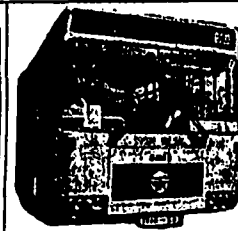


Policy Options for Reforming the Transport Sector



Transport constitutes a sizeable proportion of inputs of the output produced by the other sectors of the economy. The significance of these inputs may be measured by several indicators. However, the impact of transport inputs on the allocation of resources in the economy is not captured by any of these conventional indicators. It may therefore, be necessary to examine whether or not transport inputs are available not only in sufficient magnitudes, but also with desired efficiency. This paper, outlines the reforms that may be considered in the transport sector in order to improve efficient allocation of resources in the economy enabling the acceleration of the growth process.

Transport Sector and the Economy

Table 1 shows some time series indicators signifying the size of the transport sector in the economy of Sri Lanka.

The data shows that the size of the transport sector in terms of GDP has increased although marginally from 10.9% in 1950 to 12.3% 2001. The share of private consumption expenditure which has moved up from 3.8% to 6.7% during this period also indicate a similar trend. However, Government expenditure on transport has decreased from 6.0% to 4.6% and this implies that the growth of transport activities has been due to the expansion of the private sector. Increased participation of the private sector is evident since late 1970s during which period the involvement of the state sector was confined mainly to the provision of infra-structure. The state involvement in transport operations was in running the railway department and peoplized bus companies, the impact of which on the growth of the transport sector has been neutral if not negligible.

Overview of the Transport Sector Inherited from Colonial Regime

With the gaining of political independence, Sri Lanka inherited a transport system which constituted a well organized railway network and a bus passenger service which was unregulated and wastefully competi-tively run by a number of private operators. Road haulage was operated by own account operators and the others who provided service for hire. The railway too carried a substantial proportion of freight. Non motorized modes played a

significant role in carrying a bulk of shortfall freight. Access to private transport was limited. The plantation sector produced mainly for the export market and the bulk of the consumer goods that were imported were associated with a sizable volume of cargo handling at the main ports i.e., Colombo, Trincomalee and Galle which were operated by British based companies. International air traffic was insignificant while domestic civil aviation was virtually non existent.

Historical Perspective of Issues

The ownership of transport experienced substantial changes since the independence. Firstly, 1958, bus companies were nationalized and were brought under the state ownership through the formation of Ceylon Transport Board (CTB). The CTB operated as a virtual monopoly until 1978

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when reforms were introduced in the form of Regional Transport Boards (RTBs) and Sri Lanka Central Transport Board (SLCTB). The present private omnibus service came into being with the deregulation of the passenger bus service in 1979. The RTBs were peoplized since 1990 and presently there are 93 Peoplized Transport Companies (PTC) in operation. In a bid to improve their operational efficiency and financial viability, a scheme to form Cluster Companies was introduced in 1997.

In 2001, 63% of the 24,583 strong fleet was owned by private operators. Approximately 70% of these buses were operated daily. In terms of passenger kilometers operated, private operators accounted only for about 56% of the total service provided. Private operators also maintain a low level of average vehicle utilization indicating excess capacity and underutilization of existing capacity.

Sri Lanka Railways (SLR) remained a state monopoly without any change being introduced to its organization structure and management despite continuous and growing financial losses. The scale of operation by the SLR decreased gradually due to lack of new investment and non availability of new and advanced technology used in modern railway systems. Shares of passenger and freight services of the SLR as proportions of all modes put together have decreased from

25 per cent and 40 per cent in 1948 to 6 per cent and 3 per cent respectively in 2001. The deterioration of the SLR may be seen in many respects. The track kilometerage has gradually reduced to 1453 kms. in 2001 from a level of 1949 kms. in 1980. The current track kilometerage is even lower than that prevailed in the 1940s. The quality of service has suffered due to poor maintenance of the track and signaling system. The rolling stock has deteriorated over the past several years and the number of locomotives and carriages operated by the SLR has indicated a substantial decline. Operational losses have increased many fold whilst traffic carried by both passenger and freight trains have decreased significantly.

The road haulage industry remained in the private ownership during the period under review. Gradual strengthening of import restrictions since late 1950s resulted in supply constraints in road freight transport, until 1977. The impact of import liberalization was felt very much positively on road freight transport industry. In spite of escalating oil prices in late 1970s and early 1980s lorry hire rates remained stable due to increased capacity of the supply of services. Although rail freight rates remained lower, the availability of door to door service, minimum involvement of loading, unloading and warehousing and easier access compared to railway resulted in the increased road sector share of the total freight market from 50 per cent in early 1950s to 86 per cent in 2001.

The period since the independence has witnessed a rapid expansion in the road network. The total road kilometerage has increased over nine fold. However, the larger proportion of roads has been in Class 'E' category which are generally unmotorable bridle paths. The road density in Sri Lanka is relatively higher as compared to many developing countries in the world. However,

Table 1
Size of the Transport Sector
in the Economy of Sri Lanka

Transport as a %	1950	1970	1990	2000	2001
1. GDP	10.9	11.2	10.0	11.7	12.3
2. Private Consumption	3.8	5.7	4.8	6.6	6.7
3. Govt. Expenditure	6.0	4.5	5.6	4.4	4.6

Source : Computed by author using Central Bank data.

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poor maintenance of the road network has been due in a adequate provision of resources for this purpose, by the Government

and relevant local authorities.

The urban specific transport problems such as traffic congestion have grown due to concentration of more socio-economic activities in urban areas and lack of carefully planned investment programmes to improve infrastructure. Approximately, 70 per cent of all vehicles have been registered in the District of Colombo as at end of 2001 as compared to 40 per cent as at mid 1950s indicating further intensification of the congestion related problems. The low speed levels on urban roads due to congestion have given rise to vehicle operating costs and increased travel times resulting in negative external economies.

Deterioration of public transport together with increased accessibility to private modes resulting from increased income levels and free import of vehicles have brought in new dimensions in the modal split particularly since 1977. The share of public transport has gradually dropped from about 90 per cent in early 1970s to approximately 55 per cent at present. When private motor cars, vans, motor cycles and scooters are taken into account, approximately 5.0 per cent of the population and 21.5 per cent of the total households had access to a private mode of transport in 2001 as compared to negligible private ownership of vehicles in the 1970s.

Transport fares have been maintained at low levels in recognition of welfare considerations. The rate of increase in bus and rail fares has been much lower than the average rate of inflation

in the past several decades. This policy has resulted in substantial welfare benefits to the commuting public at the expense of economic viability of operators and quality of service while exerting increased pressure on the Government budget on account of subsidies to publicly owned transport undertakings.

Policy Options for Reforms

The following are some policy options that may be considered in formulating future policies in the transport sector:

Infrastructure

Issues relating to lack of infrastructure and poor maintenance of existing road and railway network are arising mainly from insufficient investment in this sector. In the absence of public investment



due to fiscal constraints, the only option is to promote private investment. Modalities of private investment may be worked out depending on individual projects eg. full roads and bridges in the case of investment in the road sector.

It is encouraging that private investment has started in port development. The limited capacity in our main ports will cause concerns in accommodating

the increasing arrivals of large vessels. The expansion of Colombo Port appeared to be relatively more expensive compared to wider benefits of developing Hambantota as a main sea port.

It is clearly evident from data that losses of operating peopled bus companies and the Sri Lanka Railways have increased more than proportionately to the growth of any traffic handled by these two organizations. It is not feasible to maintain the state owned bus companies and Sri Lanka Railways on government subsidies when the opportunity cost of public funds does not warrant such subsidies to loss making public enterprises. The policy options would be to either divest these entities in full or outsource the management enabling higher efficiency and minimization of subsidies. Any subsidies to transport operators may be limited and targeted to elderly, disabled and poorest of the poor.

Public passenger transport is a highly differentiated product. The SLR and bus operators can easily resort to differentiate their services, thereby target high income groups. The operators have to concentrate on quality of service in order to market such differentiated products. Large bus companies and the SLR also can offer package products to the market.

Certain activities of organizations who are engaging in administrative, supervisory and operational functions can be easily outsourced. This would reduce the losses, thereby subsidy requirement and strain on the budget. Benefit will also accrue to users in the form of reduced cost.

Regulatory mechanism appears to be ineffective. Most of the public criticism is on weak regulatory measures and their enforcement. It may be pointed out that transport is a sector which is highly regulated anywhere in the world. Certain reforms in the existing legal and institutional arrangements are deemed necessary to improve the existing framework.

Table 2

Performance of Public Bus Passenger Transport - 2001

Indicator	Private	Peopled	Total/Av.
1. Bus fleet	15,560	9,063	24,583
2. Operated average	10,867	5,646	15,936
3. (2) as a % of (1)			
4. Average allowable places/seats	35	55	44.4
5. Loans Factor(%)	150	103	123
6. Bus Kms. Operated	523	418	941
7. Place Kms. Operated	18,305	20,996	39,301
8. Passenger Kms. Operated	27,480	21,204	48,684
9. Average vehicle utilization	135	202	157
10. Fleet utility	70.0	62.3	64.8

Source : National Transport Commission

Table 3

Performance of Sri Lanka Railways

Indicator	Unit	1980	2001	% change
Track Kms.	Kms.	1,949	1,453	-25.4
Passenger Kms.	Mn.	4,673	3,979	-14.9
Freight on Kms.	Mn.	278	109	-61.0
Total Revenue	Rs. Mn.	312	1,186	280.1
Current Expenditure	Rs. Mn.	420	3,021	619.3
Operating Loss	Rs. Mn.	253	1,835	625.3

Source : Central Bank of Sri Lanka