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"Reforming infrastructure-some things the Budget can do" by S L RAO

There are many things that have to be set right if the economy is to get on to a path of high long-term sustainable growth. An important one among them is the infrastructure. If the infrastructure was ample and of good quality at affordable prices, both the economy and the ordinary citizen would be well off.

The principal infrastructure includes: Roads, railways, inland transport, ports, airports; electricity, oil and gas, coal, nuclear power, renewable energy and their transmission and distribution; housing, sanitation, safe drinking water; dams, canals, water storage, cold and other storages, agricultural markets, agricultural research; education at all levels, skills development, health services. For the first fifteen years or so after independence, the private sector had limited funds. High taxation to achieve 'equality and redistributive justice' meant that the honest businessman could not accumulate large funds. The banks and financial institutions also had limited resources. Foreign borrowing was not a feasible option for the private sector. Only government could raise the large funds needed to build infrastructure. This also supported mindset of Jawaharlal Nehru, who admired the Soviet economic model of centralized planning, state ownership and control of resources, with the government providing most services. Infrastructure was therefore government owned, constructed, operated and maintained. Even today most infrastructure listed above is under government ownership and control.

Decisions on infrastructure investment and pricing were (and continue to be) taken by politicians and bureaucrats in central or state governments. Local authorities do not decide on what must be built and how it must be priced. In some instances in the last 20 years, statutory 'independent' regulators, almost all retired bureaucrats, take these decisions. In the nation's early years there were few experienced managers, but there were experienced administrators who were given these projects to run. This continues, with most Infrastructure projects, owned by government and managed by bureaucrats, not career professionals.

What is the experience? In many cases, designs are unsatisfactory, construction is of poor quality, there is collusive cheating on materials, major delays in completion, and poor maintenance. Tariffs are grossly inadequate. The projects have limited funds for operation, maintenance, renovation and expansion. All of them require multiple and time-consuming ministerial clearances. Many times they also require bribery, while commissions are earned by the people associated with the project, on various expenditures. Because of delays in clearances and consequent money locked up, private investment shies from entering infrastructure projects, when they are invited.

The Planning Commission pioneered partnerships of the public and private sectors in infrastructure projects. In almost every instance, government has been a loser. The NHAI has many such road projects. The work is patchy in quality. The private partner loses interest because his projections of revenues over a 30 year period are faulty. Many have abandoned the project because their bids were too low, many times to show a large order book when they went to the market for funds. Railways have had no such ppp's till now. They have no surplus investment funds because they lose on operations. Economically illiterate Ministers in the UPA government over 10 years refused to match tariffs to costs. Private ports have been successful in timely completion, providing terrific service, attracting business and making profits. But there are whispers of state governments giving them land for pittances. Private parties have taken over and developed publicly owned airports or created greenfield ones in a few cases. Government officials have allowed them to earn substantially without sharing their profits with their partners, the government. There has been no activity on inland waterways because of the clogging of the great rivers over many portions.

In electricity generation, government had many initiatives: ultra mega power projects, captive coal mines, imported coal, among others. Each initiative was poorly planned and executed. Some have become scandals, some abandoned, some bleed the promoters. A lot of capacity is stranded because Coal India (government owned) and Reliance have not met projected supplies. Transmission has seen little private investment, perhaps because the government interstate transmission monopoly took most good projects for itself. Distribution was privatized in Orissa and Delhi and especially in

Delhi has been a disaster for the private parties. Government influenced regulators not to allow required tariff increases. NGOs favoring state ownership agitated on many anti-commercial grounds. Rural electrification has been aimed at connecting all of India to a national Grid, a foolish objective when there is so much shortage. We will be better off with distributed power using renewable energy, operated by local authorities.

Manmohan Singh laid down relatively modest targets for nuclear power. It has not taken off because of a liability law that was impractical for any equipment supplier to accept. The Indian nuclear bureaucracy was also against private entry, though government does not have the resources to invest more in nuclear generation even for its modest targets.

Housing projects by government have become a scam in many places because of the huge surpluses that can be made. Slum reconstruction has been slow and shoddy. Drinking water supply has been tardy. Sanitation has been another slow performer. When funds are provided for such projects from the Centre, it must make the state governments more accountable for setting up drinking water and sanitation projects speedily.

Infrastructure for agriculture is another area of darkness. The disastrous effect of giving free power for pump sets are visible. Farmers have changed to water intensive crops, ground water levels have depleted, land is becoming saline, the unfortunate excessive procurement of food grains at rising minimum support prices has led to a glut of grains, diversion of power to non-agricultural use is considerable, and government will not spend on building adequate storage. At the same time, as food habits change towards milk, eggs, fruits and vegetables, cold stores are needed. Here is where the private sector can come in. Similarly the government run agricultural markets have been a bottleneck to market development. Agriculture has been badly managed by our governments in every respect, research, infrastructure, markets, pricing, free power, to name some aspects.

Another mismanagement has been of urban areas. Highly corrupt local authorities mean poor quality of roads and garbage collection, poor maintenance of water pipes, and drainage. Local transport is a disaster except perhaps in Delhi. There is an excess of personal transportation and poor traffic management.

Health services are another sorry area. Extremely poor or even absent regulation of hospitals, nursing homes, medical education, and vast corruption signify our health services. Education is another area of confusion on medium of instruction, pedagogy, pervasive teacher absenteeism in governemtn schools, huge shortages of faculty at all levels in all subjects. While the UPA tried to foster skills development it did not succeed to much extent in relation to the needs.

Infrastructure reforms demand streamlining the administration, sharp reduction in the number of required government clearances, and much speedier clearance, with incentives and penalties for bureaucrats. Infrastructure regulators must be combined so there are less of them and they can coordinate. Truly independent regulators must determine that tariffs give reasonable return to investors and are fair on consumers. Few lifetime bureaucrats make good regulators. Regulators must be chosen carefully for independence and courage as well as their specialization. Ministries must hand over key decisions on tariffs, investment, competitive bids, safety , etc, to independent regulators. In the government, the diffusion of decision making between many Ministries must go. Thus, why have separate ministries for power, renewable energy, nuclear energy, coal, oil and gas, with separate regulators for each either in place or to come? Infrastructure managers at all levels must be career professionals, not bureaucrats as now. Competitive tariff bidding must be for a maximum of 12 years, not the present 25-30, with genuine and serious inspections for quality and timeliness. Severe penalties must be in place for violations.

On health and education, funds must go up sharply for faculty and for regulation. Each state must have clear policies on basic issues like the mediu, subjects, etc. Private education at all levels must be encouraged. Tracher salries must become high to attect many more. Teachers msut also eb discipl0lined so that they are on the job.

If the coming Budget commences on this path, we can certainly look forward to a vibrant India in future years.

(1393)

