

## Infrastructure Planning and Management Public Sector Governance - Part 2

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### Conditions for Ensuring the Effectiveness of Institutional Arrangements

- Group 3

Student 1:

Hello everyone today I will you talking about the conditions for ensuring the effectiveness of institutional arrangements because for any project or any infrastructure project to implement successfully we need the participation of the government and they need to be creative in terms of like how they are going to implement the project and like what are the factors behind going to those decisions.

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### Creating Competition

High sunk costs or services are usually natural monopoly which should be open to competition

- Exploiting contestability
  - Removing statutory restrictions against entry
  - Encouraging leasing companies
  - Removing constraints like access to foreign exchange, import duties, tax treatment etc.
- Competition in Contracting
  - Avoiding corruption
  - Transparent and clear separation between authority issuing bids and contractors
  - Providing benefits like longer term payoffs for the bidders

So the first one is creating competition, as we have already studied that competition should be a must in order to achieve competitive pricing and resource, so that the both public and private partners are equally well off, so like and the monopoly should be avoided and so exploiting contestability is one of the things like in which we remove the statutory restrictions against entry which is basically the government is rule like when a particular person or particular forum cannot enter the like enter the competition of market and like removing some of the constraints like access to foreign exchange or import duties or tax treatment like only some of the companies are able to do that with licenses or some other things.

Then a competition in contracting of a like in that we should have like avoid the corruption, so that it is transparent and a firm cannot like or does not get the tender just because of he has bribe someone or like the prices are low like because of that and providing benefits like longer term or payoffs for the bidders which is basically the government or tell them that they will give some future benefits like to the winners or the bidders, so that people are actually interested in bidding for the project.

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The slide is titled "Developing Effective Participation" and features a teal and dark blue geometric background. In the top right corner, there is a small circular logo with the letters "WPI". The main content consists of a bulleted list and two model descriptions. A small video inset in the bottom right corner shows a man speaking.

### Developing Effective Participation

- Varies with the nature of service like scale and complexity

Model 1: Where users act as the full or partial owners, financiers and suppliers

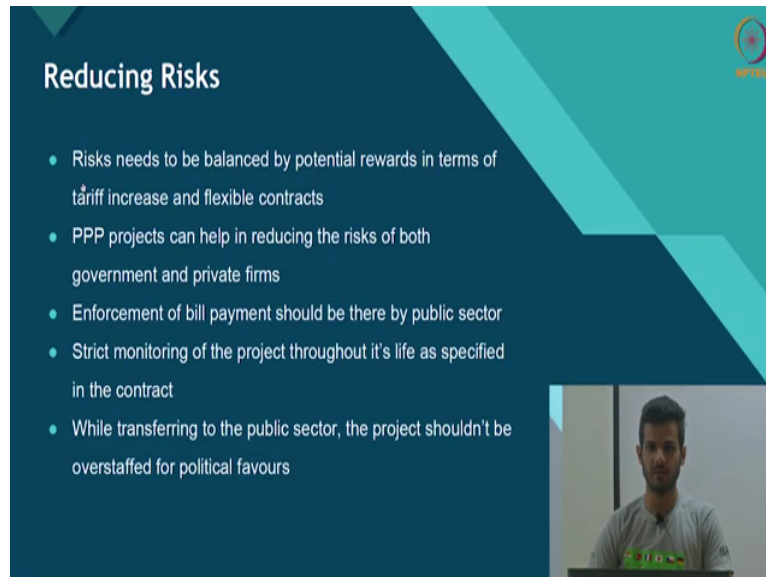
Model 2: Incorporating views of the clients into decision making

- Participation occurs more strongly when it is an explicit objective
- Restricting the involvement of groups at limited points in the project
- Community based organisations or NGOs have also proved to be successful in implementing the projects

Then developing effective participation, so participation is required from like all the sectors of in a society including the individuals or the private sector, so the model one which was mentioned in the like in the paper so they have mentioned the user act of full of partial owners financial like order (serv) financial and suppliers of the utility with the model to states that the clients which are involved in the project like have their own views and like they have been taken into the implementation of the project.

The (particip) the participation is even more stronger when like it is the prime objective, participation should like should not be only that like you do it just for the sake of doing it and then community based organizations or the NGOs have like already proved to be successful in implementing the projects which we have already seen in some of the case studies.

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**Reducing Risks**

- Risks needs to be balanced by potential rewards in terms of tariff increase and flexible contracts
- PPP projects can help in reducing the risks of both government and private firms
- Enforcement of bill payment should be there by public sector
- Strict monitoring of the project throughout it's life as specified in the contract
- While transferring to the public sector, the project shouldn't be overstaffed for political favours

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Then reducing risk, this is a prime factor as increasing the risk increases like your expectation of the profits. So the risk should be minimized for like both and it should be a win condition for the public and private firm like which can be benefited by the tariff increase if the risk like is high in a certain kind of infrastructure project then the tariff should be high and the contract should be flexible because when the contracts go on for like years like 10 years or 20 years then you may need to change some of the things in the contract.

Then PPP projects which we have done like in a detail like BOT format then like it can help like reducing the risk of both the public and private like in terms of political and financial problems then enforcement of bill payment which was one of the major issues mention in the paper that the public sector like sometimes is not able to collect the bills from the public which in language directly affects the private sector.

Then strict monitoring of the project should be there like right from this like a start of construction to the like of while it is going on operations then while transferring to the public sector one of the big major problem is that it is over staffed for political favours and creating employments which overall effects the revenue and the profits of the project.

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### Effective Regulation

- This simply means doing well only what is necessary
- The regulation should be there only when it is required
- The objectives of the regulations/barriers should be defined explicitly so that the private firms earn enough profits
- A proper legal framework should be defined
- Defining regulatory functions and authority
- Costs of regulation

Then effective regulation, like it should be done only when it is necessary and not just because like a you should do it like every kind of regulation should have a well framework in place which is supposed to effect on your particular kind of project or the firm. Then the regulatory functions and frameworks should be there and the cost of regulations is also like one of the major factor which can sometimes contribute of 10 to 20 percent of the like the savings which you do a like actually from the project cost.

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### Pricing and Financing

- Tariff should be sufficient to cover operating costs
- Introduction of two part tariff structure
  - Fixed part + Variable part
  - Ramsey pricing: Higher prices to price inelastic demands
  - Rising block pricing: Higher rates for larger volumes used
  - Congestion pricing: Higher rates for services with higher demands
- Target subsidies
- Financing structure: Debt + Equity

Then pricing and financing is like again one of the important things the factor to consider, so the tariff should be sufficient to cover the operating cost like at least like in the future and the part which you have already invested then the tariff structure which has been mentioned in

the paper are fixed in variable part, fixed this for opting for that particular service and the variable part is like how much we use?

Then (ram) Ramsey pricing is when people are like in a inelastic to demands and in any case they will use it, so the prices are comparatively higher and then rising block pricing is when industry use higher rate higher volumes for the water or any kind of service then the rate should be higher for it and congestion pricing is when the like is similar to it like the when the demand is higher the price is higher.

Then target subsidies the people who can pay more you take more money from them and give it to the poor that is how like pricing is subsidized and financial structure is again the same with a debt plus equity like I will ask are they were to continue how it is banned and managed.

Student 2:

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**INTRODUCTION TO NPM**

- To apply the best management and technological practices to the realm of public governance
- To provide us with a framework where the scope of government and its goods and services can be discussed
- To provide us with the tools to design / redesign government funding and its delivery systems
- NPM looks at the internal improvements of an organization and bringing efficiency in delivery systems to the customers
- Deals with budgeting, benchmarking, cost and performance monitoring, contract management and other important issues

Diagram illustrating the transition from current state to Good Governance through NPM:

- Current State:**
  - Slow, expensive
  - Corrupt, substandard
  - Blind to people's needs
  - Squanderer of resources
- NPM** (Transition)
- Good Governance:**
  - Efficient Government and public administration
  - Satisfy people's needs by harnessing power of choice and competition

So i will be talking about NPM which is a new public management, so there are a lot of new technologies and management practices that are arising and private sectors mostly they were the most rapid ones to adapt to these new technologies and that is mainly because of the necessity and also seeing that public governance lacked the need and motivation to adapt to these technologies compared to the private sector.

So what is good governance? Good governance is something which is delivering efficient government and satisfying people is needs, so it also must provide power of choice and

competition, so a good governance must be providing us a framework where the scope of government is the discussed and to be debated, so the separation between strategic planning and operational planning is necessary here.

So what is strategic and what is (op) operational management? So strategic planning mainly focuses on the vision which is a long term concern and compared to the operational management which is mainly focused on the objectives of the project and it is mostly the short term thing and operational management mainly focuses on efficient performance rather than the functional I mean functioning and funding of the project.

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**INTRODUCTION TO NPM..**

**OBJECTIVE**

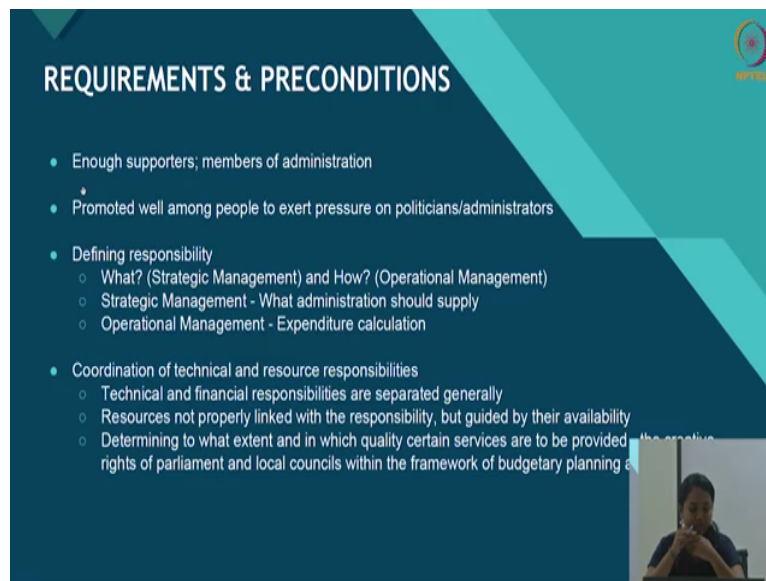
- To Transform the public administration to operate in an entrepreneurial manner
- The expertise and experience of private business regarding optimum performance shall no longer be disregarded by public administration

**FEATURES**

- Competition-oriented management through a division of responsibilities between financial institutions and service providers
- Focus on effectiveness, efficiency and quality in implementing the orders
- Separation of strategic management from operational management
- Equal treatment of private and public service providers within the frame of service-oriented orders and global budgets as a matter of principle
- Selective promotion of innovation and a delegated operational management

So the necessity of the (ipm) sorry NPM is to transform the public administration to operate in an entrepreneurial manner though the futures of NPM are focusing on effectiveness efficiency and quality in implementing the orders. So it also has a quality to I mean a compulsion to treat private and public sector service providers equally in terms of the budgets and service oriented orders.

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## REQUIREMENTS & PRECONDITIONS

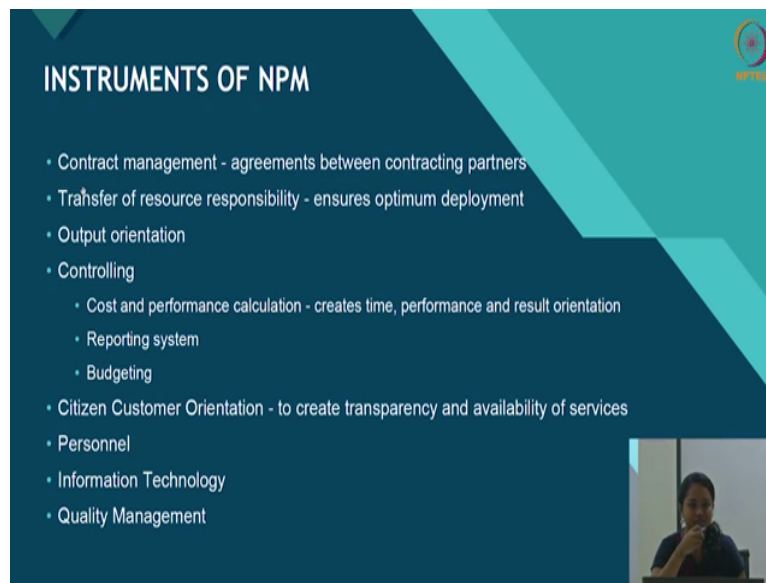
- Enough supporters; members of administration
- Promoted well among people to exert pressure on politicians/administrators
- Defining responsibility
  - What? (Strategic Management) and How? (Operational Management)
  - Strategic Management - What administration should supply
  - Operational Management - Expenditure calculation
- Coordination of technical and resource responsibilities
  - Technical and financial responsibilities are separated generally
  - Resources not properly linked with the responsibility, but guided by their availability
  - Determining to what extent and in which quality certain services are to be provided
  - the respective rights of parliament and local councils within the framework of budgetary planning a

So the requirements of NPM, so the launching of a project is mainly done only when there are a large number of critical people by critical people it means people from them like the members of administration, so there are also some preconditions which have to be satisfied so the first thing is defining the responsibilities, so again strategic management is something that speaks about what is to be done and that is ideal ideally it is to be done by the government officials who should be taking over the financing and the structuring of a project.

So they could do better when they redistribute resources or monitor against fraud or something like said setting quality standards for the project also operational management is mainly focusing on how it is to be done, so it focuses on the expenditure calculation and things like that. So there is also a coordination of technical and resource responsibilities, so basically technical and financial responsibilities are usually separated but the lack of proper link between them is mainly affecting the projects.

So we need to introduce quality measurements which automatically measure the performance outputs, so the performance outputs are usually if not if they are not monitored and measured it would be reflected as a flow of administration.

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The slide, titled "INSTRUMENTS OF NPM", features a dark blue background with a teal geometric pattern on the right side. A small logo is visible in the top right corner. The slide lists the following instruments:

- Contract management - agreements between contracting partners
- Transfer of resource responsibility - ensures optimum deployment
- Output orientation
- Controlling
  - Cost and performance calculation - creates time, performance and result orientation
  - Reporting system
  - Budgeting
- Citizen Customer Orientation - to create transparency and availability of services
- Personnel
- Information Technology
- Quality Management

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So there are some instruments of NPM and first thing is contract management, so the contract management is an agreement of administrations which mainly focuses on the targets of the project and yeah they are not legally binding, so they are just a commitment to what to do and how to do and yeah. So the other thing is transfer of resource responsibilities so it and it mainly ensures optimum deployment, so when a budget is allocated the government officials are the strategic management people they allot the budget for the project.

So it lies on the operational management I mean the project consultants to mainly transfer the resources among the other things of the project, so that it would be optimum and to maximum is the efficiency. So other thing is a (output) output orientation which mainly speaks about the (pro) performance or performance output and it is monitoring, so one more thing is controlling the cost and performance.

So again there are things like reporting system and budgeting which is used for the controlling, so (when) the contract agreement also involves a budgeting and a budget which is to be justified by the project officers also a transparency and develop transparency and real resources availability is necessary for the citizens to understand what is actually being done. So the personal selection there is a lot of importance given while selecting the personnel itself.

So the qualification and development of teamwork is very crucial coming for a project like this and also obviously information technology is it plays a crucial role and quality management is may it mainly, ok.



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**ACTIVATION OF NEW STRUCTURE**

Deployment of management principles cannot guarantee success

- a. Introduction of Competition to provide pressure to perform
  - i. Benchmarking
    - To measure the qualities of one's own performance
    - Similar products or performances are compared
    - Learn what is different
    - Three steps to carry out benchmarking
      - Definition of services and costs
      - Recording of comparative figures
      - Comparison of results and interpretation
  - ii. Competition through private business
    - Private sector not always efficient than public
    - Encourage public administration to compete with private; atleast a part of project

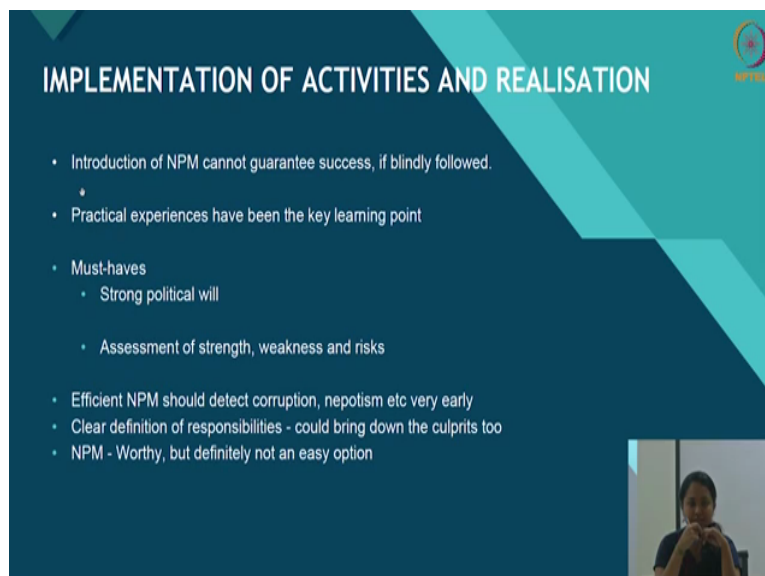
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So I will as long as we create some quality management principles and stick to them it is not the entire story also creating a new public management itself does not guarantee you success. So there should be a motivation for the employees to prove their capacity and make this project a success. So there are a few steps involved in this, so the first thing is benchmarking you need to define what the services and costs that are to be selected for comparison, so we select some targets and we record our performance for comparing.

So and the next step is compare your results and interpret from that, so the performance comparison between administrations is it is considered as an ideal instrument to optimize efficiency and effectiveness.

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**IMPLEMENTATION OF ACTIVITIES AND REALISATION**

- Introduction of NPM cannot guarantee success, if blindly followed.
- Practical experiences have been the key learning point
- Must-haves
  - Strong political will
  - Assessment of strength, weakness and risks
- Efficient NPM should detect corruption, nepotism etc very early
- Clear definition of responsibilities - could bring down the culprits too
- NPM - Worthy, but definitely not an easy option

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So implementation of activities and realization, so we even if we introduced NPM yeah if blindly followed it does not guarantee you success and there are some preconditions that are again to be satisfied. The first and foremost thing is a strong political will so the officials should be willing to take this challenge and yeah because this is a this is not a theoretical there is no report or theory for NPM it is based on practical experiences and like yeah it cannot be compacted as a theory.

So without that strategies I mean without practical experiences and their interpretation it would be like the project would be not would be abandoned in mid process mostly, so that again reflects among the people as a flow of administration, so that results in dissatisfaction of people and mainly distrust or distrust of people on the government. So also the efficient NPM would detect corruption if proper if properly employed.

So yeah that again come comes under clear definition of responsibilities we could actually bring down culprits by properly implementing this and properly following the quality management principles.

Professor:

Ok, so that was a detailed description of NPM and of course the write ups are even a bit more detail but as I want to highlight a few points before we close and connect it with what we heard from Ek Sonn Chan, see the genesis of NPM is when you look at the public sector there are a couple of challenges that people normally talk about right, the first thing is the public sector is more process oriented right and that necessarily does not always mean you get the right kind of outcome.

So process oriented means if I want to build something I have a competitive tender that is a fair process right I whoever wants to compete competes and I select somebody often somebody with the lowest cost (prob) problem is that does not necessarily mean that I will get the best structure right because as we know the person with the lowest cost could be somebody who made a mistake in the estimate, right and they are not able to complete it, they do not have the resources, they run out of money, delays, I might have to throw the fellow out, get another predator.

So very often the process does not necessarily guarantee results right, so there is a famous saying that sort of goes something like the operation was successful but the patient is dead right so I did everything I needed to do but you know at the end of the day the objective was

you know to save the patient is life, right. So the versus the other way of looking at it is saying I will be outcome oriented right.

So it is not so much about the process that I follow I have certain outcome parameters I need to supply this amount of water there is that and as long as I supply those per to so those parameters you know perhaps you should not really ask me questions on the process that I should follow right and the private sector tends to be a little bit more outcome oriented right so they want to sell more of their products, ok.

So they want to necessarily so they may not necessarily buy from a you know a raw material from a vendor that is the cheapest but they might have other considerations right they might buy from the more reliable vendor they might buy from someone who is selling something innovative right because they can see that a few years down the line this innovative technology might really help them differentiate themselves in their business etcetera right.

So the theory is ok, maybe what the prime public sector is not able to do is because it is very process oriented, maybe if it could become outcome oriented like the private sector maybe we would see infrastructure built faster so it is not about you know how did you tender the road I do not care how you tender the road I want so many kilometers of roads built of this quality, I want so much water supply, I want so much power right.

So can we really have outcome oriented metrics although we have these outcomes Planning Commission, NITI Aayog, documents etcetera the workings are not necessarily outcome oriented, the workings are more process oriented right. So new public management is can we manage the public sector like the private sector right, so can we look at outcomes and outputs and not processes ok and therefore also you know in the public sector your promotion is often based on seniority right I cannot suddenly leapfrog someone else right every few years I get a promotion I go to the next great pay but the private sector you can very quickly you know leapfrog everyone and become CEO of your performance is great right, so that incentivizes people to perform right.

So can we bring in some of those practices into the public sector, so that was essentially new public management right. So then the question is ok all of this is philosophically ok how do I do it? So number of things that both you know Divya and Jaikishan listed but couple of things to highlight is one is can I have more performance or outcome based contracts and view.

So if you look at Ek Sonn Chan thing again the outcomes are very clear I want to connect the city, I want to minimize the wasted water etcetera so it is more outcome oriented rather than process oriented right can the decision making be much more decentralized to facility so in other words that is what we call autonomy right so can I give autonomous decision making to the water supply authority etcetera right so that they can actually go ahead and takes the steps necessary again we saw that in the Cambodia you know example.

More customer orientation leads so what differentiates the private sector from the public sector, the private sector says the customer is king right because if I you know if I antagonise the customer the customer does not buy my product anymore I am out of business right whereas the public sector often operates as a monopoly there is no such thing as saying I do not want water from Chennai Metro water right there is no other alternative supply I do not want power from Tamil Nadu electricity board of course now you can put in solar panels, you can get private water tankers there is always an alternative but by and large infrastructure is often a monopoly therefore you think that you do not necessarily need to engage with citizens right.

Can we again change that mentality? Can we engage with citizens? So you get a better infrastructure experience, land acquisition, paying of customers etcetera again we saw some of that in the Ek Sonn Chan Cambodia case right the way they interacted with consumers again how do you manage your personnel? Do you just say respective if you join some service today you will continue every two years to get some great pay related promotion and end up somewhere or do I actually give you the incentive to perform, I am not quite sure how that worked in Ek Sonn Chan case but he did speak about incentives right.

Benchmarking and today we do a little bit of this in government right, so various reports sort of look at various indices right malnutrition, infrastructure, housing etcetera and we try to benchmark assets private sector benchmarks itself all the time right, so if you look at a bank and you go to their board meetings they are probably talking about what is the percentage of non-performing assets that I have versus non-performing assets that other banks have right.

We all know we have non-performing assets but I need to benchmark right and based on my benchmark if I come out relatively poorly then I have to take decisions right to improve, again this is something that typically governments may not do but again is something that new public management says you start doing something that is very common in the private sector.

And then finally the extension of new public management is why do you have to do everything? right do what you can, bring in the private sector to do what they what you know what they can do best right and in order to do that you know create competition right so for instance reduce barriers so that more qualified people can come in and you can actually get a more qualified vendor.

So an example is let us say you want to do 10 kilometres of tunnelling right as part of the Chennai Metro Rail contract one way of doing it is to say I have a pre-qualification condition only people who have done ten kilometres of tunnelling or more can apply ok maybe there is some sense to that but what you are also doing is you are cutting down the playing field not too many people have done such large tunnels many of them may not necessarily be available on this project because they have other work down the line but then you can start thinking is doing one kilometer of tunnel any different than doing ten kilometres of time right is not is essentially the same thing over and over again.

So if I can build of course 10 meters of tunnel is one thing but if I have done one kilometer of tunnel right is not this logical that I could possibly do 10 kilometres of tunnel and if you believe that then perhaps you should say your pre-qualification criteria is people who have done 1 kilometer of tunnel. Now the playing field opens up right and therefore now you get a large number of people even if some of them are not available enough qualified people who can come and bid and you can actually start you know creating a good project right.

So you encourage competition, you do what you can to reduce project risks like Nikita was saying you acquire land ahead of time maybe you absorb some of these fluctuations of demonetization happens there is a cash payment to the contractor based on what are the kinds of revenues you had over the last couple of weeks we assume that during the demonetization period of two weeks you will have similar impacts and so we.

So try to de-risk the project and more than anything else because you are now bringing in more private sector participation regulate effective, so move more from us so plan the infrastructure project allow the private sector to deliver services where possible where not possible do what you saw with the Ek Sonn Chan and where the private sector is delivering services regulate, regulate means you know figure out pricing right because again I give water supply one of the problems with Ek Sonn Chan is what if we suddenly overnight decides to just quintuple prices saying this is what I need right for you know cost recovery, it is going to be very difficult for people to pay right.

So you need a regulator who is looking at prices the regulator of course needs to be independent right the regulator should not be capturable by the private sector should not be capturable by the public sector, private sector wants high tariffs, public sector wants low tariffs right so it should be sort of fair, neutral so you need to find people who are qualified who cannot be bought you probably want regulatory terms not to align with election terms right, so that you do not have the situation where a new government comes in completely changes the regulator right ideally a regulators term and a governments turn are transposed a bit.

So that any regulator that one government suggests right spend some amount of time in the next government as well right and so there are certain strategies to look at right but this is essentially new public management is saying look where we can let us bring in the private sector, let us create competition, let us have them deliver efficient services we are not let us try to sort of be performance based let us try to sort of benchmark ourselves, let us try to be autonomous and therefore build infrastructure fair and fast.

So this was you know in the 80s and the 90s sort of a big buzz everyone said new public management in fact the whole public private partnerships thinking came out of that philosophy right but unfortunately like anything else public but new public management is a very good tool in the hands of good people right if you have the wrong kind of people than giving autonomy etcetera is extremely detrimental to the system right.

So if you have corrupt people in charge then autonomy is actually going to ruin the service that provided and because we are not really sure how to control for that most governments still continue to go in with the whole the reason you have a process is to limit corruption right essentially you are saying the decision is out of your hands, follow the process whoever wins gets the contract right as opposed to me being able to say I am giving them the contract and because I justify it in some way but it is really because I have a deal with that person right.

So in order to cut out corruption as why we have processes right and so in many cases governments still continue to say look we need process right and so new public management has not quite taken off the way (( ))(26:27) but there is probably a way in which you can take some of these principles like Cambodia has done you know identify appoint good leaders, give them some amount of autonomy look at it from a performance based perspective, bring in the private sector where necessary and therefore speed up the quality and quantity of infrastructure development right.

So something to think about again comparing to what Krishnan said it is not completely deviant with what he said because they are also thinking of these kinds of things right but at the same point question is how fast are you moving towards a philosophy where you are looking more at the outcome and not so much at the process and at the same time ensuring that you do not let corrupt elements completely ruin what you are doing right. So again something is to think about ok, so we are over time so we will stop here.