The Interim Report of the Committee for Mobilisation of Resources for Major Railway Projects and Restructuring of Railway Ministry and Railway Board

The Interim Report of the Committee, headed by Sh. Bibek Debroy, makes noteworthy recommendations. Demand in railways, particularly in the passenger segment, outstrips supply as in the power sector and hence finding solutions is big task. However the Committee in preparing this forward looking report has adopted a good process in arriving at many of the recommendations by taking on board and debating the recommendations of many earlier bodies which have addressed many of the issues. It has consulted trade unions, former and current railways staff, few senior civil servants and business chambers.

One little flaw is that in the process it did not consult the institutionalised Railways user groups (including other consumer groups) and transport research institutions, which would have enriched the debate. However, the report acknowledges the need to rope in organisations like the Indian Railways Fan Club Asscn to provide broader client feedback and act as brand ambassadors for IR. Albeit this public consultation process on the interim report does mitigate the same.

In the overall, the committee has broken new grounds and the task is hugely commendable. In particular to visit the recommendations of the earlier deliberative bodies and analyse their acceptance or non-acceptance. Secondly, it has taken on board, in letter and spirit, all the recommendations of the draft National Competition Policy, 2011 (http://www.mca.gov.in/Ministry/pdf/Draft_National_Competition_Policy.pdf). The only caveat is that in our political economy how to get recommendations adopted, and swiftly. Even the National Competition Policy, 2011 is yet to be adopted by the NDA government.

The highlights of the interim report and our interspersed comments, in particular:

- **Finances - recognition of the need to generate more Internal Resources** (among others, the economic rationale to apportion un-attributable fixed and common costs proportionately more to passengers than freight, is notable). Coming in the light of the Parliamentary Standing Committee's latest report that Railways is in serious financial crisis this suggestion should be implemented fully in letter and spirit. Other recommendations which follow will help much in achieving financial stability.
  Separation of policy making (by Ministry) and operations (by IR), and an Independent economic regulator (RRAI) for the Railways - This is timely and consistent with the NTDPC's India Transport Report: Moving India to 2030. NTDPC had suggested – "*The Ministry of Railways (or the unified Ministry of Transport) in the future should be limited to setting policies; a new Railways Regulatory Authority would be responsible for overall regulation, including the setting of tariffs".* The draft National Competition Policy, 2011 also recommends the separation of policy making, operations and regulation.
    Caution is needed that the new regulatory authority reports to the Parliamentary Standing Committee on Railways and not the Railways or any other Ministry to ensure independence and accountability to the Parliament.
- **Corporatisation of the Railway Board –** this would help develop the much needed commercial orientation as well as induce investor confidence
- **Amendment in the Indian Railway Act** - to allow market linked fares

- **Dual Accounting System** - accrual based (asset/liabilities), consistent with GAAP and easily understood by investors. It needs to be taken up on priority and should follow a strict time line. The proposed MoU between ICAI and Railways is a welcome step. Staff will need capacity building to handle double entry book keeping system.
- **Encouraging competition** - Non-discriminatory open access to infrastructure. Caution demands that that this is practiced in letter and spirit, unlike the discriminatory treatment to private container trains which get step motherly treatment by Railways as against its own unit: CONCOR. This violates the principle of competitive neutrality. It may be difficult in practice but has to be endeavoured to enable private sector feel comfortable.
- **Moving away from non-core activities** – schools, hospital etc.
- **Research** – recognition of the need for continuing research by dedicated centres is a welcome step. The research agenda should be inter disciplinary and cover not only technical but economic and financial dimensions. IITs and IIMs can be roped in to establish centres of excellence.

While the report does a fairly good job in addressing issues that deserve attention, we would like to offer certain observations and ideas for consideration. We are not offering our comments as per the paras of the report, as our suggestions are generic. There are many suggestions but we cover some critical ones under the following eight points.

a. ***Correcting the transport modal mix: the overarching need***
b. ***Railway restructuring should be linked to economic clusters***
c. ***Decentralisation***
d. ***Safety***
e. ***Human resources***
f. ***Railways can be the flag bearer for 'Swachh Bharat'***
g. ***Whole of government approach***
h. ***Postscript***

1. Correcting the transport modal mix: the overarching need

The transport modal mix between the two biggest carriers in India today is worryingly over-skewed in favour of Roads. Both passenger and freight business has been systematically wrested away from the Railways by Road Transport, particularly sharply from early nineties. Road transport today moves close to 90% of the passengers and 70% of the freight. Such a modal split is sub-optimal for the economy as it imposes avoidable higher transaction costs, in turn eroding competitiveness. While easier answers to such a situation may lie in the observation that roads saw dramatic increases in investment and therefore capacities, piggybacking largely on the NHDP programme and the rapid trade expansion but railways on its part has been equally contributing, if not more. It has been slow to install capacity and failed to induce private capital. The discriminatory pricing between freight and passenger transport has also adversely impacted railway business.

The immediate need for Railways, therefore, is adequate investment in capacity expansion – asset maintenance and renewal, both fixed and rolling stock, and efficient operations. This is imperative to improve its business share in the transport market thereby correcting the transport modal mix for the country and making it competitive. As the India Transport

Report notes - **IR needs to shift to a programme approach from the current project oriented approach.** Along with this, quick pay-off projects that can ease the capacity constraint the fastest would need to be prioritised. At a macro level, a policy and regulatory framework that pushes for efficient transport integration, commercial approach to operations, competition and the ability to respond to market demand is called for.

2. Railway restructuring should be linked to economic clusters

The economic geography of India can be mapped into clusters with India's bulk of minerals, agricultural produce, product/service markets being localised around specific geographies of the subcontinent. For example, coal and iron-ore deposits are concentrated in states of Chhattisgarh, Jharkhand and Odisha; cotton and sugar production in Gujarat and Maharashtra; tea production in Assam and West Bengal; technology markets in Karnataka and Andhra Pradesh and so on. Economic clusters may even exist within a state for example; the Mumbai and Pune regions of Maharashtra have developed into India's premier financial and automobile hubs, respectively.

In fact a McKinsey report, titled India's Economic Geography in 2025: States, clusters and cities, identifies 49 economic clusters which are likely to account for 77% of India's incremental GDP from 2012 to 2025[1].

Railways should prioritise linking such clusters through high-speed passenger and freight network. In fact, a detailed exercise of mapping current and future economic clusters must precede the efforts of railway liberalisation. This will ensure enhanced participation of private players. For example focus on railway investments on the feeder routes from the coal and iron ore mines located mostly in the tristate area of Chhattisgarh, Orissa and Jharkhand will help achieve greater efficiency[2].

In addition to the above, an urgent action is required to ensure that India's transport infrastructure can service the increasing needs for the movement of bulk energy commodities, for example according to NTDPC[3], production of domestic coal is expected to increase by about 2.5 times over the next two decades – it already accounts for half the freight volume in Indian Railways and intensity of steel use is expected to possibly go up by a factor of eight. Therefore, there are very large increases in the transport requirement of bulk commodities.

3. Decentralisation

The committee recommends decentralisation as a major way to create opportunities for competition. In this regard, the report notes "Decentralisation is particularly appropriate for local passenger services (i.e. suburban or non-trunk routes), which rarely cover costs, but which local governments may wish to subsidise. The advantage of getting State Governments to provide passenger services, where the transport need is essentially local, is that such decentralisation would promote greater accountability to local people and be subject to local sensitivities. Since State governments have no experience in running trains, this would create opportunities for the entry of the private sector via long term contracts".

---

[1] *http://www.financialexpress.com/article/fe-columnist/column-charting-the-course-for-economic-federalism/50052/*
[2] *http://planningcommission.nic.in/reports/genrep/present_ntdpc2802.pdf*
[3] *ibid*

The recommendations in the report also states that ‘As an end goal, suburban services should be separated and run as JVs with State and/or local governments, with tariff determination by State and/or local governments. But until that end goal is achieved, suburban passenger traffic could also be subject to similar principles’.

Given the above, state governments must also be consulted in the process of planning and execution. This comment is further reinforced by the recommendation (p.182) that state governments may be liable to provide financial assistance to IR on certain specific projects such as uneconomic branch lines and suburban passenger services.

4. **Safety**

Railway safety should ideally not be the responsibility of the economic regulator. Instead, the existing arms length body: Commission on Railway Safety, under the Ministry of Civil Aviation, should be beefed up with professionals from disciplines other than railway engineering and be encouraged to do *ex ante* work which it is mandated with but not doing it effectively. It is quite active in investigation of railway accidents, but does not have any public interface.

Even the practice elsewhere, which this report highlights, railway economic regulator and railway safety authorities are different bodies.

In addition, a Railway Safety Policy with measurable indicators for evaluation for a five-year and 10-year period must be instituted.

5. **Human resources**

Human resources are the key to run any organisation efficiently and effectively. The report has highlighted in detail the reasons for unresponsive attitude of railways. A large part of this can also be attributed to unresponsive bureaucracy. While the report recommends provision of lateral entry which will induce competition amongst human resources, this may not be easy in practice because of inherent resistance in the system. However, there is a greater need to link performance of the bureaucracy to outcomes. These outcomes must be measured against time taken to complete a job and level of quality and costs maintained in getting the job done. Staff that do not deliver on these counts must necessarily exit the system, rather than be transferred to an inconsequential post. An independent and robust monitoring and evaluation system will enable this.

Like in the armed forces there should be a weeding out of staff at middle and senior levels so that there is a healthy churn and efficient and meritorious staff rise up in the hierarchy. The 2nd Administrative Reforms Commission has also recommended it for all civil services, but due to vested interests it is not moving at all. The 7th Pay Commission is likely to double the compensation to staff and hence the need to rationalise becomes imminent.

If such measures are implemented in Railways, then it would have a welcome spill over effect on other civil services.

6. **Railways can be the flag bearer for 'Swachh Bharat'**

Sanitation is a ubiquitous issue across the country. Open defecation on tracks and trespassing are big concerns and difficult to check. Provision of billboards to hide such eyesores, as recommended by the committee, is the not the best solution.

This problem has to be understood in all seriousness. In the current system, open defecation on rail tracks is caused in two ways. First, by people who trespass on rail tracks or on adjoining railway vacant land (habitual open defecators) and secondly by who use the toilet services in coaches. The latter are not essentially habitual open defecators but railway sanitation system has only desensitised them from adopting healthier sanitation habits.

Bio–toilets should be used in all trains to decompose human waste. An incremental sanitation tax must be levied on all passengers to adopt better practices. Such a tax should gradually reduce if targeted success is reported with time. This will increase the ownership sentiment towards public assets amongst common people. The tax collected must be used to advance the Swachh Bharat campaign or for government to meet its commensurate obligation in partnership with private companies. In addition, private companies must equally share the responsibility.

It may be noted that 26 recommendations of Sam Pitroda Committee 2011 (Expert Group for Modernisation of Indian Railways) have been put into action and this includes provision of green toilets. Completion of such initiatives on time along with sensitisation to maintain such services must be taken up on mission mode.

7. **Whole of government approach**

In India, more often than not our systems function in silos, thus defeating the purpose of achieving best outcomes. The preface to the report also says it. The recent Foreign Trade Policy has advocated a whole of government approach (in both central government and state governments) to enable a better foreign trade regime in India so that our exports can rise to $900bn by 2020. This is probably the first time that a policy document speaks about breaking siloes not only within a ministry but across the whole spectrum of governance.

In the case of railways, there are many linkages with other ministries and state governments and hence the need to articulate a whole of government approach is an imperative. For example with the Coal Ministry or the Power Ministries or even the Road Transport & Highways Ministry there are many overlapping and inter-dependent issues that they need to work towards a common goal jointly and severally. Granted that the concept is new and against the existing culture of working in siloes but it has to be drummed in every new policy initiatives as this report proposes, so that it becomes the new culture in our policy rubric.

8. Postscript

The Parliamentary Standing Committee on Railways has criticised the establishment of too many committees, and whether their recommendations are implemented: "The committee notes with concern that public money which has gone into the setting up and working of the committees was being squandered when their recommendations are not implemented". This is an extremely valid criticism particularly when the Railways has been appointing some or the other expert committees one and after the other and many of them keep revisiting the earlier recommendations.

It would be useful for the Railways to put out the costs incurred and benefits garnered on all these committees established over the last 10 years and make it public. The costs should be honestly calculated which should include all direct and indirect costs, and the opportunity costs.