

Financial Express

The neglected middle link

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THE infrastructure sector, which accounts for about a fourth of India's industrial output, is identified as a propeller of economic growth. However, high transaction costs stemming from inadequate and inefficient infrastructure prevent the economy from realising its growth potential.

The visible signs of shortfalls in capacity and inefficiencies in the sector include increasingly congested roads, power failures and shortages of drinking water, which illustrate the widening gap between demand and supply of infrastructure and raise questions about the sustainability of economic growth.

In order to attract more investments into infrastructure projects, the government should, in the coming Budget, reintroduce the tax exemption granted to companies investing in infrastructure projects. This would help reduce the overall cost of infrastructure projects, thereby attracting investors.

The government's thrust on road/ highway projects has attracted the interest of private players, but availability of tax holiday is a concern. Typically, a tax holiday is granted to companies that develop new infrastructure facilities. There is much ambiguity vis-à-vis availability of tax holidays to companies that have been awarded contracts for modernisation of roads and expansion of existing highways.

Tax authorities have been contending that such projects do not amount to new facility, leading to prolonged litigation. The government should unequivocally endorse the availability of tax holiday to such modernisation/ expansion projects.

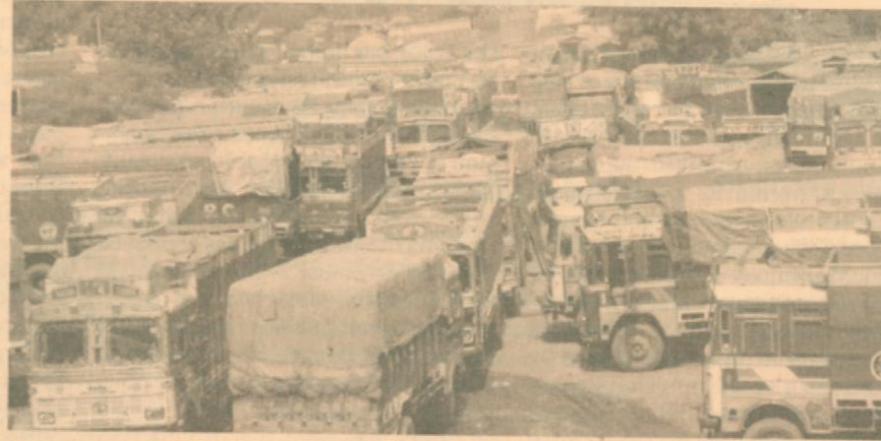
The Budget should support the growing momentum of public-private partnerships and the huge capital outlays required for the infrastructure sector.

The sector is keen to have an empowered regulator for some key areas, on the lines of the Irda or Trai, as it would help coordinate between the various ministries for an inte-

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The government should recognise the middle level infrastructure and accord industry status to logistics



grated policy. The logistics sector is also demanding the industry status. Currently logistics is being handled by multiple ministries at the Centre— Railway, Surface Transport and Ports. There is a dire need for a consolidated policy approach towards the logistics sector to address the integrated logistics requirements of the sector.

The lack of industry status poses a problem for the under-capitalised small truck operators who find it difficult to raise funds through organised banking or financial channels. Therefore, it is virtually impossible for them to invest in modern equipment to increase efficiency and reduce the cost of transportation.

The growth of logistics infrastructure has been quite extensive as well as strategic—linking the key industrial, consump-

tion and transshipment centres. However, some weaknesses need be addressed. For example, movement beyond the golden quadrilateral is required to bring goods from upcountry production sources to main shipment centres.

The government should invest heavily in extending the highway network and widening/ upgrading the existing ones. Efforts should be put in to build high-quality arterial roads. For the highways, a toll policy is required.

Multiple toll points on highways reduce efficiency and increase the turnaround time of trucks. Moreover, the lack of uniformity in toll charges owing to different BOT stretches creates irregularities in the cost structure. A centralised toll mechanism is needed to ensure uniformity in toll charges

paid by truckers at various check points. This would lead to a reduction in stoppage time and create greater efficiency.

The government should emphasise on a three-tier model of infrastructure comprising hard, soft and middle infrastructure. The mid-level infrastructures are very important for the sector as it comprises those which connect the hard and soft components and make the complete model a success. This category consists of warehouses, multimodal logistics parks, cold chains, crossdocks, etc. It also means a right linkage to the truck terminals, toll collection systems and check posts, something which facilitates trade, both directly and indirectly, and makes the entire process function in a seamless manner.

Inefficiency in the supply chain also has to be addressed. There is a greater need to create large-scale warehouses, logistics parks, hubs and modern truck terminals, besides a cold chain network. Construction of more transportation hubs and logistics zones and allocation of at least 5-10% of the industrial parks/SEZs for logistics activities should be initiated. This will help create common and shared facilities for service providers, leading to a reduction in fixed costs.

Warehousing should be treated on a par with infrastructure projects and should enjoy similar benefits. There is a need for long-term investment commitments from public and private players alike for developing warehousing facilities. It would also involve land reforms which will help set apart lands for logistics facilities.

What is needed now, in view of the corporatisation and privatisation of infrastructure, is a strategy that allows freedom in the patterns of ownership and management of infrastructure projects. To foster infrastructure development, the government needs to maintain a balance between the need for economic viability and fair distribution of infrastructural facilities.

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