

Consulting in Transportation Infrastructure - Issues and Path Forward

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This presentation

- What are the problems of Consulting Sector in Transport Infrastructure industry?
- Why and how these problems have arisen?
- What is the way forward?



Background

- India has the 2nd largest road network in the world, with over 5.53 million kilometer including all expressways, national highways, MDR, ODR and Village Road.
- The major source of financing for road projects in India is budgetary allocation . These allocations have resulted in an increase in the length of road network from 0.4 million km in 1950-51 to 5.53 million km in 2016-17.
- In Seventh Year Plan (1985-89), The Planning Commission of India, emphasized to look for alternative funds resources, and therefore, the PPP era started in early 1990s.
- To give boost to the economic development & to change face of road network, government in 1998 introduced PPP system as the main source of funding.

Consultancy industry (1/2)

- It is a Knowledge Industry
- It thrives by knowledge capital using human resource it is having
- However, the knowledge or consultancy outputs cannot be monetized for raising funds
- Highly skilled human resource needs high cost or remuneration
- Engineers/Doctors/Lawyers/Architects are to be treated uniformly, and therefore, consultancy profession should be treated similarly

Consultancy industry (2/2)

- Tough competition for consultancy organizations, and with globalization, managing knowledge capital is not easy
- Competencies and recruitment of right talent is key to success
- It is survival of the fittest (for the prevailing environment) or will fade away in time
- Diversification at right time to right areas with right talents
- It is a big challenge for Indian consulting firms to compete with global players

General (Background): Consultancy

- Mushrooming Consultants all over
- In 1970s and 1980s there used to be about 15-20 consultants only in the country
- Today there are one-man, two-men consultancy organizations (in thousands) with a couple of tables and chairs in a shed or basement or garage of a house
- No consultancy project is in a pure area of engineering only; all are multi-disciplinary problems to be tackled
- Minimum or no overhead expenses of these small consultants, and therefore, they are the ones winning the State Govt. jobs, which are given on L1 basis
- Just imagine the quality of service they can provide in a multi-disciplinary project

Problems within Consultancy

Organization Themselves

- Team projected for the project delivery does not prepare the project proposal
- Project work to be done by the Team may find difficulty, as the ideas/methodology was formulated by someone else
- Consultancy Organization tries to use one expert in many projects, and often some experts will have total time input of 18 or 24 months in just one year (trying to get more than logical profit in the projects)
- Survey/data is the basis for all consultancy job; organization wants to cut cost there as well making very difficult for a quality job delivery

Problem with Client Organization (1/4)

- Rarely the Client is fully knowledgeable about the projects they want to implement
- The RFP/ToR prepared is done by copy-paste from many other projects, resulting in many unrealistic requirements in the ToR. Pavement design is one of the requirements in case of an elevated road project.
- Many project are being awarded in Least Cost Basis (L1 Syndrome), especially in all State Govt. and ULB funded projects

Problem with Client Organization (2/4)

- Least cost project eventually costs hugely, as the project planned is grossly deficient in its design and details (the DPRs prepared in most projects are clear example of this). At the time of execution, there will be many CoS required to be given (as design and details are grossly inadequate), in addition to all kinds of arbitration gone into by Contractor/Concessionaire
- 100 km or 50 km road projects are given same or similar time to prepare the detailed design – a serious flaw and very unrealistic.
- Often it is seen that DLP is kept for the Consultancy job awarded. Road Authorities, experienced with contractors, treats the Consultants also just like Contractors

Problem with Client Organization (3/4)

- To cut down cost of the project, the project duration is kept unrealistically low (50-70% of actually required time period) so that man-months proposed are also low (the man-month cost is the highest in a project)
- Later Consultancy Organization manages the Client for all the delay that take place in submission of various consultancy reports; also somehow delivers using the sub-professionals, which is a crooked way of managing consultancy job
- In case of time overrun, that will be without any compensation.
- High expectations of the Client beyond the ToR, often asking for twice the scope of work given in ToR – but without extra cost

Problem with Client Organization (4/4)

- For example, in an urban transport project of a city, where TDM is probably required to be developed, time given will be only 3-4 months only; – even the needed data for an exhaustive CMP cannot be collected within such time frame
- Land acquisition, Environment Clearance, etc takes very long due to unclear, dubious and lengthy policies of the Govt.
- Decision making and approval system of the Client is very slow and inefficient, which leads to many problems – delay in payment, and project delivery

Cash Flow Problem (1/2)

- Unless it is MDB funded project, in case of most State/ULB funded projects, will have the least cost project funding (QCBS 70:30 is like least cost basis), and therefore, it will be with a very tight budget for the work to be delivered
- The RFP/ToR states that the payment will be made on approval of the deliverables (it generally takes enormous time for Govt. Departments to approve the deliverables)
- Payments are invariably not made as promised in the ToR (the Payment Schedule) and delayed by several months disturbing the cash-flow seriously in Consultancy Organizations

Cash Flow Problem (2/2)

- Serious Cash Flow problem is resulting in late disbursement of salaries to the staff, often more than one/two month's delay
- New recruitments are difficult, once they come to know that the salaries are delayed in the organization. Also good and experienced staff often leave the organization.

Govt. Policy on ST/GST Deposits

- As per Government Rules, the ST/GST is to be deposited in the Govt. coffers as soon as the bill/invoice is raised by the Consultancy Organization to the Client
- Bill/Invoice is raised along with the submission of the deliverables, and GST is to be deposited within a time limit of number of days – delay will invite X% interest; but the payment of the bill/invoice is never received within such time
- There is huge cash flow imbalance – there is no way that major consultants with large overhead expenses can survive in a policy environment like this
- Contractors are exempted for paying the ST/GST immediately on raising of the bills/invoices

Supervision Consultancy & IE/AE

- These consultants represent the Client on the ground to safeguard interest of the Client
- But, the quality of supervised work remains very poor. Of course, the ToR/Contract of SC/IE/AE does not permit them to stop work due to poor quality/poor safety/poor materials, etc as there is penalty for the Contractor for defaulting in the progress of work (but no penalty for poor quality/safety)
- The Client is totally indifferent on this matter of non-compliance for safety/quality (as they want only progress): Hon'ble Minister wants to build 40 kms per day

Challenges for **DPR Consultants**

1. DPR (Detailed Design) is the mother of any infrastructure project; and therefore, experienced and skilled team is needed
2. Need of permissions from various separately operating authorities for carrying out activities on site during Site Investigation Studies and Surveys
3. Topographical Survey inaccuracy due to unavailability/presumption of permanent GTS benchmarks
4. Challenge to maintain the marked pillars of Right of Way on site without displacement by local habitants.
5. Rough Estimation of Land Acquisition details, which might be caused by urgency in DPR submission, which leads to huge problem at the time of execution later. Extra land for junctions never acquired invariably.
6. Unpredictability of Environmental & Social Resettlement Plan clearances.
7. Client's compromise in design standards (due to cost cutting strategies) leading to unsafe design (Removing VUP/PUP, bypasses, etc)

The Way Forward (1/2)

- LA to be done – not only for carriageway width, but for junction areas as well
- The project should be with realistic budget, skilled manpower and realistic time duration
- Technically highest agency with competent team should be given the project; Otherwise the Client/ Govt. is looser with sub-optimal/low quality project delivery
- Strict and realistic time should be taken for approval of deliverables; otherwise it should be deemed approval
- Client can hire advisor for specific projects to assist and educate the client

The Way Forward (2/2)

- 30 Years back PWD used to do all road projects by themselves. Now the projects are very big; but GFR are the same – these need required changes
- High quality/high value projects are to be QBS/QCBS only, while low value services not requiring skilled manpower can be on L1 basis (e,g. security services)
- Projects are like monuments, and should be grouped based on national importance, high value, or on complexity
- GFR even provides for nomination basis; but never used
- Govt. policies should incentivize the consultancy industry like Doctors and Lawyers
- GST be paid by the Client just like the TDS; it is done for Contractors

The End

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