ANALYSING THE CASE FOR PRIVATISATION IN THE INDIAN RAILWAYS

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The Government of India recently invited private sector investments in Indian Railways, citing the need to modernise the Railways and reduce the demand-supply gap in passenger transport. In this context, this paper attempts to analyse the reasons for the Railways’ crisis-ridden present-day reality and whether going down the path of privatisation would proffer a suitable alternative. In doing so, this paper also attempts to study the developmental trajectories of railway infrastructure as seen in other countries, and the lessons therein for India.

On 1st July, 2020, the Ministry of Railways (MoR) invited private sector investments in the operation of passenger train services through a Request for Qualifications (RFQ). Slated to bring in about INR 30,000 crore, the project entails the operation of over 109 Origin-Destination pairs of routes classified into 12 clusters across the network of the Indian Railways (Railways, hereafter). As stated by the Ministry, the objective of this move is to:

“introduce modern technology rolling stock with reduced maintenance, reduced transit time, boost job creation, provide enhanced safety, provide world class travel experience to passengers, and also reduce demand supply deficit in the passenger transportation sector.” (Press Information Bureau 2020a)

Furthermore, this would be done through the introduction of 151 trains (to be operated by drivers and guards from the Railways) with a minimum of 16 coaches, all to be procured, operated, and maintained by private investors. The operation and maintenance of these trains would be subject to regulatory standards and performance indicators specified by the Railways. According to the Chairman of the Railway Board, the RFQ was invited for only about 5% of the total trains run by the Railways (Unnamed Author, The Hindu 2020). The private investors in this regard are also to pay energy charges, fixed haulage charges, and a percentage of gross revenue to be determined through a bidding process by the Railways (Press Information Bureau 2020a).

The decision comes on the back of an empowered Group of Secretaries (GoS) constituted in October 2019 to advise the Government of India (GoI) on the modalities for the awarding of bids and operation of trains by private investors (PTI 2020). A similar effort in this direction was the launch of the ‘Tejas Express’ run by the Indian Railway Catering and Tourism Corporation (IRCTC), a subsidiary of the Railways. The first of these, the New Delhi-Lucknow Tejas Express began operations from 4th October, 2019 (Press Information Bureau 2020b). The running of trains by a ‘non-railways’ operator was in accordance with the ‘100 Days Action Plan’ of the MoR dated and signed by the Chairman of the Railway Board on 18th June, 2019.

The MoR in June 2015 released the ‘Report of the Committee for Mobilization of Resources for Major Railway Projects and Restructuring of Railway Ministry and Railway Board’ (Ministry of Railways 2015). Chaired by Bibek Debroy, then a member of the NITI Aayog and currently the Chairman of the Prime Minister’s Economic Advisory Council - the Committee made a number of recommendations towards liberalising the Railways.
The Committee’s reform agenda in this regard was to ensure private sector entry into the Railways, thereby enabling, in its view, “competition and choice”. As such, policy recommendations mainly centred around:

1. Allowing the running of private trains and the consequent liberalisation of the Indian Railways,
2. Setting up of a regulatory authority with quasi-judicial powers (the Railway Regulatory Authority of India) independent of the MoR,
3. Financial reforms including transitioning towards commercial auditing and restructuring of the financial relations between the MoR and the GoI,
4. Human resource management reforms including performance assessment measures and the linking of career progressions with performance in qualifying examinations (Debroy 2020).

Recommendations to a similar effect by previous committees include:
- Calling for a reduction of manpower in the Indian Railways (Rakesh Mohan Committee 2001),
- Giving greater weightage to merit in promotions (Sarin Committee 1981-85),
- Rationalising passenger tariff across classes (D. K Mittal Committee 2014 and Rakesh Mohan Committee 2001),
- Establishing an independent rail tariff authority (National Transport Development Committee 2014),
- Allowing for the commercial usage of land and disinvestment of railway public sector undertakings (PSUs) (Pitroda Committee 2012),
- Divesting from production units through corporatisation (National Transport Development Committee 2014),
- Meeting rolling stock investments through PPP mode or lease (D K Mittal Committee 2014) (Ministry of Railways 2015).

While presenting the Union Budget 2019, the Finance Minister went on to propose, with respect to the expansion and modernisation of the Railways, the use of Public-Private Partnership to unleash faster development and completion of tracks, rolling stock manufacturing and delivery of passenger freight services. (Government of India 2019)

An oft-cited justification for policy recommendations such as the above is the deteriorating financial situation of the Railways and the consequent under-investment in railway infrastructure. The 2012 report of the ‘Expert Group for Modernization of Indian Railways’ headed by Sam Pitroda in this regard went on to state:

“the resultant disproportionate diversion of freight and passenger traffic to roads while causing substantial loss in revenue to the Indian Railways also imposes a heavy burden on the country...Undeniably there is an urgent need to enhance capacity of and modernize the Indian Railways to meet country’s social and economic aspirations in the 21st Century” (Ministry of Railways 2012).
Higher Operating Ratio Amid Decreasing Profit

An indicator often used to analyse the Railways’ financial health is the Operating Ratio (OR). Simply defined, it is the ratio of the expenses that arise from the Railway’s day-to-day operations (i.e. working expenditure) to the revenue earned by the carrier from traffic (Mishra 2018). A higher OR implies limited resources for capital investments owing to a curtailment in the ability to generate surplus. Although there is no defined ideal OR, it stands at around 75% in many countries. (Ministry of Railways 2015). In India, however, the figure has consistently stood at over 90%, with it being 97.3% in 2018-19, indicating the Railways’ inability to invest adequately in infrastructural necessities (Ministry of Railways 2019b). While in 2018-19 the OR for freight carriage (transporting goods) was 58.72%, the same for passenger carriage was 192.49% (Ministry of Railways 2020).

The poor financial health of the Railways is further evidenced by looking at the surplus generated by the carrier over the past few years. While the surplus generated for 2014-15 was Rs 7664.94 crore, the figure has fallen to Rs 3773.86 crore during 2018-19.

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1 Unstarred Question No. 1898 By Shri Vishambhar Prasad Nishad, Ch. Sukhram Singh Yadav And Shrimati Chhaya Verma Answered In Rajya Sabha On 06.03.2020 Regarding Increasing Losses In Railways
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A long recognised fact in the case of the Railways is that its freight traffic cross-subsidises passenger traffic. Higher freight tariffs in this regard are used to enable the Railways’ role of providing affordable transport to an impoverished populace (Ananthakrishnan 2020). Being as such an “un-economic” operation, the Railways is said to incur losses through the provisioning of such services that it categorises as falling under its “Social Service Obligations” (Debroy and Desai 2016). This figure has mushroomed from Rs 33,560 crore in 2014-15 to Rs 55,917 in 2018-192.

\[ \text{Figure 2: Surplus generated by Indian Railways (2014-15 to 2018-19)} \]

\[ \text{Source: Ministry of Railways 2020} \]

\[ \text{Figure 3: Total losses on account of Social Service Obligations (2014-15 to 2018-19)} \]

\[ \text{Source: NITI Ayog} \]

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Decline in Cargo

Despite being among the four largest railway networks in the world, there has been a steady decline in cargo loading accompanied by a concomitant shift to other modes of transport. October 2019 saw the lowest freight loading since 2010 with an 8% year-on-year drop in the same even though the Railways had eliminated a 15% busy-season surcharge (Das 2019).

Furthermore, one notes a declining trend over the years in the role of the Railways in the transport of major commodities.
The above is particularly distressing because 67% of the Railways’ revenue receipts is accounted for by the transport of goods, whereas passenger transport accounts only for about 27% of the same.

![Pie chart showing revenue receipts](image)

**Figure 6: Indian Railways' Revenue Receipts (2018-19)**
Source: Standing Committee on Railways 2020

### Increasing Wage Bill

An increase in staff costs on account of salary and pension payments has also been cited frequently as negatively impacting the financial health of the Railways.

![Line chart showing wage bill](image)

**Figure 7: Indian Railways Wage Bill (2011-12 to 2018-19)**
Source: Ministry of Railways 2019b
October 2019 saw the lowest freight loading since 2010 with an 8% year-on-year drop in the same even though the Railways had eliminated a 15% busy-season surcharge (Das 2019).
In a submission to the Standing Committee on Railways of the 17th Lok Sabha, the MoR stated that there was a rise in the Railways' OR after the implementation of the 7th Pay Commission recommendations along with a decline in earnings from the transportation of goods and passengers. Apart from the above however, the MoR also went on to state:

“It is however humbly submitted that factors such as slump in demand for loading of core commodities resulting from slowdown in the economy, developmental priorities of the Government like expansion of road sector/low cost airlines affecting competitiveness of Railways’ freight and passenger business and rise in staff cost arising out of periodic pay commissions etc. are not entirely within the control of this Ministry” (Ministry of Railways 2019b).

It should be considered, however, that the above increase in wage bill has occurred amidst a decline in the total workforce employed by the Railways. While over 13.3 lakh people were employed in 2013-14, the figure has dropped to under 12.3 lakh in 2018-19. In a circular dated 2nd July, 2020, the MoR notified that there would be a freeze on the creation of new posts across the Railways except in the safety division. Additionally, it also stated the Railway Board’s approval to surrender 50% of all existing vacancies, except those related to safety. The Ministry cites the need to rationalise expenditure as justification for the same3.

The reduction in number of employees by the Railways owing to a supposed need to rationalise expenditure is similar to the trend seen in the British railway system that was privatised by the Conservative government in 1993. As is the case in India, there was no proposal to privatise the entire network of the British Railways up until 1988, i.e., five years prior to the passage of The Railways Act in 1993. This was preceded, however, by proposals to privatise some parts of the network by handing over the same to private investors (Welsby and Nichols 1999). Between 1992 and 2000, the

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number of workers employed had declined by over 60,000 owing to the entrenchment of contractualisation in the British railway system, leading to increased congestions, delays, and accident rates (Network IDEAs 2002). Post privatisation, the British railway system is amongst the most failure-prone and expensive of all railway networks in Western Europe (Bagchi 2014).

**Contractualisation and Rising Precarity**

The number of temporary workers employed by the Railways (both in Open Line and Construction) as of 31st March, 2012 was 34,982. However, by 31st March, 2019, this figure had mushroomed to 73,350 (Ministry of Railways 2013, Ministry of Railways 2020). The Comptroller and Auditor General of India, in a report tabled in the Parliament on 8th January, 2019 on the condition of contract labour employed in the Railways, went on to note that of the 463 contracts that were reviewed in audit, only 105 complied with provisions of the Minimum Wages Act, 1948.

Furthermore, as per provisions of the Contract Labour (Regulation and Abolition) Act (CLRA), 1970, contractors are to provide workers with basic facilities such as first aid kits, urinals, restrooms, drinking water, etc. However, in 21% of the contracts the audit did not find provisions for drinking water and urinals; 15% of the contracts audited did not have assurances on the provision of restrooms; the figure was 63% with respect to the provision of first aid kits (Comptroller and Auditor General of India 2018).

The increasing precarity of the workforce in the Railways as indicated above, however, is not a phenomenon occurring in isolation. Data from the annual Public Enterprises Survey indicates that between 2014 and 2018, the proportion of casual and contract workers in public enterprises increased from 36% to 53%. During the same period, the number of regular workers in public enterprises decreased from 9.5 lakh in 2014 to 7.1 lakh in 2018 (Varma 2019). Notably, evidence indicates that whatever increase has occurred even in the number of casual and contract workers in public employment seems to have largely come on the back of an increase in the exploitation of underpaid women workers (Chandrasekhar and Ghosh 2019b). This, as indicated below, has come amidst record levels of public sector disinvestment by the GoI.

Figure 9: Total receipts from Disinvestment by Government of India (1991-92 to 2019-20)

Source: Department of Investment and Public Asset Management 2020.)
With respect to the above, Economist Jayati Ghosh (2002) notes that with privatisation, the immediate effect in most cases is a decline in employment. This, she states has a lot to do with private investors preferring “to begin with less than ideal levels of employment to allow for greater flexibility in both the number of workers and the contracts under which they are employed.” Additionally, it is also to be noted that the push towards privatisation has negative implications for the ideal of social justice, seeing as to how public sector employment and reservations therein enabled a degree of social mobility for marginalised sections of the society (Jaffrelot and Kalaiyarasan 2020).

Exclusion

It has been argued that the quality and extent of coverage provided by public services in a country may be assessed on the basis of the proportion of public employment in a country. As per 2015 data, India had 16 public employees per 1000 population as compared to Norway’s 159, Sweden’s 138, Brazil’s 111, or even China’s 57. This is said to explain to a large extent the degree of exclusion of a vast majority of India’s populace from the public provisioning of essential services (Chandrasekhar and Ghosh 2019b).

The social impacts of privatisation have been noted across the world, especially when such state assets were the primary providers of social services. In the context of the collapse of such services, the Chief Executive of the Russian Privatization Centre stated that “when subsidies fall, firms first cut their social expenditures, causing substantial hardships for some of the poorest people...tightening of monetary policy thus invariably produces high social costs” (Martin 1997). The drawbacks therein of subjecting non-commercial objectives to the ideal of profitability has been noted in multiple instances (Dalvi 1995). It is thus that with commercial viability attaining priority over welfare considerations - as is the case with the privatisation of any public asset - poorer sections of society are invariably deemed to lose out on any possibility of being equal stakeholders owing to their “weaker consumer power” (Ghosh 2002).

It is widely held that with the “rationalisation” of train fares that would be brought about by privatisation in the Railways, there would be an inevitable change in its class characteristics. This has been compared to the current situation in Indian healthcare and education wherein those who possess the economic means to do so have largely been able to avail such services from the private sector (National Statistical Office 2019, Jaffrelot and Shah 2020) This has been accompanied by a decline in public spending on the same, leading to a concomitant decrease in the quality of services offered by public hospitals and educational institutions.

Such a shift in the Railways' class characteristics - seeking to gradually concentrate on more commercially profitable operations – might already be underway. The share of “Second-Class Ordinary” passengers has seen a decline from 28.02% in 2014-15 to 23.43% in 2018-19. The share of passenger revenue obtained by the Indian Railways from this category of passengers has over the same period seen a decline from 12.84% to 9.14%. Meanwhile the percentage of “Upper-Class” passengers has seen a steady increase from 1.68% in 2014-15 to 2.12% in 2018-19. The share of revenue obtained from this category of passengers has increased from 30.29% to 34.66% over the same period (Ministry of Railways 2016, Ministry of Railways 2017, Ministry of Railways 2018, Ministry of Railways 2019a, Ministry of Railways 2020).
Table 1: Share of passenger revenue according to Class in Indian Railways (in %)

<table>
<thead>
<tr>
<th>Class</th>
<th>Upper Class</th>
<th>Second Class Mail/ Express</th>
<th>Second Class Ordinary</th>
<th>Suburban (All Classes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>30.29</td>
<td>50.97</td>
<td>12.84</td>
<td>5.91</td>
</tr>
<tr>
<td>2015-16</td>
<td>31.06</td>
<td>51.52</td>
<td>11.6</td>
<td>5.82</td>
</tr>
<tr>
<td>2016-17</td>
<td>32.33</td>
<td>50.2</td>
<td>11.66</td>
<td>5.81</td>
</tr>
<tr>
<td>2017-18</td>
<td>32.75</td>
<td>49.99</td>
<td>11.5</td>
<td>5.76</td>
</tr>
<tr>
<td>2018-19</td>
<td>34.66</td>
<td>50.69</td>
<td>9.14</td>
<td>5.51</td>
</tr>
</tbody>
</table>

Source: Ministry of Railways 2016-2020

Table 2: Share of passengers according to Class in Indian Railways (in %)

<table>
<thead>
<tr>
<th>Class</th>
<th>Upper Class</th>
<th>Second Class Mail/ Express</th>
<th>Second Class Ordinary</th>
<th>Suburban (All Classes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>1.68</td>
<td>15.52</td>
<td>28.02</td>
<td>54.79</td>
</tr>
<tr>
<td>2015-16</td>
<td>1.79</td>
<td>16.29</td>
<td>26.92</td>
<td>55</td>
</tr>
<tr>
<td>2016-17</td>
<td>1.85</td>
<td>16.29</td>
<td>25.6</td>
<td>56.26</td>
</tr>
<tr>
<td>2017-18</td>
<td>1.92</td>
<td>16.78</td>
<td>25</td>
<td>56.3</td>
</tr>
<tr>
<td>2018-19</td>
<td>2.12</td>
<td>17.76</td>
<td>23.43</td>
<td>56.69</td>
</tr>
</tbody>
</table>

Source: Ministry of Railways 2016-2020

The privatisation of the Indian Railways could escalate this trend of shift in resources - away from ensuring cheap public transport to millions to improving the quality of transport for a section of society that can afford it (Stittle 2015).
The Boston Consulting Group (BCG) in its 2017 European Railway Performance (RPI) Index made an attempt to study the evolution of the railway performance of individual European countries. The study revealed that a major impediment to the performance of a railway system was declining levels of safety (Duranton et al. 2017). As has been noted earlier in this paper and across multiple studies, the British rail privatisation experiment shows how the exercise led to increasingly deteriorating standards of safety. The extensive infrastructural neglect and impact on safety and reliability of the privatised system were not only remedied only when the railway system was re-nationalised under the aegis of the Network Rail - a public sector central government entity (Stittle 2015). Said to be in line with earlier studies carried out to assess the performance of Railway systems in Europe, the 2017 RPI study noted that there exists a correlation between the performance level of a railway system and the sum of public investments and subsidies in the form of recurring government spending. Importantly, the study also noted that the trend of declining performance levels of the British, Swedish, Italian, and French rail systems was correlated with either declining or stagnating levels of public expenditure on the railways. Thus the paper concluded that the correlation between performance levels and public costs are applicable over time, wherein countries that increased public expenditure on the railways over the years were awarded by higher performance levels. An important point to note from the conclusions of the above comparative study is that countries that are witnessing declining levels of performance would have to rapidly increase their public expenditures on their respective railway systems (Duranton et al. 2017). While one may be sceptical about the extent of applicability herein of European experiences to the Indian milieu, it certainly does bring into question the wisdom in trying to remedy all that ails the Indian Railways with a single-minded focus on the privatisation of national resources. In light of the myriad pitfalls associated with the exercise as highlighted in this paper and their negative implications when situated in the Indian social context, it may be advisable for India to instead identify the means through which tax-financed resources may be utilised to modernise the Indian Railways.
BIBLIOGRAPHY


