking down would inform a more specific solution. This is simple. We are not questioning the allocation of funds, or trying to evaluate the impact of the program, but just identifying the weak link in the disbursement process as we head into a Budget Season in which more funds will be allocated.

First, does the machinery fail at the project-proposal level? Are there no projects in the pipeline, either approved or pending approval? Is there a high rejection rate for projects being evaluated for funding? It is entirely plausible that there are not enough quality projects. The state cadres are understaffed, and positions for engineers, surveyors, and other skilled employees tend to have a higher vacancy rate.

If this is the case, then one solution would be to open the proposal process to allow the social sector to prepare project proposals, along the lines of the demand-driven social investment funds used around the world.

Another solution would be to depute trained personnel from the Central Government to aid with project preparation, and training project preparation skills.

If there are quality projects in the pipeline, however, this approach would be a waste of resources. The next question would be whether project approvals are the problem. Is there a backlog of proposals, with limited numbers approved? Is it a failure at the state or central government project evaluation level? This, again, is entirely plausible, but suggests a different solution than a failure in project proposals.

Resources would have to be directed at training evaluators and streamlining the evaluation process instead of encouraging more projects. Standardising and computerising project proposals would speed up evaluation, but the expense would be less justifiable if the main constraint on spending were in fact a lack of proposals.

It is also possible that allocated funds are not spent because the states do not provide adequate counterpart funds. The absence of counterpart funds, in and of itself, is not terribly informative - all it means is that the State Government's costs of obtaining the funds (in terms of bureaucratic hurdles or loss of program control) are greater than the benefits of having the additional resources. Is this because the costs are "too high"? What are the most costly hurdles? Or is it because the benefits of the program are "too low"? And if the benefits are too low, would people rather spend limited funds on something else, or is the state government not accountable to its citizens?

One option is to subject the "benefits" side to public scrutiny. Support accountability by publicising the list of all relevant projects where money was allocated but not disbursed because the state failed to provide counterpart funding. If states are still not providing counterpart funding after several years with this kind of scrutiny possible, then it would be safer to assume that the state population has other preferences for how to use the funds.

The cost side could be disentangled with a survey of the users — state governments — that identified the most common complaints. Business and research organisations carry out business climate surveys asking firms to identify constraints. Why not have a public sector analogue asking state officials to identify constraints? This would be an essential step toward making the general recommendation to “streamline” more specifically focused on high-return adjustments. But the costs of preparing this survey might not be the highest priority for funding if the surrenders were due to lack of project proposals or bottlenecks in evaluation.

It is possible that answers to these questions are available. This would only make it worse that the problems remain unaddressed. It is central to finalising all relevant annual expenditure budget. We need the vision to repair.

*Regular columnist N.K. Singh and Professor Jessica Wallack of the University of California, San Diego, are collaborating on a book on infrastructure reform on India. Essays based on their research will appear on this page.*

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