The Indian EXPRESS COLUMNISTS

N K SINGH

Sunday , December 05, 2004

FROM THE RINGSIDE

Time to blow the whistle

We are often rudely jolted by a rail incident of one kind or the other: a derailment, an accident, a bridge collapse, a signal failure or a stampede. These incidents momentarily disturb us till we are distracted by some other event. The truth is, though, that Railway reforms are long overdue and can be postponed only at our peril. Changes will be difficult and perhaps the benefits will not be immediate, but these steps must be undertaken for enabling efficient and safe freight and passenger movement.

Some external resources, such as access to external credit of the Asian Development Bank for strengthening the Golden Quadrilateral (which, importantly, entails fulfillment of performance criteria), are in the pipeline. A special programme of Rs 15,000 crore is also reportedly under the Planning Commission's consideration. Looking at the needs of Railways, however, these resources are hopelessly inadequate. The Expert Group on Railways estimates that Railways will need a minimum of Rs 1,30,000 crore—this is assuming a low-growth scenario that entails line augmentation, technological upgradation, network expansion, additional rolling stock, replacement including arrears and not the least, safety requirements. The figures for the medium and strategic high growth rates are estimated at Rs 1,60,000 and Rs 2,00,000 crore respectively. The high-growth-rate scenario would provide the groundwork for a thorough modernisation of systems in terms of speed and quality, organisational structure, and its relationship with the government. The dismal financial performance of the Railways causes serious concerns and is particularly discouraging in light of the additional resources needed.

The internal resources of the Railways, which in earlier years were adequate both to meet its needs and yield dividends to the Government, have shrunken progressively to just 23 per cent of its requirement. Market borrowings have increased to over 30 per cent, with increased dependence on capital transfer from the general exchequer. In some years, the capital transfers have exceeded 35 per cent of their needs, and have been rising over the years. This is a recipe for financial and other disasters. Inadequacy of finance prevents adequate track upgradation, improvements in signaling systems as well as faster freight and passenger movement. It creates a vicious circle in which the inability to compete with alternative modes of transport increases, further increasing financial losses, and so on.

The pressures for Railway performance are at the same time rising. The Tenth Five Year Plan projections suggest that with 5 per cent per annum increase in freight traffic, the originating freight will increase from 489 to 624 million tonnes. A 5.7 per cent rise in passenger traffic will result in originating passengers increasing from 5000 million to 5885 million.

Successive railway ministers, with some notable exceptions, have functioned with a populist mindset. While it is true that Railways serve a wider socio-economic purpose in providing national connectivity for men and material even in far-flung areas, the financial burden for this should be borne by transparent transfers from the General Budget so that the costs can be plainly compared to the benefits. Railways, the largest departmental undertaking, continues to function on non-commercial lines, with a distortionary tariff structure and high-freight cost subsidising passenger fare. Even non-core activities like manufacturing of wagons and coaches are being departmentally undertaken. This masks transparent accounting. Railways reform must entail the following:

• Progressive elimination of tariff distortion to enable freight movement to return to Railways, while passengers, particularly for short distances, avail of improved road connectivity. The present policy overcharges freight movement in order to subsidise ordinary passenger traffic. While freight tariffs have increased by as much as 12 per cent in a year, passenger fares have increased modestly in comparison. A tariff rebalancing carried out over a period of five years will lead to a rise of passenger revenues by about 8.6 per cent in real terms. This will require an annual adjustment of about 10 per cent increase in second-class sleeper fares and 8 per cent in second-class ordinary fares (assuming 6 per cent inflation over the next five years), saving Railways some Rs 4,000-5,000 crore a year and also enabling leveraging of additional resources.

• Creating a regulatory body. Sensible tariff fixation is a political nightmare and railway ministers fear popular resentment. It would therefore be prudent to depoliticise the tariff prices through the constitution of a Railway Regulatory Authority just as has been done in the case of telecom by TRAI or in power by the CERC.

• Finishing what we have started. Railways have accumulated a large number of ongoing schemes. While programmes on track renewal, guage conversion and safety suffer financial inadequacies, new additional (favourite) projects are announced in every Railway Budget. Projects which commenced in the 1970s with nominal expenditure languish in the portfolio even while new schemes are being added every year. A re-prioritisation of projects within the available finances to maximise returns deserves high priority.

• Concentrating on core policies and businesses. The Railway Ministry continues to combine policy functions, the provision of train services and also undertake commercial activities like running a loco factory, coach factory and canteens to name a few. Corporatisation of Indian Railways may be a distant prospect, but corporatising these non-core activities into separate entities with transparent accounting would constitute a credible beginning. The Indian Railways must undergo major structural changes in its organisation in order to confront the new competitive challenges.

• Improving speed both for freight and passenger movement in high-density corridors, particularly the Golden Quadrilateral, must receive priority. Adequacy of funds would be a challenge but these must be fully funded both to meet freight and passenger traffic needs as well as improve Railways finances.

The Railways remain a core infrastructure sector for sustaining our high economic growth. It requires large investments. However resources from government or multilateral sources or market borrowing can only be available on a sustainable basis if critical pending reforms become part of this process. Laloo Yadav may have a populist profile but has the reputation to secure what he decides to achieve. Can he reverse the decades of neglect that he inherits? A daunting challenge and opportunity awaits him. This will enhance his national profile commensurate with his political clout. It is time to blow the whistle.

write to ***nksingh@expressindia.com***