Is consulting for government different?
- Dr. R S Murali

Understanding local body budgets and why Outcome Based Budgeting is the way forward?
- Ashok Rao

Selection of Consultants by World Bank Borrowers
- Padmaja J
In recent decades the field of consulting has grown at a tremendous pace. According to Plunket Research, the estimated market size of the consulting industry is pegged to be $415 billion for 2014 from a mere $10 billion in 1988. Initially, consulting services were sought after mainly by the corporate sector. Majority of the consulting services were in the field of information technology, human resources, business research, management advisory and financial advisory services. Of late, the Government sector too has realised the immense value that consultants can add and has started hiring consultants in areas like infrastructure development, policy implementation, public finance and the like. In the days to come Government consulting will witness a huge growth not only in terms of the market size but also in terms of nature of assignments and governance areas covered by the consultants.

It is only apt that the Consultants’ Corner covers Government Consulting since MaGC has a strong presence in this field. In this issue we bring to you articles on the nature of consulting assignments in Public Governance, selection of consultants for World Bank funded government projects and the soft skills required for a consultant while handling a government consulting project. There is also an article on understanding Local Body budgets. The next issue of Consultants’ Corner too will cover the same theme given the number of articles that have come in.

In the last issue we had sought the support of the authors to contribute more articles for our magazine and we are really happy that the appeal did not go unheard. The support from the authors has been excellent over the last two months and we are sure that it will only grow in the coming days. Last but never the least are our readers who have blessed us with their continued readership over the months. The combination has started to click and we need to make that work in a big way!!

Readers’ Corner

If you have any comment/suggestion for the editors, please write to us at cc@magc.in. Your views and comments on articles featured here are also welcome!
Is consulting for government different?

Working on a government consulting assignment is not easy. Because governance is not simple. In India government is possibly the oldest form of organisation structure that is still performing. While there is a huge scope for revamping the way the government institutions work, the ubiquitous government institutions have come to stay.

It is stated that less governance is good governance, and I add that the business of government is to enable businesses and not do any business. However, this is an utopian thought. Until the general business community in India function ethically the government business institutions need to and will exist.

The reason I am recording these ideas about government institutions is that unless one understands this ethos about government one will not be in a position to understand the nuances of government consulting.

In Business Standard dated 18th March 2014, Infosys management has stated that 'working with government projects [is] frustrating'. The company executives have also opined that in software projects, the government treats them as integrators and this creates a lot of problem. Yes the government wants solution and the proposal to them has to be made as a complete package. This as consultant we should express clearly and if not, should not take up the work. This at MaGC we have always done and will continue to do.

Getting into the subject, how is government consulting assignments different from others?

- Government assignments are allotted through a process. They are not given just by knowing somebody
- The organisation applying need to have certain credentials and proven case of prior experience
- The consultant should be able to support his claim of work through copies of contracts, client referrals, etc.
- During the assignment the principal person say the Director or Secretary and other senior officials of the client (government) may change
- The people at various levels engaged in the project may not be completely aware of what is to be done
- The personnel involved may not be well qualified
- When any papers or reports are given for opinion or feedback, the officials often take more time than originally planned
- The timelines and obligations given in huge contract would seem to apply only for the consultant and not for the government entity
- Above all, there is undue delay in getting payments.

All these points plus a few more make the government consulting very tough, unattractive, and challenging.

However, there is another side to it! Let us look at the other side:

- Government project beneficiaries are people at large

Kindness in words creates confidence. Kindness in thinking creates profoundness. Kindness in giving creates love.

- Lao Tzu

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 Consultants contribute for improving the functioning of the economy and the country as a whole

Committed consultants make use of the opportunity to improve the systems and processes in the government

Government projects are complicated and provide amazing opportunities for consultants to learn and fine tune their learning

By professionals providing inputs there is a huge trickledown effect that takes place in the government projects

In most cases even in the absence of continuity of persons, once accepted a project proceeds as per the plans (there could be some delays though)

Overall, I have a feeling that in inputs, outputs and benefits a government project in general generates more throughput. When we compare private and government projects the following points emerge as important differentiators:

In private sector the decision to take a consultant is decided by a single person, in government it is always a group decision

When key persons leave the organization the consulting project may not see the light of the day, in the case of private sector.

These observations by me may seem that I support government related projects, but I felt that these points need to get recorded.

Consultants’ Corner

Dr. R S Murali can be reached at muralirs@magc.in

Opinion Poll Result

Best article in the Feb-Mar 14 issue of Consultants’ Corner

The Editorial Team thanks its readers for taking part in this poll. We request our readers to actively participate in this Opinion Poll since the annual best article for CC would be selected based on your votes.

Cloud Computing - Decoded!
Key terms associated with Cloud Computing
Cloud Computing Threats and Assurances

“Empathy is a quality of character that can change the world.

- Barack Obama
What it takes to be a hit with the government

“Customer is king” is one of the early marketing lessons taught at B-schools and for consultants to be successful, the same lesson holds the key. Getting deep into issue, having an eye for details, timely execution of deliverables and cordial client management abilities are said to be the most important qualities for any consultant. These qualities are essential even while dealing with the government. But do remember the sarkari babus are a tad (sometimes a lot) different from our usual white collared executives.

While it may be possible to take the upper hand and talk in a slightly commanding tone while seeking information from private sector clients, applying the same tactic with government officials will definitely secure your name in the list of people banned from entering government offices. Dealing with the government involves an extra dash of people skills, over and above technical capabilities. The most challenging aspect while working on government consulting assignments is data collection.

Data is often spread over various offices of different departments and across various cities. Collection of data requires constant persuasion and follow ups with the officer in-charge. This apart, the skill levels and knowledge of officer in-charge even at the same cadre could be different making it further more difficult for the consultant to extract data. Patience is the magic word that will help the consultant in such instances. Once the consultant takes the effort to explain his data requirement to the officers in-charge and extract the same in patient manner, these officers will remain his friends for lifetime.

Humility is another factor that will help consultants remain friends with government forever. Though humility may seem to be a basic human quality, it is important to exhibit this trait while interacting with government officers. While in the first instance consultants are viewed as job snatchers (sometimes even in the private sector), the sense of insecurity is a bit higher with government officers. Officers at the lower ranks have a tendency to believe that their technical abilities are quite limited. In such cases, any flashy display of knowledge by the consultant could widen the insecurity of the officer, making it that much more difficult for the consultant to interact with the government official.

Lastly, it is important to remember that all clients are the same. Whether government or private sector, quality of report is beyond compromise. Stating the obvious is a big no-no even in case of reports to the government. IAS Officers are like what CEOs are in corporates. They too prefer crisp reports and can easily see through bluff. Creative and out-of-the-box solutions are always welcome provided factors such as financial, socio-economic and political constraints are taken into account while framing these solutions.

The list of must-have qualities to be a successful government consultant does not end here. The three aforesaid qualities have helped me come a long way with government officials and establish a cordial working relationship with them. All the best!

With more of these gaps surfacing between the consultant and the officer, the consulting assignment could soon turn into an arduous task.

“A different language is a different vision of life.”

- Federico Fellini
Understanding local body budgets and why Outcome Based Budgeting is the way forward?

Budgeting in Government
A Government Budget presents the government's proposed revenues and spending for a financial year. The government budget is also referred to as the annual financial statement in many jurisdictions. In India, budgets are prepared by governments at all the three levels namely, the Central Government, State Government and Local Government.

- Detailed estimates of anticipated revenue and expenditure under each function. These estimates are presented against line items known as Budget Heads. For example, under Education function, the budget estimates for expenditure could be presented under the budget heads Salaries, Office Expenses, Scholarships, Stipends and so on.

Budget Presentation
The financial information in a local body budget spans across three financial years and covers the following:

a. Actuals for the previous accounting year (i.e. Budget Year (The Financial Year to which the budget pertains) minus 2 years);

b. Budget estimates for the current financial year (i.e. Budget Year minus 1 year);

c. Revised budget estimates for the current financial year (i.e. Budget Year minus 1 year); and

d. Budget estimates for the forthcoming year (i.e. Budget Year).

Budget of a local body
By a local body we mean the third tier of government i.e. an Urban Local Body (ULB) in a city or town or a Panchayat Raj Institution (PRI) in rural areas. A typical budget document of a local body provides the following information:

- Summary of the financial position in terms of the opening balance, total anticipated receipts, total anticipated expenditure and closing balance at the end of the ensuring financial year.

- Function wise summary of the anticipated receipts and anticipated expenditure. Examples of functions are Education, Health, Women and Child Welfare, Engineering and so on.

Consultants’ Corner
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The exhibit above shows the detailed budget format for the General Administration function of an urban local body. Please observe that each budget head (last level) is represented by a **Budget Code**. The budget code (often called as the budget head itself in common parlance) has a lot of significance in government accounting. No revenue or expenditure transaction can be accounted in the books unless the budget code is properly mentioned.

### Difference between budget of a business undertaking and budget of a local body.

The table below shows the key differences between the budget of a commercial undertaking and the budget of a local body.

<table>
<thead>
<tr>
<th>Budget of a commercial undertaking</th>
<th>Budget of a local body</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not a legal document</td>
<td>Is a legal document and is usually backed by supporting legislation</td>
</tr>
<tr>
<td>Generally prepared at a aggregated level and not against each line item of accounting</td>
<td>Prepared upto the last level of classification i.e. Budget Head</td>
</tr>
<tr>
<td>Multiple budgets may be prepared for different level of activities</td>
<td>Single budget</td>
</tr>
<tr>
<td>Budget may be revised many times during the year corresponding to business performance</td>
<td>Revised only once a year</td>
</tr>
<tr>
<td>Annual budget is generally broken down into quarterly or monthly budgets</td>
<td>Generally only annual budget is prepared</td>
</tr>
<tr>
<td>More scientific since it fully takes into account receivables and payables</td>
<td>Receivables and payables may not be considered fully in cases where the underlying accounting is cash based</td>
</tr>
<tr>
<td>Operating expenditure budgets may be in excess of budgeted revenues provided they are adequately financed</td>
<td>A single budget is prepared for operating, investing and financing activities.</td>
</tr>
</tbody>
</table>
The annual budget process

The process for preparation of the annual budget is more or less well established and is uniform across local bodies in India with minor variations. The ultimate authority for approval of the budget is the elected body which is called the Council (in a ULB) or the General Body (in a PRI).

The budget preparation exercise starts around October for the ensuing financial year (the Budget Year). The Executive Head of the local body calls for budget proposals from all the departments. These proposals are discussed in detail and later consolidated. The discussion process is generally an exercise of allocating available resources (budgeted revenues) amongst multiple expenditure proposals. There is invariably a trade-off between the departments so that the expenditure budget is made available based on a prioritization of needs.

The consolidated budget is placed before a Committee of the Elected Body (generally called the Standing Committee of Finance), discussed and further refined. The final budget is placed before the Council (ULB) or the General Body (PRI) for approval. Once approved, sufficient copies of the budget document are printed and made available to all departments. The budget is also available for public viewing.

Budget preparation – practical difficulties

The budget is THE most important document which governs the activities of a local body in the coming year. The process for budget preparation in a local body is also well laid down. However, certain lacunae in implementation have in many cases made the budget preparation exercise a farce. Some significant drawbacks which have plagued the budget preparation process in local bodies in India are:

1. Citizen participation in annual budget preparation is one of the important canons of participative democracy. Concepts of Ward Committees in ULBs, District Planning Committee at District level and other such institutions are envisaged in our statutes. However, in practice it is not uncommon to see such committees not constituted at all or where constituted, not effectively functioning. Therefore citizen participation in budgeting is still not well established.

2. Many local body budgets are prepared using the incremental approach i.e. last year budget amount plus say 10% without actually scientifically arriving at the requirement.

3. A large number of local bodies in India are either on the cash based system of accounting or are in the process of transitioning to accrual based accounting. Therefore, complete and accurate information on receivables and payables and commitments on existing projects may not be fully available. As a result, the budget may leave out many such items.

4. The budget preparation exercise is often hijacked by over enthusiastic politicians. A number of expenditure line items are included in the budget which are never intended to be taken up at all just to gain political mileage. Correspondingly the budgeted revenue figures are also boosted up to match the receipts to expenditure. This gives scope for a dangerous trend where expenditure is incurred (because the budget provides for it) without actually realizing the revenue. Payables go up significantly and within a span of a couple of years the situation could snowball into a financial crisis for the local body.

5. In many local bodies which have migrated to accrual accounting, the budgets continue to be prepared using legacy budget codes. This makes the budgeted (from budget) and actual (from accounts) amounts incomparable thereby defeating the whole purpose of migrating to a better system of accounting.

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The way out – Outcome Based Budgeting

Outcome Based Budgeting is a concept which tries to link the financial budget to the non-financial aspects in terms of the desired outcomes for the local body. Outcome Based Budgeting if implemented well addresses to a large extent the shortcomings of our current system of budgeting discussed earlier. Outcome Based Budgeting works on a few simple principles:

a. First define the desired outcome;
b. Define the outcome indicator and benchmark;
c. Define the tangible output which will produce the desired outcome;
d. Estimate the financial outlay to achieve the defined output;
e. Budget the amount of the financial outlay that is proposed to be spent in the ensuing year (Budget Year).

The above principles can be understood with a simple illustration:

<table>
<thead>
<tr>
<th>Principle</th>
<th>Case – ABC Municipality</th>
<th>Explanatory remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Define the outcome</td>
<td>To reduce the traffic waiting time at Shivaji circle</td>
<td>Being an important signal, the waiting time at the signal has increased significantly in the last two years creating traffic bottlenecks</td>
</tr>
<tr>
<td>Define the outcome indicator and the benchmark</td>
<td>Indicator: Average waiting time at signal</td>
<td>Current average waiting time as per the study conducted by the Traffic Police</td>
</tr>
<tr>
<td></td>
<td>Benchmark: 3 min</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Current: 15 min</td>
<td></td>
</tr>
<tr>
<td>Output proposed</td>
<td>To construct a flyover from College end to Stadium end of Shivaji circle</td>
<td>This would enable all airport bound traffic to skip the signal thereby reducing the traffic inflow to the signal</td>
</tr>
<tr>
<td>Financial outlay</td>
<td>Rs. 160 crore</td>
<td>As per the DPR submitted by XXX consultants</td>
</tr>
<tr>
<td>Budget estimate for 2014-15</td>
<td>Rs. 100 crore</td>
<td>Out of JNNURM grants – Rs. 80 crore and internal accruals – Rs. 20 crore. The balance will be met out of JNNURM grants in 2015-16</td>
</tr>
</tbody>
</table>

Outcome Based Budgeting ensures that for every line item of estimation in the financial budget, there is a scientific outcome based justification which can be measured and monitored. This will greatly reduce arbitrariness in budget preparation and bring in the much needed transparency in budgeting.

Outcome Based budgeting – Implementation challenges

While the benefits of Outcome Based Budgeting are apparent, implementing it has its own set of challenges:

i. For Outcome Based Budgeting there must be a good system of monitoring performance against desired targets (what is popularly called as the Performance Budget) in each ULB;

ii. It is very important to lay down the desired outcomes properly in the first instance vide a process which involves all stakeholders;

iii. It may not be possible to clearly define the outcome indicator in all cases. In other cases, measuring the outcome indicator itself might become a strain on the local body resources;

iv. In many cases it may be difficult to establish a direct link between an outcome indicator and the financial outlay;

v. Outcome Based Budgeting involves recording, monitoring and analyzing various data points over long time periods. It is important to have necessary software tools and personnel to undertake such activities on a sustained basis.

The above principles can be understood with a simple illustration:

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“Be as smart as you can, but remember that it is always better to be wise than to be smart.”

- Alan Alda
Selection of Consultants by World Bank Borrowers

The World Bank is a United Nations International Financial Institution established in the year 1944 and provides loans to developing countries for capital programs. It is headquartered in Washington DC and has 187 member nations including India. The mission of the World Bank is to reduce poverty. The World Bank has two institutions namely International Bank for Reconstruction and Development, (IBRD) and International Development Association (IDA). Currently World Bank is involved in more than 1800 projects world-wide.

The World Bank has set guidelines for selecting, contracting and monitoring the consultants required for projects. For the purpose of guidelines the term Consultants includes Private and Public entities, Consulting firms, Management firms, Procurement agents, UN agencies, Banks and Research Institutions.

The main considerations for selection of consultants are shown in the figure below.

Meaning of Important terms

1. **REOI** – Request for Expression of Interest an invitation to the firms for prequalification, for the supply of specific goods, works or services. The note received from the firms confirms the interest of the firms in making an offer to render the services.

2. **RFP** – The Request for proposal is a formal letter of invitation to the consultant firms short listed at the Expression of Interest stage to submit a detailed Technical Proposal and Financial Proposal. The RFP will generally include Letter of Invitation, Instructions to consultants for preparation of proposals, Standard Forms for preparation of proposals, World Bank's policies, Terms of Reference and Standard forms of contract.

3. **TOR** – Terms of reference is a note which usually forms a part of the RFP and included the Scope of work for a service contract, equivalent to the specification of goods in a contract for the purchase of goods.

Methods of selection

The methods of selection adopted by the World Bank for selection of consultants included:

- Quality and Cost Based Selection (QCBS)
- Quality Based Selection (QBS)
- Fixed Budget Selection (FBS)
- Least Cost Selection (LCS)
- Selection Based on Consultant’s Qualification (CQS)
- Single Source Selection (SSS)

1. **Quality and Cost Based Selection (QCBS):** Quality and Cost Based Selection (QCBS) is the most commonly used method for selection of consultants. This method takes into account both, the quality of the proposal and the cost of services in selection. Cost as a factor of selection shall be used judiciously. The relative weight to be given to the quality and cost shall be determined for each case depending on the nature of the assignment. The relative weight is mostly 75% for Technical Proposal and 25% for financial proposal.
2. **Quality Based Selection (QBS):** This method is used for highly complex or specialized assignments for which it is difficult to define precise TOR, for example country economics or sector studies, design of a hazardous waste remediation plant and so on. In this method of selection, the RFP may request submission of Technical Proposal only, which will evaluated and the highest ranked technical proposal will be asked to submit the Financial Proposal.

3. **Fixed Budget Selection:** This method is appropriate only when the assignment is simple and can be precisely defined and when the budget is fixed. The RFP shall indicate the available budget and request the consultants to provide their best technical and financial proposals in separate envelopes, within the budget.

4. **Least Cost Selection:** This method is only appropriate for selecting consultants for assignments of a standard or routine nature like audits, engineering design of non-complex works, and so forth, where well-established practices and standards exist. Under this method, a minimum qualifying mark for the quality is established. Proposals, to be submitted in two envelopes, are invited from a short list. Technical proposals are opened first and evaluated. Those securing less than the minimum qualifying marks are rejected, and the financial proposals of the rest are opened in public. The firm with the lowest price shall then be selected.

5. **Selection Based on Consultant’s Qualification (CQS):** This method is used for small assignments (budget not exceeding US$200,000) for which the need for preparing and evaluating competitive proposals is not justified. In such cases the borrower shall prepare the TOR, request expressions of interest, establish a short list and select the firm with the most appropriate qualifications and references. The selected firm shall be asked to submit a combined technical-financial proposal and then be invited to negotiate the project.

6. **Single Source Selection (SSS):** Single-source selection of consultants does not provide the benefits of competition with regard to quality and cost, lacks transparency in selection, and could encourage unacceptable practices. Therefore, single-source selection shall be used only in exceptional cases. It is mostly used for tasks that represent a natural continuation of previous work carried out by the firm.

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**Quiz Corner**

1. Which Indian city has recently inaugurated the world’s longest free Wi-Fi zone of 20 km?
2. Besides India, which emerging market economies are included in Fragile Five?
3. RBI has announced that all currency notes issued before 2005 will go out of circulation from 31/03/2014. How do you identify such a note?
4. Narendra Modi has proposed a Group of nations called ‘Sons of Sun’ where India will take a lead. What is this group supposed to do?
5. Why have McDonald’s restaurants in Argentina found it necessary to apologise to their customers in the first week of February 2014?

Send in your answers to the editor at cc@magc.in

Participants with the correct entry will be awarded with a Recognition Certificate by MaGC.

*Last issue answers.*

1. Paying by time and not cups. Coffee and cookies are on the house;
2. Announcement of a later model under development leading to a fall in the sales of the current model. Osborne computers had prematurely announced a later model which took a long time coming. This led to the drop in sales of the earlier model also;
3. Royal Enfield;
4. With e-cigarettes you do not smoke, you vape….. comes from vaporising.;
5. Italian companies will require purchasing their internet ads from locally registered companies. The companies like Google will have to tie up with local companies thus generating some revenue for the Italian govt.
What’s up at MaGC?

Presentation by MaGC team to the delegation from Bhutan on Financial Reforms in urban local bodies on 20th February 2014.


Local Fund Audit Department - Audit Manual Presentation at Commissionerate of Municipal Administration - N S Kishore

The MaGC Chess Tournament has reached the final stages and the excitement has increased manifold. Babajhan and Mohanty are the finalists who will fight for the crowing glory!!

For more details about the fixtures click here and for pictures of the matches click here

MS- Excel Training at MaGC Bengaluru office was held on 29th and 30th March 2014. Mr. G Karthikeyan facilitated the training with his expert and insightful knowledge on MS- Excel.

The first MaGChai pe Charcha was held at the Bengaluru Office on 28th March 2014. MaGChai pe Charcha is an informal forum to discuss the ongoing projects and ways to improve skills and knowledge base among the team members.

Happy Married Life!!!

Mohanty of MaGC Bengaluru office exchanged marital vows with Gouri on 5th February 2014. Team MaGC wishes the couple a blissful married life forever.

Birthday wishes

Kishore D - 28th Apr Praveena K R - 4th May Balaji G - 25th May

HAPPY BIRTHDAY
Our Mission is to apply our professional capabilities with a holistic approach for the happiness of clients, through values and social commitment.

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