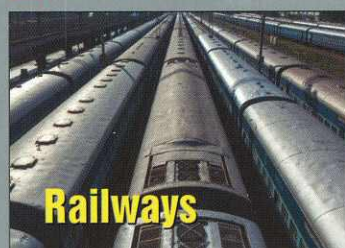
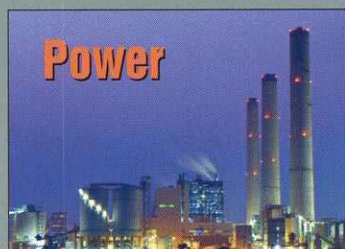
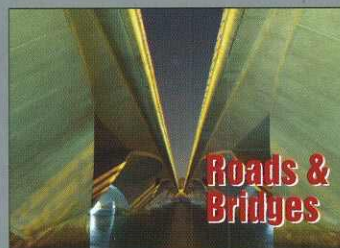


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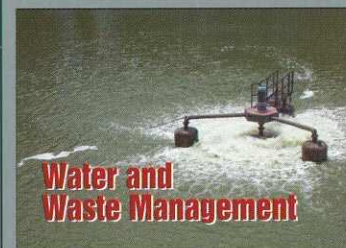
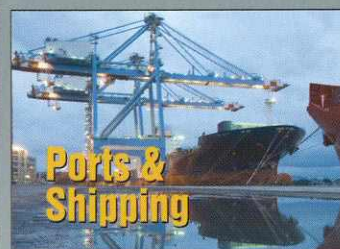
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Hitting A Crisis Point

Need for faster clearances, bolder reforms



Interview with Dr Rakesh Mohan

"Railway capacity expansion needs to be fast-tracked"



Dr Rakesh Mohan
Chairman,
National Transport Development
Policy Committee, and
Executive Director,
International Monetary Fund

"There is a need to ramp up investments in the sector from 0.4 per cent of the GDP to 1 per cent of the GDP in the next 5-10 years."

The National Transport Development Policy Committee (NTDPC), set up in 2010 to create a policy environment that encourages competitive pricing and coordination among different modes of transport in order to develop an integrated transport system, places strong emphasis on railway development over the next 20 years. Dr Rakesh Mohan, NTDPC chairman and executive director at the International Monetary Fund, spoke to *Indian Infrastructure* about the major challenges in the railway sector and the way forward. Excerpts...

What are some of the key issues and challenges facing the railway sector in India?

The railway sector has been losing market share in both passenger and freight traffic over the past 60 years. This is a common phenomenon across the world – the railways have lost market share to road transport and to a certain extent, to air transport, particularly in terms of long distance passenger transport, and in freight with the development of expressways. In that sense, the Indian experience is not very different except that this has happened even without the existence of expressways. In fact, the freight transport share of railways in India is one of the lowest among large countries such as the US and China.

The key issue is that the railways have not added adequate capacity to keep pace with traffic demand nor taken appropriate modernisation measures. Moreover, Indian Railways' (IR) finances have been stressed over the past 15 years. The railways need to significantly enhance capacity over the next couple of decades to meet the economic growth targets.

A key observation is that until the 1990s, public investments in the railways were at least as much as those in roads, if not higher. However, in the past 15 years or so, investments in roads have increased to almost 1 per cent of the GDP, whereas the average investment in the railways for the Eleventh Plan (2007-12) was 0.4 per cent of the GDP, according to national accounts data. In contrast, investments in roads have increased significantly since the launch of the National Highways Development Programme and the Pradhan Mantri Gram Sadak Yojana. At the same time, the trunk routes of the railways have become saturated. Therefore, the current situation is that

even if the railways' management improves, it simply has no capacity for more traffic (passengers and freight) on the main routes.

The key imperative under the strategic transport policy is to take a decision that directs investments towards the railways and makes its implementation effective over the next two decades. Railway capacity expansion needs to be fast-tracked on an urgent basis. To some extent, this is reflected in the decisions that have already been taken for the eastern and the western dedicated freight corridors (DFCs). Overall, the railways have plans for six DFCs. This will enable freight movement on a separate track, thereby facilitating capacity expansion for passenger transport, and improving the speed and quality of transportation.

In this regard, what are the most important recommendations of your committee for the development of the railway sector?

The Indian Railways Report, 2001 suggested that the railways need a significant organisational revamp. IR needs to reorient itself as a business organisation and the first step towards this is a complete recast of railway accounts. This is important as accounting is currently based on a governmental framework and not a business framework. The existing accounting system does not allow the railways to assess the profitability, or otherwise, of different routes. The railways often have to make route selections at the government's behest and this poses financing-related challenges.

This recommendation was accepted by the railways in principle, but was not adopted. It was recommended that if the railways invest in lines that are not viable from a business point of view, but are

"The railways need to run on business lines as opposed to departmental lines, through corporatisation and modernisation. The most important step is to change the accounting practices."

indeed required as a social benefit from a government perspective, the government ought to compensate the railways for the additional costs. In addition, more investments should be made on lines that are profitable. However, this cannot be undertaken unless there is a proper business accounting framework that would enable more accurate accounting of which lines are profitable. Similarly, steps need to be taken in terms of dynamic pricing for both passenger and freight transport. If the dynamic pricing model has been accepted in civil aviation, there is no reason for not introducing it for the railways. From an accounting viewpoint, there should be clarity on costs if the government decides to provide subsidy for some lines or functions. This will not only help the government to make better decisions but also facilitate railway operations.

Is there a role for private players in the railways? If so, what needs to be done to attract private investments?

The sector needs high levels of private investments and the role of private players can be determined only through experimentation. For example, the railways formed the Container Corporation of India about 25 years ago. This proves the feasibility of having a corporate entity, private or public, functioning in the railways. If there is a proper framework, both in terms of accounting and organisational structure, the private sector can operate transparently.

Is there a need to change the organisational structure of IR? If so, in what way?

IR needs to run on business lines as opposed to departmental lines, through corporatisation and modernisation. As I have emphasised, the most important step is to change the accounting practices. There could be a freight company to meet the freight needs of the country and a passenger company to serve passengers. If successful, these companies could

have their own subsidiaries on a regional or functional basis. Railway infrastructure could be under the charge of a separate company. All freight companies and passenger business lines will have to pay user charges. All this needs a major organisational revamp within a public sector framework, perhaps with a holding company at the top. The government needs to be responsible for policy formulation and the company should run the railways. China undertook organisational reforms for its railways in a similar way this year, as did Russia some years ago. India probably has the only railway system that operates within a monolithic departmental framework.

If the policy is separated from operations, is there a need for a separate regulator?

There is a need for a separate railway tariff authority, which has been recently approved by the cabinet. Since the railways are a kind of monopoly, there is a need for a regulator to ensure that tariffs do not go against public interest and the government could provide directions for some tariffs.

Can the railway increase their market share and become more competitive vis-à-vis other transport modes (primarily roads)? If so, what does IR need to do?

Once the railways start operating on business lines, they will have a greater advantage from an economic point of view for transportation of bulk commodities over longer distances. Coal amounts to 50 per cent of the total traffic carried by the railways. Therefore, in bulk transport, IR has a large market share and it can still improve on it. For non-bulk traffic, the containerisation route needs to be followed and much more work is required in terms of logistics arrangements, so that it becomes easy for customers and the freight industry, which interacts with the railways. The railways would have to be much more nimble in terms of attracting

traffic, offering other services and working with private logistics companies. At present, rail infrastructure capacity is oversaturated. As this will expand with the DFCs, the railways will need to offer incentives to use the capacity. This will require a different kind of business orientation to interact with all manufacturers, logistics companies, etc.

How can the railways improve their financial position beyond increasing passenger fares?

In order to improve the financial position of the railways, it is important to levy economic prices and enhance efficiency. I must emphasise that an improvement in the quality of transport is essential if passengers are to pay more than they do now. In due course, the implementation of DFCs and modernisation of equipment, in terms of special purpose wagons and better coaches, will attract more freight and passenger traffic.

How do you see the sector going forward in the next four to five years?

The government was able to ramp up investments in roads from 0.2 per cent of the GDP to 1 per cent of the GDP within 15 years. Public-private partnerships in roads have gained momentum in the past five years or so. The huge increase in investments came from the public sector. This shows that we have not thought rationally enough in terms of the trade-offs between investments in different modes of transport. Therefore, it is very realistic that we can increase investments in the railways as has been the case in the road sector. There is a need to ramp up investments in the railways from 0.4 per cent of the GDP to 1 per cent of the GDP in the next 5-10 years, and a decision should be taken to increase investments through both the public and private sectors, though much of this increase would have to come from the government, as has been the case in the road sector. ▀