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Railway Budget 2016-17

Indian Railways' Joint Venture Model with States, a Welcome Step: B.S. Sudhir Chandra

S. Rajendran

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The Indian Railways is going through a difficult phase. Appropriate use of modern management tools can ensure a healthy future for this national asset. File photo : Sudhakara Jain

The Indian Railways, the world's fourth largest railway network covering virtually all parts of the country and providing the vast population with one of the cheapest modes of transport, faces challenging times. There are concerns that the rail network, nationalised in 1951, could be privatised although this has been categorically ruled out by the Union Government of the day. Set in this scenario is the recent budget of the railways presented to Parliament by the Railway Minister, Suresh Prabhu. In this wide ranging interview, former Member of the Railway Board, ***B.S. Sudhir Chandra*** *points out the various challenges faced by the railways, which has a total track* *network of nearly 1.5 lakh kilometres, and carries nearly 23 million passengers a day and around 1,000 million tonnes of freight annually. Sudhir Chandra has served the railways for a span of nearly four decades — rising from the position of a probationary officer in 1965 to a Member of the Railway Board in 2002. During his career in the Indian Railways he held several important assignments in Construction, Open Line and General Management Departments. He also worked with the Zambian Railways for five years and was trained in Japan, Germany and the U.S. After superannuation in 2003, he served as advisor and thereafter as Director of the Bangalore Metro Rail Corporation Limited. Excerpts from an interview with* ***S. Rajendran:***

Indian Railways, India's largest public asset, has an important feature, which is its universal service obligation. The Railways has also been under pressure to improve its financial health, and there are calls for privatisation. Does the latest Railway Budget provide pointers regarding the trajectory that Indian Railways will take in the coming years?

B.S. Sudhir Chandra

A good transport system in the country spurs economic growth and the *vice versa*is also true that good economic growth calls for a good, safe, speedy and widely encompassing transportation system. The two cannot be separated; and cannot exist healthily individually. Railways, as is known, has to carry out some social obligations too, whether it yields gains or not. Some uneconomic branch lines, constructed long ago, have to be serviced even now for passenger traffic though they are best suited for road movement.

Expanding and maintaining strategic lines, which yield a negative return, cannot be dispensed with, but have to be kept in good fettle. All these result in not too good a financial health of the Railways. Private sector prefers to enter only where there is 'cream'. If the creamy sections/ sectors also go out of the Railways by opting for privatisation, then the result could be disastrous to the Railways.

It is heartening to note that the budget presented by the Railway Minister, Suresh Prabhu on February 25 talks about Vision 2020. It is laudable to note that the prominent goals in the Vision 2020 include time-tabled freight trains with credible service commitments, high-end technology to improve safety, elimination of all unmanned level crossings, mail/express trains running at 80 kmph, zero direct discharge of human waste among others. Setting up a Railway Planning and Investment Organization for drafting medium (five years) and long (10 years) term corporate plans and identifying projects which fulfil the corporate goal, all these proposals are a step in the right direction.

The Railway Minister has not increased passenger or freight rates. Is this healthy for the Railways?

It is a well-known fact that the freight operation subsidises passenger operation. Railways share of transportation nationwide, which was 89 per cent in 1950s, has dipped drastically down to about 31 per cent now. Railways, which had a monopoly in carrying bulk goods has lost its place partly due to the improvement in the capacity of the road carriers (higher axle loads and multi-axle vehicles) and partly due to better road infrastructure available now, resulting in safer and speedier travel and reduced transit times. Increasing freight rates in this background could be suicidal.

In fact, the indication in the budget that freight rate may be lowered and that the basket of goods will be increased from 10 to 45 is a welcome move. This is an attempt to improve the share of Railways and to halt the weaning away of traffic from rail to road.

Passenger fares in India are one of the lowest internationally and they have remained stagnant for more than a decade. There is a definite justification to raise the fares. Even salaried employees get additional emoluments linked to the price index. Why not then the passenger fares? Passengers will not grumble if hand-in-hand the amenities and conveniences are improved, particularly in regard to cleanliness of stations and coaches, quality of food and water, etc.

Do you see the Rail Land Development Authority a precursor to possible dilution of Government holding of the Railways?

Rail Land Development Authority (RLDA) has been in existence since a decade in the Railways. It plans the utilisation of surplus land, exploitation of air space above the railway lands, etc., to increase the earnings from 'non-conventional sources'. It started with the setting up of *Yatri Niwas*, etc., which would help the rail travellers and others in getting economic and good accommodation in various cities and leasing out the land for railway operation connected activities. However, one has to be very careful as such ventures bear the potential for litigation and in the bargain the railways can lose the hold as well its share of revenue from the operator. Not much success has been achieved.

The Government has also opted for the Joint Venture [JV] model with State Governments. Could you throw light on the background to this? For instance the K-Ride in Karnataka. The implementation of most of these projects is very slow.

Creation of any infrastructure, be it railway lines, setting up factories for manufacture of locomotives, etc., requires huge finance. If one has adequate money, no other assistance is required. Unfortunately, when there is dearth of money other sources of financing have to be looked at. There could be borrowings from internal and external financial institutions - which would carry interest burden and debt servicing - foreign grants and loans, [and other sources]. There are also other models like BOT, BOOT, DBOOT, PPP, etc.

In Railways the 'customer funding' model has also been tried recently. Any communication system set up in a State improves its income, economy and local employment. So why not the State also be a joint partner in the setting up of the infrastructure? With this aim, Joint Venture model with the States in India is a welcome step. The JV can set up a SPV for implementation of the project, raising finances and servicing, etc.

The project in such a case will gallop and will be completed economically to reduce interest burden and debt servicing costs. The only crux is that any State would like the JV model only in case of 'financially viable projects' and not otherwise. This was one of the reasons why K-Ride in Karnataka (an umbrella JV) could take up only one project so far with the Railways. The JV model is set to take-off as per the Railway Minister's announcement in the budget in a big way in 2017. We have to wait and see to reap the fruits.

Utilisation of free railway land has been an oft-repeated statement. The present Budget proposes development of, for instance, horticulture, along railway tracks. How feasible are such ideas?

Whenever the topic of 'financial health' of Railways comes up for discussions, the exploitation of vast tracts of surplus railway land figures. Why can't the land available surplus and unused available by the side of railway lines, in the neighbourhood of the wayside stations in particular be utilised to earn money as the area will be considerable considering the vast railway network in India. It is true that such land is available. This suggestion has been given and is being given since the last 30 to 40 years.

Initially, to make sure that the land remained safe with the Railways and is not cornered by the miscreants, it was given as a part of 'Grow More Food (GMF)' campaign to the trackmen or other railway employees who lived at the stations or in the gang huts alongside the railway lines. It was given up as it led to disputes in cases of death of the employee and sometimes resulted in court cases. With the passage of time, it was thought that since there were borrow pits (from where the earth was borrowed for making the railway embankments) why not use them as 'fishing ponds' and use them for breeding fish and promote pisciculture.

They were all good and impressive on paper, but difficult to implement without any blemishes. Summarising, first of all Railway land should be guarded by putting up a physical barrier (to prevent intruders into the railway land) which is a tall proposition. Vigilance checks become important and inevitable to prevent delinquents from misusing the opportunity given.

The Operating Ratio of the Indian Railways is also a cause for concern. How serious is the situation?

Operating Ratio (OR), in simple terms, is the ratio of the 'expenditure' to the 'earnings'. If the ratio is low, the financial health is good. If it is nearing 100 per cent, it is bad. Now it is hovering around 90 per cent, which means, for every Rupee the Railways earns, 90 paise goes towards expenses and only 10 paise remains with the Railways. In fact in Broad gauge, it is better as the operating expenses are less, where as in Metre gauge in some zonal railways like the North-Eastern Railway, North-East Frontier Railway (NFR), it has exceeded 200 per cent in the past. (NFR being an exception as it is more a strategic line).

The mass scale conversion of Metre Gauge to Broad Gauge started about 25 years back by the Railways was a boon in lowering the overall OR. Further, a considerable part of expenditure goes towards staff salaries and pensions of superannuated employees. With the modern management tools available and the vast potential of IT in the country, staff expenditure has to be and can be contained. Also in case of some 'stores items', life-cycle costing should be resorted to in a big way.

Do you think there has been enough emphasis on freight development? It should be noted that the Government has opened up the sea route to carry freight and this will obviously affect both the road and rail transport systems.

Railways' bread and butter is the 'freight earnings'. The freight earnings is almost two-thirds of the total traffic earnings of the Railways. So, it demands, and is given, the highest attention and emphasis. Removal of any bottleneck coming in the way of freight movement is given top priority. Infrastructure additions/improvements required to expedite the freight movement is planned and executed speedily. Passage of time has brought in new concepts like Freight Forwarder Scheme, Containersation of goods, RoRo ,etc. However, it cannot be an end in itself. Most recently, the two Dedicated Freight Corridors (DFC) – Eastern and Western – have been taken up and are expected to be ready in a few years. Freight trains of heavier axle loads and running at higher speeds than on conventional lines and hauling higher tonnage and bringing down transit times resulting in reduction in the cost of freight movement thus enhancing the earnings.

It was good to hear from the Railway Minister that three more DFCs are being planned. A by-product of DFCs is that the train operation capacity thus released on the conventional lines can be used for running more passenger carrying trains for which there is an ever increasing demand.

How serious is the condition of balances in the Railway Depreciation Reserve Fund (DRF)?

To get good and efficient service from the assets, they have to be kept in good fettle always. The assets age with time. Periodically they have to be attended to, repaired and replaced/renewed in advance of any failure occurring. This applies to all assets like rails, sleepers and fastenings, equipment in locomotives, coaches, wagons, civil, electrical , signalling and telecommunication assets, etc. There should be money available to replace the asset at the end of its coded life or on ‘condition basis’ due to early fatigue set in.

If yearly appropriations are not made regularly to the DRF, then the replacement/renewal cannot be made as required and the assets will work as ‘overdue renewals’ with safeguards, but this is not desirable. Bad cases can reflect on the safety of running trains inviting imposition of speed restrictions.

Either way it is harmful to the Railways as it slows down the traffic movement and in case of accidents results in considerable loss of property and may be lives too. Due to overdue renewal arisings, a stage will come when special funds will have to be sanctioned out of course, as it happened about a decade back when a Special Railway Safety Fund had to be created to wipe out the arrears and overdue renewals. Prudence requires that adequate appropriation is made towards DRF every year and overall balances kept under watch.

Beyond the Budget, how do you see the direction in which Indian Railways is headed?

No doubt that the Railways is undergoing a tough and harrowing time in regard to transportation and one of the major limitations being lack of required transportation capacity. Also running passenger carrying trains (slow, fast, superfast, Rajadhani, Shatabdi) and freight trains on the same pair of tracks, which are already oversaturated (140 per cent to 160 per cent of capacity) is a tough challenge, which Railways is trying its best to overcome. Lines are being trebled, quadrupled, but this is not enough. Constructing new Dedicated Freight Corridors, two already in progress, will be a boon. Planning of three more DFCs by Railways is a step in the right direction.

On Vision 2020 -- Vision 2020 and setting up of Planning and Investment Organisation for drafting medium and long-term plans, fruition of the DFCs give the hope that Railways will weather the storm. Framing JVs with the several States and mobilisation of funds from internal institutions like LIC, etc would help the Railways immensely in improving the finances and its state of health.

This article was updated on March 1, 2016, to correct a typographical error.

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In a journalistic career of over 35 years with The Hindu in Karnataka, he has extensively reported on and analysed various facets of life in the State. He holds a Master's degree from the Bangalore University. The Government of Karnataka, in recognition of his services, presented him the Rajyotsava Award — the highest honour in the State — in 2010.)
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