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From the ringside

Reforming transport sector; Part I

**Putting India in the fast lane**

India's transport infrastructure, among other topics, was discussed at great length at the recently concluded Stanford conference on India. Dr Jessica Wallack and I presented a paper on the subject, around which the discussion centered. In this two-part series, based on that paper, we examine the current status of reforms in the transport sector, the agenda ahead, and several overarching areas for institutional reform.

The Indian economy's recent growth momentum has raised expectations and increased focus on enhancing its competitiveness. The last 18 months' emphasis on infrastructure, both in terms of substantially increased public resources and greater openness to public-private partnership, has increased the pace of change. This must be sustained both for competitiveness and balanced regional development.

India's transport infrastructure is an economic bottleneck for industry, both domestic and export activity. Airports remain poor and lack the capacity to keep up with traffic flows. The government is short of upto 600 air traffic control officers (out of about 1,500 required) and air traffic control equipment is inadequate for the growing numbers of planes. Roads are still poorly maintained, and the smooth pavement of newly-built highways is offset by the delays due to carts, tractors, and other forms of transport that share the lanes with trucks and cars. One quarter of national and state highways are congested, leading to average truck and bus speeds of only 30-40 kmph. Ports' turnaround time remains slow by world standards, and the connections between the wharf and inland transport have to be strengthened. Indian Railways continues to be one of the world's most accident-prone railways, with a backlog of track repairs growing. Persistent cross-subsidisation of passenger travel with high freight costs is leading it to bankruptcy as well as distorting firms' choices about long-range transport.

Expert committee reports and policy proposals for each of the major modes of transport have been submitted over the past decade. More recently, a Committee on Infrastructure chaired by the Prime Minister was constituted in August 2004. While policy developments in each mode of transport vary, there are three common elements.

- **FIRST**, more public resources are being allocated toward the sector, especially over the past four-five years. The per cent of Plan resources devoted to the transport sector declined from the 3rd to the 8th Plan, but increased in the 9th and 10th Plans. Public investment has generally increased and tax incentives have broadened.
- **SECOND**, all modes of transport are being opened to more forms of private sector

participation. Attracting private investment, both domestic and foreign, is an important part of the challenge of expanding, upgrading, and maintaining India's infrastructure.

- THIRD, the government has proposed a number of new financing schemes to combine public and private resources for infrastructure, using three main strategies: Special Purpose Vehicles (SPVs), viability gap funding, and a variety of tax credits.

### **Civil aviation**

The pace of change in civil aviation has been rapid. Landmark "open skies" agreements with the US, UK, France, Australia, China, Qatar, and others have increased the number of international flights. From 1993, when all scheduled air traffic was reserved for the government, we have come a long way to a sector in which 61% of domestic flights are by private carriers and private Indian airlines compete for international routes. Private participation in greenfield airports and modernising existing airports is also a major step.

Still, some tasks remain:

- Creation of an independent regulator with meaningful enforcement powers is essential for ensuring the growth of the sector.
- The policy-induced portion of the high cost of ATF must be reduced.
- Cross-subsidisation between flight routes and airports must be rationalised and made more efficient.

### **Maritime transport**

Traffic through India's ports has increased steadily since independence, with particular acceleration in the last 5-10 years. This has highlighted slow turnaround times as well as bottlenecks in connectivity. While India has a liberal ports policy encouraging private participation, there are important remaining challenges including:

- Dredging one of the major ports to create a deep-water port and deepening draft in existing ports.
- Finalising provisions for private participation in container transshipment via rail and working to improve other aspects of connectivity.
- Re-working the labour regime to improve flexibility and increase performance incentives.
- Clarifying the regulatory regime and ensuring that Port Trusts, also involved in running the ports, are not also performing regulatory functions will be essential for attracting further private investment.
- Corporatisation of the major ports needs to move faster.

Many of these areas are addressed in the draft National Maritime Development Policy, which should be moved forward to concrete policy steps as soon as possible.

## **Railways**

Railways could be the most efficient manner of shipping freight long distances as well as connecting the country's entryways with the hinterland. The transition from ship to train need not involve unloading containers and reloading the goods elsewhere. Railway transport, moreover, is fuel efficient, environmentally friendly, and generally safer than roads. The energy requirement for freight movement by rail is about a quarter of that by road. This potential has not been realised.

Indian Railways (IR) is currently caught between social expectations of widespread access to low-cost passenger service and the financial imperative to generate sufficient revenues. The most important priority is to stem the financial bleed with measures such as:

- Unbundling and privatising non-integral services such as catering, uniforms, etc.
- IR must rationalise its portfolio of projects.
- Cross-subsidisation of passenger travel from freight must be phased out.

In the long run, restructuring via some form of open access model is essential. Restructuring would require a regulator with clear legal and administrative independence from the government in order to have credibility with investors.

## **Roads**

The strains on the road network are expected to increase in the coming years as passenger and freight traffic grows. The highways, less than 2% of the network, carry 45% of total traffic. Only some of the highways are four-lane, and most are two-lane; leading to congestion and unsafe conditions. Substantial resources are being devoted to upgrading all types of roads through NHDP, PMGSY, and other programmes.

Priorities for ongoing attention include:

- State highways and intermediate roads, which have been neglected, should be the focus of the next initiative.
- One priority for the national highways programme would be to make NHAI more autonomous, rather than leaving its independence to operate along commercial lines at political discretion.
- Newly created Highway Administrations must be given adequate resources, in terms of powers, personnel, and finances to improve law and order on national highways.
- The main priority for rural roads consists of improving States' implementation

capacity and accountability for funds.

- Greater attention to maintenance, rather than simply construction, would dramatically improve India's road network for a relatively low cost.
- Development of a comprehensive database of traffic or road conditions in order to plan improvements for roads, as well as make projects more attractive to the private sector.
- User charges should be selectively increased both as a way to increase available funds and as a way to encourage more responsible use of roads.

These sectoral priorities notwithstanding, the primary challenge, which we address next week, will be reshaping the underlying institutions to sustain credible, effective, and persistent improvement in provision of transport infrastructure.

***To be concluded.***

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