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From the ringside

Reforming transport sector Part-ii

Time to step on the gas

Ongoing reforms in transport have substantially augmented public resources and created opportunities for public-private partnerships in developing transport infrastructure. These innovations, however, will have limited effect unless there is a more fundamental shift in the way the government does business.

India is not alone in these challenges — surveys of infrastructure reforms around the world nearly invariably mention the need for and difficulty of creating an attractive investment climate, improving regulation, strengthening public expenditure management and planning, and other aspects of institutions — but the scale of the country’s need for infrastructure improvement creates additional urgency.

Attracting US$ 150 billion in infrastructure investment over the next ten years will require more than tax credits and government guarantees. It requires an investment climate where policies are clear, revisions are transparent, and red tape is minimised. This means setting up independent regulators, clarifying jurisdictions, and providing for dispute resolution among other changes.

India’s second challenge is ensuring that public and private funds are used as efficiently as possible in developing transport infrastructure, a task which requires an improved institutional framework for making coherent decisions about investment across modes of transport. It requires better public expenditure management and ensuring accountability for project implementation and quality.

These challenges can be broken into three basic groups: regulation, policy coordination, and public expenditure management.

Regulation

Establishing clear and consistent regulation as well as dispute resolution is perhaps the most fundamental aspect of improving the investment climate. India’s approach to regulation has been uneven. Some infrastructure sectors such as telecommunications and, more recently, electricity, have more independent regulators. In transport, however, these gains have not yet been achieved. With the exception of roads, in which NHAI and the Ministry of Rural Development have been performing some regulatory functions, each mode of transport currently has its own regulatory body, with varying degrees of resources, independence and enforcement power.

It is not clear whether the ‘‘many regulators’’ model is a disadvantage or an advantage that should be adopted for the transport sector. While sector-specific regulators ensure that all aspects of regulation relevant to a particular mode of transport — from pricing to minimum standards to competition — can be considered in a focused way, having separate regulators for modes of transport runs the risk of inter-modal duplication and/ or contradictions as well as difficulty of coordinating multi-modal transport. The contribution an independent, well-trained, transparent regulator with enforcement powers can make to the investment climate is, on the other hand, clear. India's experience with the telecom sector is evidence of that.

''Independent regulation'' means having regulators with functional and administrative autonomy as well as the power to issue binding findings. The appointment process should be transparent and grounds for removal clearly elaborated. To remedy the lack of well-trained regulators, the current civil service norms and pay scales should be modified to ensure that candidates with requisite economic and technical knowledge and professional experience find positions as a regulator attractive. The need for human resource development on training and inculcation of a regulatory ethos cannot be over-emphasised.

Finally, it is essential to clarify the process for dispute resolution by forming a general appellate body that circumvents the long delays currently encountered in the judicial system. Not only are delays extensive, but the judicial functions of applying existing case law, interpreting and clarifying regulations is not the same as dispute resolution which uses economic and technical understanding to build a common ground among parties to the dispute.

Policy coordination

Coordinating transport policy and related policies such as land acquisition or transport taxation across levels of government and between the various central government bodies involved will benefit both the investment environment and public sector management of resources. Investors will benefit from having to work with one effective policymaker instead of dozens. Land disputes, in particular, have also been a continuous problem in developing Indian transport infrastructure and any way to avoid these, or at least settle them quickly, would be welcome.

Public sector management will benefit from improved sharing of information for coordinating investment in different modes of transport and parts of the transport network. Coordination between ministries would encourage more efficient resource allocation. The development of multi-modal transport (MMT) in particular relies on inter-ministerial cooperation to agree on a common liability regime for goods in transit.

Some forum for negotiating joint Centre and State policies for infrastructure development would be critical to ensure speedy coordinated action for the sector as a whole. States do have better information than the central government about project returns. We need to consider a Centre-State coordinative forum, both for exchange of information and swift resolution of implementation problems. One alternative is to activate the Inter-State Council, which has of late been dormant. The other is to expand the infrastructure committee under the Prime Minister to include some Chief Ministers to enable greater participation by the States. This could be mandated by the National Development Council.

Public expenditure management

Lastly, public expenditure management encompasses three fundamental tasks: clearly differentiating between those tasks with economic returns and others driven by social or strategic needs; allocating public expenditure to investments with the highest social returns; and tracking disbursement to ensure accountability. A related issue is to consider options for funding the socially desirable projects through direct budgetary support, phasing out distortionary cross-subsidisation within the sector. Transparent accounting is a pre-requisite for these tasks.

Clearly identifying subsidies (including implicit subsidies such as over-employment in PSUs), thinking about investment in transport in terms of project finance, and tracking performance of funds spent are essential. The archaic distinction between Plan and non-Plan, capital and revenue expenditure, as well as the myriad central sector schemes and other programmes for funding transport infrastructure makes expenditure audit difficult. The structure also complicates accountability by making it difficult to assign responsibility for project outcomes to any particular entity. These kinds of public expenditure management changes will provide the tools for policymakers to make more informed, considered evaluations of alternative uses of public funds.

The completion of these reforms will provide a sound foundation for the development of transport infrastructure. It will also significantly improve India's competitiveness. India is on the move, but a paradigm shift in the management of the transport strategy is needed to move India.

Concluded.

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