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RESEARCH ARTICLE

SHOULD INDIAN RAILWAYS BE PRIVATIZED?

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Abstract

FDI plays an important role in developing countries such as India where every sector is developing and the government sometimes faces the shortage of investments. In such situations FDI plays an important role. Indian railways are such an example which has shortage of funds. Our Indian Railways need robust investment which can be met only if private investors are attracted. Indian railways are the ONE single entity that touches lives of all Indians, some more regularly than others. The Indian Railways is known for its turnaround story going from a near bankruptcy in 2001 to strong behemoth in 2007. But now to the losses are increasing every year and operating ratio is also very high when compared the previous few years. Passenger trains are always running in loss which is subsidized by freight trains. Not only this, India loses as much as $45 billion a year due to poor logistics infrastructure. This wastage could be cut by half and fuel needs could be reduced by 15-20 percent if the country fixes its transport infrastructure and moves more goods by rail. Only 33% of the total electricity route is electrified. Transport by electricity is much more energy efficient than by diesel. Vision 2020 plans to have more than 50% route electrified by 2020.

This paper looks into the problems faced by the Indian Railways and what can be the solution of these problems confronted by Indian Railways.

The objectives of this research are: do we need privatization of Indian railways? And why do we need it? For this secondary data is used and that data has been collected from different sources which is analyzed and interpreted properly.

Introduction:-

Indian railways (IR) started its 53 km journey between Mumbai and Thane on April 16, 1853 and is today one of the largest Railways in the world. The railway network invariably referred to as ‘the lifeline of the Indian economy” is spread over 109,221 Km. covering 6906 stations. Now India has the world’s fourth largest rail network and also second largest under single management, Operates more than 19,000 trains every day. It has 2,29,381 wagons, 59,713 coaches and 8,417 locomotives.

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Indian Railways have joined the select club of countries comprising Chinese, Russian and United States Railways with an originating freight loading of 1008.09 million tonnes (i.e. one billion plus) in 2012-13. During 2013-14, Indian Railways carried 1.05 billion tonnes o freight and carried 1.1 billion tonnes in 2014-15.Indian Railways is primarily financed through Gross Budgetary Support from the union budget, its own internal resources (freight and passenger revenue, leasing of railway land, etc.) and Extra Budgetary Resources (market borrowings, institutional financing, etc.). The share of internal resources in Railways financing has been declining from past some years. Modernization of Railway infrastructure is a priority. Rail Budget 2015-16 has projected an investment plan of Rs 8,56,020 crore in the next five years, and in this FDI can play a very crucial role. Modernization of railways can be a significant engine of inclusive growth and development for the country and can potentially contribute an additional 1.5% to 2% to GDP (*Ministry Of Railways*). Railways have started many projects from the past two decades which are still incomplete and some projects are as old as 30 years. The progress in work is not happening because of the lack of funds and also the railways are incurring losses every year and the surplus is also decreasing. India needs about 5-8 lakh crore to complete its ongoing projects. But where from this huge money will come. Hence there is a need of FDI in this sector too.

Foreign Direct Investment:-

Foreign direct investment (*FDI*) is an investment in a business by an investor from another country for which the foreign investor has control over the company purchased. The Organization of Economic Cooperation and Development (*OECD*) define *control* as owning 10% or more of the business. Businesses that make foreign direct investments are often called multinational corporations (*MNCs*) or multinational enterprises (*MNEs*). An *MNE* may make a direct investment by creating a new foreign enterprise, which is called a Greenfield investment, or by the acquisition of a foreign firm, either called an acquisition or Brownfield investment.

Global FDI inflow's rose by 9 percent to USD 1.6 trillion in 2014, USD 1.75 trillion in 2015 and will raise to USD 1.8 trillion in 2016 *(UNCTAD Report 2014).* India's FDI inflows have increased 26 percent in 2014 reaching $35 billion which was $47bn in 2008 and $35.6 bn in 2009 with maximum growth in service sector, despite macroeconomic uncertainties and financial risks according to an *UNCTAD Report*. This growth is much faster than the rest of developing Asia, which saw a growth of about 15 percent across 40 economies.

FDI in services sector grew up by 46% in 2014-15. With the government taking steps to improve ease of doing business and attracting investments, FDI inflows into the services sector grew by over 46 percent to USD 3.25 billion in **2014-15.** The services sector, which includes banking & insurance, railways, telecom, outsourcing, R&D, courier and technology testing, had received foreign direct investment (FDI) worth USD 2.22 billion in **2013-14.** However, the total foreign inflow in 2014-15 in the services sector was low as compared to **2012-13** when it was USD 4.83 billion, according to the Department of Industrial Policy and Promotion *(DIPP)* data. So with the growth in FDI in important sectors like services, overall foreign inflows in the country too rose by 27 percent to USD 30.93 billion during the previous fiscal year. The amount was USD 24.29 billion in **2013-14.** Services contribute about 60 percent to India's GDP and it receives high foreign inflows in this sector.

Privatization:-

As Indian Railways are incurring losses every year and there is a need of huge investment. Where from the funds will come when government has no funds to support it and also the earnings of the railways are so less that cannot meet the demands of the projects. FDI is needed in the infrastructure, signaling, doubling and tripling of tracks, logistics etc. Hence FDI in railways will result in increased efficiency of the railways.

Some of the major advantages claimed for privatization of railways are:-

1. Better use of the railways
2. Great responsiveness to the customer; a higher quality of service
3. Greater emphasis on the profitability and better value for money for the public travelling by rail.

Japanese National Railways are evidence to support these claims, which was privatized in 1987. However, because of particular aspects of the operating environment in which the privatized railways in Japan have been functioning, the Japanese experience is not readily transferable to other countries, especially India. A panel was set up for Indian Railways and the key recommendations of the panel are below:

1. Accounting process needs to be simplified and as per international standard.

2. Streamline recruitment & HR processes.
3. Focus on core activities.
4. Decentralization - More authority at Zone level
5. Encouraging Private entity.
6. Indian Railway Manufacturing Company
7. Independent regulator
8. Social costs & JVs to bear them.
9. Changing relationship between government & Railways - Railway budget should be phased out progressively and merged with the General Budget. Merging Ministry of Railways with Ministry of Transport.
10. Raising resources for investments.

Hence the committee has recommended encouraging the private entities which can bring the railways out of ICU. "The radical measures suggested include switching over to commercial accounting, corporatization of production units and involving private sector in manufacturing coaches, wagons and locomotives." No doubt the fares will go up but according to *NCAER Morgan Stanley Report* Indian passengers are ready to pay extra if they are provided the best amenities on rail.

Review of Literature:-

Bhati Sonam et al(2014) in their research article "Foreign Direct Investment In Indian Railways" say FDI is allowed now in Indian Railways which was earlier prohibited . FDI up to 100 per cent is allowed through automatic route for mass rapid transport system in all metropolitan cities. They say FDI is allowed in high speed train projects, infrastructure in industrial parks, mass rapid transport system (MRTS), freight lines, rolling stock, railway electrification, signalling system, freight terminals and passenger terminals. **Rastogi Ankit (2012)** according to him Spanning 64,456 km with more than 7,133 railway stations, India's rail network is the largest in Asia and the second largest in the world (behind the US). However India's rail infrastructure suffers from chronic under-investment, due to which its potential for freight movement remains largely untapped. Rail freight has grown at around 7 % over the past five years. According to him there is a huge opportunity of FDI in Indian railways. **Kaur Manpreet et al.(2010)** According to these authors, the availability of developed infrastructural facilities is a sine-qua-non of progress of the economy. Adequate infrastructure is necessary not only to facilitate domestic investment but also to woo foreign investment. Many sectors are attracting FDI like infrastructure, retail, and transport and there is a great need of FDI in all such sectors. **Dwivedi Priya et al (2013)** in their paper say that in India FDI is allowed almost in all sectors expect a few like arms and ammunition, atomic energy, railway transport, coal and lignite, mining of iron, manganese, chrome, gypsum, sulphur, gold, diamond, copper, and zinc. According to them FDI should be allowed in all these sectors especially Indian railways because it is not able to meet the current demand of passenger and freight. **Ramesh Nanaji (2002)** says most of the railway fatalities were accidental in nature and in the bread earning age group particularly among the males. The increasing number of population, overcrowding in the trains, reckless and careless behavior of the passengers, pedestrians and the train drivers towards safety norms are the constant causes of railway fatalities. The high levels of the railway fatalities make a strong case for the necessary accident control interventions. Public as well as the railway authorities must take some measures to bring down these fatalities. In such a case there is a need of huge investment to prevent such fatalities. According to **S. Sriraman in (2009)** complementary nature of the relationship between the two main modes of transportation, rail and road, needs to be promoted. Indian railways showed a huge cash surplus with the figure touching nearly Rs 25,000 crore in 2007-08 (revised estimates) and the operating ratio improving from 84 per cent in 2005-06 to 76 per cent in 2007-08; almost 20 per cent more than last year's figure. Partnership like public-private partnership would go a long way in giving rise to a more optimal modal split when viewed from the perspective of the economy. Though a small beginning has been made by giving licenses to private parties to run container trains, the complementary nature of the relationship between the two modes needs to be promoted in a much more significant way if efficiency and environ- mental concerns are to be met.

Statement of problem:-

Indian railways are incurring loss every year. In the previous fiscal year it incurred a loss of about Rs 30,000 cr and the operating ratio is not coming down which is still at 92%. The scheduling process is another problem that has to be considered. Railways lack new coaches and even they do not have capacity to repair old ones at the rate they are being unfit to run. The cleanliness hygiene has been degrading for the past 5-10 years consistently. Billions of rupees are blocked in projects which are yet to be completed. The waiting list number for the trains during normal times is alarming and during the time of festivals is mind boggling.

Objectives:-

1. To study the operational efficiency of Indian railways from past 15 years.
2. To study where is the need of privatization in Indian Railways.
3. To study why there is need of privatization of Indian Railways.

Research Design & Data collection:-

Data collection is a systematic approach to collecting information from a variety of sources to get a complete and accurate picture of an area of interest. For this study the data collected is purely secondary data.

Secondary data:- Secondary data is the data that is already collected in the past.

The secondary sources of data for the study are:

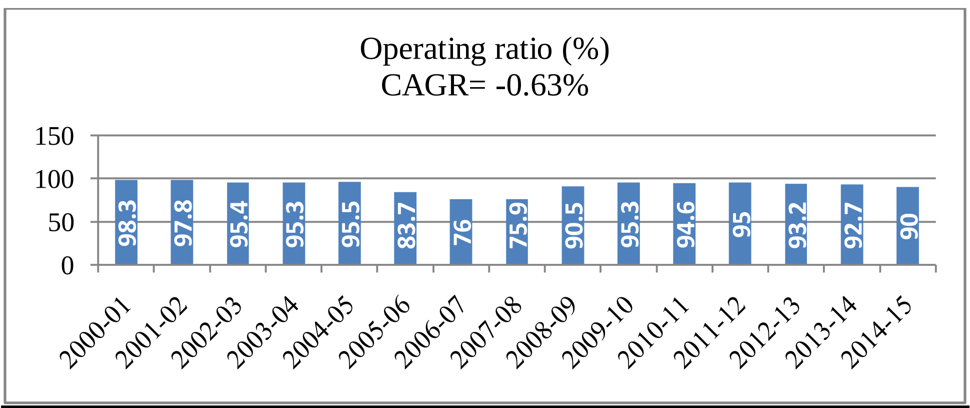
1. Indian railway board.
2. Economic Survey, WTO and RBI Reports, World Investment Reports, World Bank Reports, SIA Newsletter.
3. Secretariat of Industrial Assistance (SIA).
4. Central Statistical Organization (CSO).
5. DIPP.
6. Ministry of Commerce and Government of India.

Tools Used For Analysis:-

Compounded Annual Growth Rate (CAGR) has been used for the study.

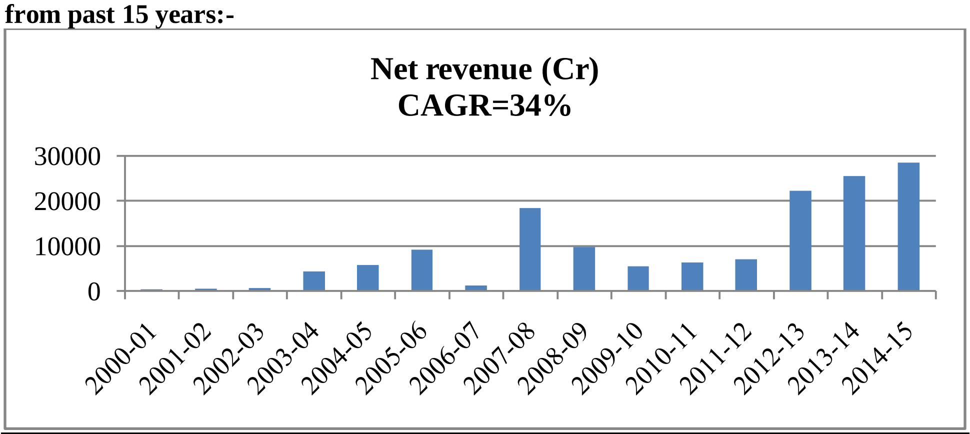
Data analysis and interpretation:-

Operating ratio from past 15 years:-



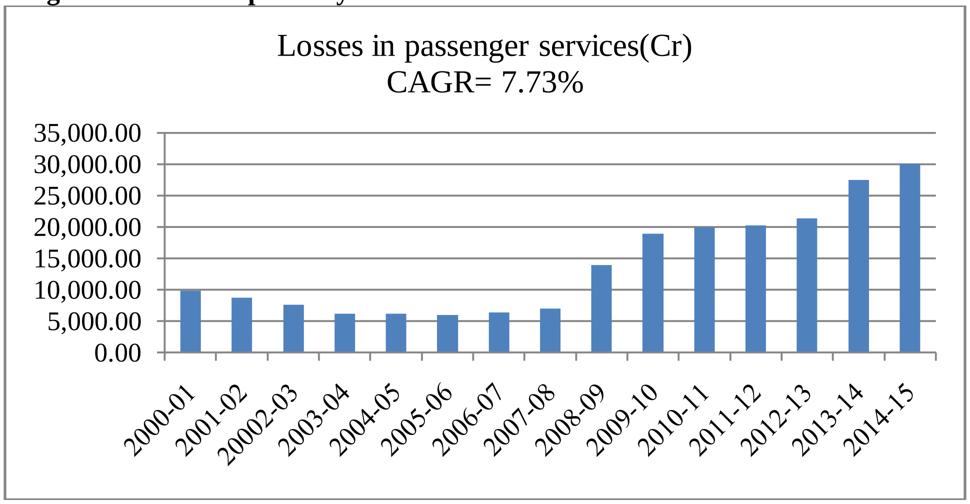
(Source: ministry of railways)

Net revenue from past 15 years:-



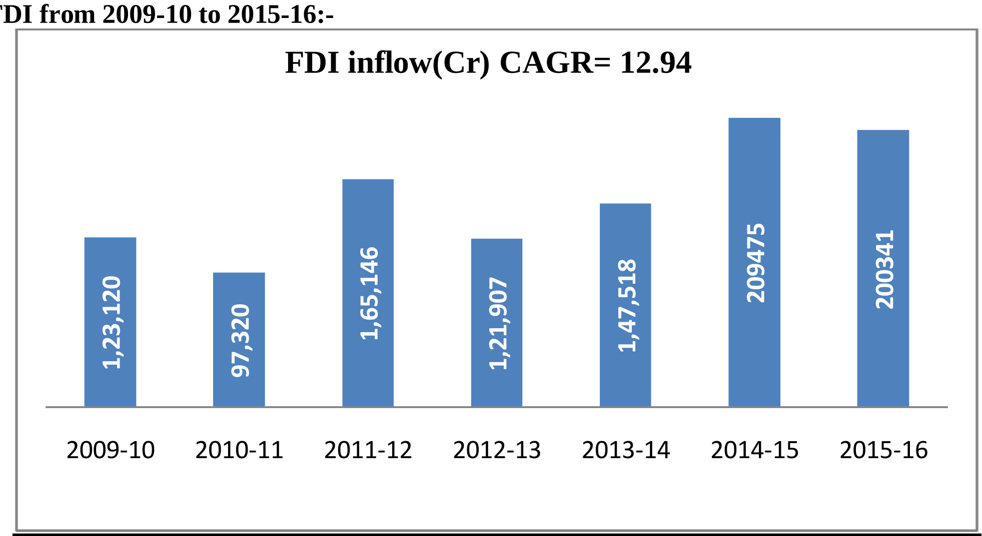
(Source: Ministry Of Railways)

Losses in passenger services from past 15 years: -



(Source: Ministry Of Railways)

CAGR of FDI from 2009-10 to 2015-16:-



(Source:DIPP)

Following are a few areas where immediate private investment is required:-

1. Shut down or sell of loss making low revenue routes in parts to private players.
2. Warehouses and security of the same must be sold to private players.
3. Freight and passenger operations can be privatized partially, with track access charges. This is a perfectly sustainable model, as and when there is a loss, the private player will vanish and govt will takeover.
4. The freight portion can be subcontracted out.
5. Excess land can be handed to a private company for lease management.
6. Manufacturing of locomotives and coaches is one thing that immediately needs to be privatized.

Rolling stock requirement during the Twelfth Plan:-

Type of stock	Requirement * on additional account (2012-13 to 2016-17)	Requirement ** on replacement account (2012-13 to 2016-17)	Total requirement (2012-13 to 2016-17)	Anticipated acquisition 2012-2017
Coaches	25,440	7,626	33,066	24,000
Diesel locos	1,500	500	2,000	2,000
Electric locos	1,800	210	2010	2010
Wagons(in vehicle units)	76,396	29,263	1,05,659	1,05,659

* Requirement of coaches includes EMUs, MEMUs and DEMUs.
****** Requirement on replacement account for all rolling stocks are based on actual over age arising and the trend of average condemnation.

Unexecuted projects as of F2015:-

Project type	No of projects	Cost(Rs. Bn)
Rolling stock	1,287	1,750
New lines	132	1,336
Road safety works	1,739	437
Doubling	174	396
Gauge conversion	42	245
Metro projects	16	217
Track renewals	2,355	152
Electrification	39	67
Others	2,084	315
Total	7,868	4,914

(Source: Final Report On Mobilization Of Resources For Major Railway Projects)

Looking at these requirements there is need of private funds so that Indian Railways can meet the increasing demand of passengers and frieght. If it is not done at the earliest, the higher end passenger will shift to airways and lower end to roads.

Findings:-

1. From the analysis of the above data the operating ratio which is as high as 98% in 2000-01. Post to that in 2007-08, Indian Railways had shown an excellent improvement in the net revenue and decrease in the operating expenses. But soon after that it again showed an increase and is still stagnant at 90% which is not good for railways. It has CAGR of -0.63%.
2. From the above graph it is clear that the net revenue is showing a CAGR of 34%. Indian railways was about to bankrupt in 2000 but after that due to certain policy changes it gained back its momentum and now it is doing well when compared to the previous years.
3. From the above graph it is clear that there is an increase in the losses of passenger services. These losses are because of the subsidy in the passenger fares and these losses are increasing at a CAGR of 7.7%.
4. The data related to FDI is collected from past seven years. The FDI inflow is fluctuating but has a satisfactory CAGR of 12.94. There is a need of FDI in Indian Railways because first it is running in losses and second government has no funds to provide support to Indian railways.
5. The unexecuted projects are showing astonishing figures which needs to be addressed soon.

Suggestions:-

1. As per the study, increase the investment to increase the speed of freight carriers and passenger trains rather than throwing more number of trains on tracks as our tracks are running above optimal (80%) capacity utilization.
2. There should be transparent accountability.
3. Increasing the electrification of railways as the rate paid by Indian Railways for diesel is 50% higher than the rate paid by US Railways, while the rate at which the Indian railways can get electricity is 45% lower than that paid by US transporters.
4. Policies to shift road freight to rail freight.

5. Attract investment to expand the infrastructure.
6. Shut down Railways running nursing colleges, bottling companies or making electricity boards.
7. Transfer local train services to states or city corporations.
8. Advanced signalling systems like AWS instead of traditional block signalling system.
9. Stations can be operated under contract.

Conclusion:

In developing countries like India, there is a constant demand for opening new railway services in order to meet the transport needs and Indian Railways is the backbone of the nation as it moves Aam Admi to every corner of the nation. It is not financially viable because of subsidy in passenger fares and is incurring losses in thousands of crores every year. Such loss making services will have to be minimized. Operating ratio is very high which needs to be taken care of in order to improve the financial viability of Indian Railways. There is a need of technology that can be installed or used in order to enhance the speed of rolling stock and passenger trains. As the government has no enough funds to invest in the expansion plans hence it should make the railways attractive for the private investors who can take up different projects and invest in them.

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