 by Susan Maitra

India's Eighth Five Year Plan

Where does the money go? A little talked-about report throws light on the much-discussed "resource gap."

A recent report on government debt from the office of India's Comptroller and Auditor General has added weight to fears that the country is heading for an increasingly severe resource crunch that may cripple the Eighth Five Year Plan, which begins in 1990.

At about $22 billion, the present budget deficit is still manageable. But public debt is growing so fast that the government may soon be in the unenviable position of borrowing more just to pay interest, the report indicates.

The news is not really new. But is there a way out? Most practitioners of the dismal science and those who would like to discredit the present government for apparent short-term political gains are already targeting the big-ticket "non-plan" expenditure items such as defense and various subsidies—mostly for agriculture—for the chopping block.

Curiously, meanwhile, a wall of silence surrounds another government report that proves that some $20 billion is being salted away on 300-odd mismanaged government projects. Anyone serious about a way out of the "resource crunch" would recognize, in the 1987-88 report of the Ministry of Program Implementation, a road map to the proverbial buried treasure.

There is no doubt that Prime Minister Rajiv Gandhi had precisely this in mind when he set up the new ministry in 1985-86. Now that its first comprehensive report is out, action appropriate to the horrifying extent of waste it documents is called for. It will go a long way to balancing the budget, and speeding up economic growth in general.

The Ministry's Project Monitoring Division was charged with monitoring all projects of approved capital cost of $15 million or more. Breaking down the projects according to the size of financial outlay—Mega, Major, or Medium—the Division gave a status report on 311 projects in 13 sectors. This "Flash Report" documents the nature of the project, the estimated cost, the anticipated cost, the expected date of commissioning, and the length of delay.

The results read like a "Can You Top This?" of economic suicide cases. Of 124 Mega and Major projects, at least 78 have already been delayed, and their anticipated capital cost has escalated by 71%. For the 124 projects, estimated completion costs have jumped by 52%, an increase of more than $17 billion in real terms—or nearly the equivalent of the budget deficit!

The cost of time overruns in terms of loss of rated production from the day the project was scheduled to go on line, has so far not been considered.

The report attempts to identify the causes of cost and time escalation. A prominent theme is lack of project preparation prior to investment. For example, the Koel-Karo Hydropower Project in Bihar, where dams on two rivers are to produce 710 MW of electrical power. Begun in 1982, the project was originally estimated to cost $280 million. Five years later, the anticipated capital cost has nearly quadrupled, and the December 1988 completion date is viewed as fiction.

What happened is a familiar story. No provision was made for the 7,000 families who would be displaced by the dams and reservoirs until two years into the project, when the matter was taken to the Supreme Court. Now the project has virtually come to a halt, while the Bihar government, under court order, prepares a multimillion-dollar rehabilitation and compensation plan. The only thing moving is overhead expenditures. It is anyone's guess when, if at all, and at what final cost the project will be completed.

Another example that shows more dramatically the implications of the problem, is the Vishakhapatnam Steel Plant in Andhra Pradesh, designed to produce 2.66 million tons of steel per year and started in 1979 with commissioning slated for December 1987. The rescheduled commissioning date for the "first stage," producing only 1.2 million tons of steel per annum, is a probably fictitious December 1988.

What went wrong? Everything, probably. The machine shop took seven years to complete (a similar one was built at a private-sector steel plant in two and a half years, at half the cost). The project cost has already risen by $3.0 billion—enough to build two more integrated steel plants of the same capacity—and the final cost of the project could be as high as $7.2 billion. This kind of cost-overrun means the plant can never make a profit unless the price of steel is jacked up more than 200%.

Instead of producing wealth for the nation, Vishakhapatnam and hundreds of other projects are eating up the nation's wealth. It is common knowledge that large government projects are the focus of "milking" by politicians and enterprising bureaucrats. The Ministry of Program Implementation doesn't say this, but how else can you explain the portrait the report does detail, of sloppiness, incompetence, and poor organization at virtually every stage?