



## TALK TO EXPERTS -13

Author

We discussed the problem of land acquisition in connection with the stalled highway projects in the country. This time, we shall look into the question of cost escalation.

Change in the price of goods or even of services in a given period leads to cost escalation. The workers who were engaged in the project demand more money; the materials required cost more; the machinery could be bought at a higher price. All these things put together raise the cost of the project. Why do the labour and materials cost more? The simple answer is what is called inflation. It means overall increase or decrease in the prices of the goods and services in a given time and they influence the price of everything in the market.

Generally, inflation is the most dominant factor that affects cost overrun of any project. And, it is such a complex matter that no mechanism can adequately control it or check it. It appears that inflation and social progress in every aspect of living cannot be separated from each other and it becomes all the more complex when technology is given attention. Inflation looks inevitable.

A worker goes to the market to buy vegetables which cost him more today than what it did yesterday. The farmer who produces the vegetables has to pay more for the fertilizers, and now for water since the industries that produce the fertilizers have to spend more on the machineries, got either from the domestic company or from a foreign firm. Having spent more money on vegetables, he expects more money for his service from the employer. So, inflation is infused in every economic activity and every commodity and every kind of service keep appreciating in cost and value.

There is one more important point to consider when we come to the labour market. At times, the employer, here the concessionaire, may not get enough people to work for him for a stipulated period of time. If some other fields offer better wages, the tendency of the worker is to grab the opportunity. Good money is a rare occurrence.

Another factor that may end up in cost escalation is what is generally known as natural disasters, the act of God as they call it. Tsunami or fire, flood or earthquake--- all cause untold miseries by damaging the properties and assets extensively. A natural disaster inflicts unnatural havoc on ordinary social life. Half finished project is demolished and it is inevitable that the project must be taken up again. It means more money and more time. Sometimes, it claims human lives as well.

For a project to become viable, it is mandatory that a feasibility study must be undertaken by suitable experts and once the feasibility study is submitted recommending the project positively, the implementation of the project is taken up within a reasonable time. But, if the gap between

the feasibility study and the implementation of the project happens to be unduly long, the entire budget estimates go wrong and the cost overrun becomes an automatic consequence. The reasons for the delay in implementation after the positive feasibility study generally point to political decisions.

Awarding the project to an incompetent contractor, concessionaire is another crucial factor that affects cost of the project. If probed into such kind awarding, often, it lays the blame on the door of corruption. Favoritism is a form of corruption.

All these causes are responsible for the projects running into cost escalation. Then, what is the remedy for these malevolent incidents? All that can be said is careful planning; most careful planning that takes into account all these failing attributes and accommodate them suitably in the very scope of planning. Cost escalation and unpredictable contingencies within a reasonable range of concession must be given due attention during planning stage itself. Then, hopefully, the projects can reach completion with least cost escalation.