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**STANDING COMMITTEE
ON RAILWAYS
(1996-97)**

ELEVENTH LOK SABHA

MINISTRY OF RAILWAYS

(RAILWAY BOARD)

BUDGETARY SUPPORT TO RAILWAYS

FIRST REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

September, 1996/Bhadra, 1918 (Saka)

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Presented to Lok Sabha on 12.09.1996

Laid in Rajya Sabha on 12.09.1996



LOK SABHA SECRETARIAT
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C.R. No. 22

Price : Rs. 13.00

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Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Eighth Edition) and Printed by Jainco Art India, 13/10, W.E.A., Saraswati Marg, Karol Bagh, New Delhi-110005.

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COMPOSITION OF THE STANDING COMMITTEE ON RAILWAYS
(1996-97)

Shri Basudeb Acharia — *Chairman*

MEMBERS

Lok Sabha

2. Shri Ram Naik
3. Shri Jagdambi Prasad Yadav
4. Shri Satyadev Singh
5. Shri Anand Ratna Maurya
6. Shri Dhirendra Agarwal
7. Shri Ashok Sharma
8. Dr. Sahebrao Bagul
9. Dr. Ramvilas Vedanti
10. Shri Priya Ranjan Das Munshi
11. Shri Ashok Gehlot
12. Shri Nandi Yellaiah
13. Shri K.P. Singh Deo
14. Km. Susheela Triya
15. Shri Imchalemba
16. Shri V.M. Sudheeran
17. Shri Qamarul Islam
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19. Shri Raja Rangappa Naik
20. Shri P. Theertharaman
21. Shri Ram Singh Shakya
22. Shri K. Parasuraman
23. Shri Kondapalli Pydootallinaidu
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25. Shri Sukh Lal Khushwah
26. Shri Ram Bahadur Singh
27. Shri Basant Singh Khalsa
28. Dr. Prabin Chandra Sarma
29. Shri E. Ahamed
30. Shri S. Bangarappa

Rajya Sabha

31. Shri Satyanarayana Dronamraju
32. Vacant*
32. Shri Balbir Singh
34. Shri W. Angou Singh
35. Shri Shivajirao Giridhar Patil
36. Shri Gopalsinh G. Solanki
37. Dr. Ishwar Chandra Gupta
38. Smt. Malti Sharma
39. Shri Nagmani
40. Shri Rahasbihari Barik
41. Shrimati Chandra Kala Pandey
42. Shri S. Niraikulathan
43. Shri Saifulla
44. Shri Tridib Chowdhuri

SECRETARIAT

- | | | |
|-------------------------|---|-----------------------------|
| 1. Dr. A.K. Pandey | — | <i>Additional Secretary</i> |
| 2. Smt. Roli Srivastava | — | <i>Joint Secretary</i> |
| 3. Shri R.C. Gupta | — | <i>Under Secretary</i> |
| 4. Smt. Anita Jain | — | <i>Assistant Director</i> |
| 5. Shri O.P. Shokeen | — | <i>Committee Officer</i> |

* Shri S.S. Surjewala ceased to be the member of the Committee w.e.f. 22.08.1996.

INTRODUCTION

I, the Chairman of Standing Committee on Railways (1996-97) having been authorised by the Committee to submit the Report on their behalf present this First Report of the Standing Committee on Railways (1996-97) on 'Budgetary Support to Railways'.

2. The Committee took evidence of the representatives of Planning Commission and Ministries of Finance and Railways on the subject on 22.8.96 and 27.8.96.

3. The Report was considered and adopted by the Committee at their sitting held on 10th September, 1996.

4. The Committee wish to express their thanks to the officers of the Planning Commission and Ministries of Finance and Railways who appeared before the Committee and placed their considered views. They also wish to thank the Ministry/Department for furnishing the written replies on the points raised by the Committee.

NEW DELHI;
10 September, 1996
19 Bhadra, 1918 (Saka)

BASUDEB ACHARIA,
Chairman,
Standing Committee on Railways.

PART I

REPORT

Introductory

Railways are the principal mode of transport for freight & passenger traffic in the country. They are the bulk carriers of commodities like coal, raw materials, steel and mineral oils and are the lifeline of the economy. The Railways are six times more fuel efficient than road transport and are also eco-friendly. The land use by the Railways is most economical.

2. There has been four fold growth in the traffic carried by the Railways since independence. However due to inadequate investment in Railways the growth of traffic has been catered to with the minimum of inputs barely adequate to meet the minimum needs. Consequentially the network expansion has been low. As against 54693 route kms. of Railway Network at the time of independence only eight thousand kms. has been added till 1995. There have been continuous demands for expansion from areas still inadequately served by Railways.

3. To meet the growing demands the Railways require major investments for expansion/upgradation in their Five Year Plans & Annual Plan. Budgetary support is an important and inexpensive source of funding of Railway Plans.

4. As the growth of Railways have been adversely affected by perpetual shortage of resources by Railways and the Ninth Five Year Plan is also being formulated, the Committee decided to take up the subject of Budgetary Support to Railways for detailed examination. The Committee took evidence of Planning Commission, Ministries of Finance and Railways on 22.08.1996 and 27.08.1996 to have a deeper understanding of the subject.

Financing of Railway Plan

5. The Railway Plans are financed through three main sources :

- (i) internal resources generated by the system;
- (ii) assets procured through market borrowing; and
- (iii) budgetary support extended by General Finance.

A comparative Statement of financing the various plans is as follows:

BUDGETARY SUPPORT
(Expenditure basis)

(Rs. in crores)

Plan	Internal Resource		Bonds		Total Internal and Extra-budgetary Resource		Budgetary Support		Total
	Amt.	%age	Amt.	%age	Amt.	%age	Amt.	%age	
	2	3	4	5	6	7	8	9	10
I	280	66%	280		280	66%	142	34%	422
II	467	45%	467		467	45%	576	55%	1043
III	545	32%	545		545	32%	1140	68%	1685
1966-69	320	42%	320		320	42%	442	58%	762
IV	397	28%	397		397	28%	1031	72%	1428
V	384	25%	384		384	25%	1141	75%	1525
1978-80	316	25%	316		316	25%	935	75%	1251
VI	2783	42%	2783		2783	42%	3802	58%	6585

1	2	3	4	5	6	7	8	9	10
VII									
1985-86	1065	55%			1065	55%	877	45%	1942
1986-87	1318	49%			1318	49%	1379	51%	2697
1987-88	1331	39%	720	21%	2051	60%	1368	40%	3419
1988-89	1586	40%	800	20%	2386	61%	1543	39%	3929
1989-90	1789	39%	1000	22%	2789	61%	1773	39%	4562
Total-VII	7089	43%	2520	15%	9609	58%	6940	42%	16549
1990-91	2091	43%	1092	23%	3183	66%	1632	34%	4815
1991-92	2134	40%	1503	28%	3637	67%	1756	33%	5393
VIII									
1992-93	2548	41%	1025	17%	3573	58%	2589	42%	6162
1993-94	4030	69%	856	15%	4886	83%	974	17%	5860
1994-95	3582	65%	745	14%	4327	79%	1145	21%	5472
1995-96	4100	55%	2250	30%	6350	85%	1150	15%	7500
1996-97	4111	50%	2750	34%	6861	84%	1269	16%	8130

Market borrowings:—

6. Upto the Sixth Plan, the gap between the size of the Plan and internal resources was wholly financed by the budgetary support.

7. Midway in the Seventh Plan, it was realised by the Government that because of constrained resources it would not be possible to fund the entire approved Plan of Railways through the normal channel of budgetary support extended by the General Finance. Therefore, it was decided by the Government that a part of the requirement of additional assets should be met through market borrowings.

8. It is seen from the statement that budgetary support to Railways Plan which was 34% during the First Plan was gradually stepped up, reaching a maximum of 75% of total Plan outlay in the Fifth Plan. It came down to 58% & 42% in Sixth and Seventh Plan and finally to 16% in 1996-97 which is the terminal year of the Eighth Plan.

9. Consequently market borrowings which were nil upto VIth Plan has been steadily rising. During the 7th Year Plan 15% of resources were raised through bonds. During the first three years of 8th Plan, the market borrowings were of the order of 15%. In Annual Plan for 1995-96 the market borrowing increased to 30% and for 1996-97 it is proposed to further increase it to 34% of total Plan outlay.

The funds mobilised by IRFC through Market borrowings amounted to Rs. 6,176.61 crores upto the end of 1994-95.

10. Market borrowings for financing the Railway Plan are comparatively expensive. As against the dividend rate of 7% Railways have to pay for budgetary support, around 22% have to be paid to Indian Railway Finance Corporation for the amount mobilization by them through taxable bonds. During the last 5 years, the Railways had to pay the following lease charges to IRFC:—

	(Rs. in crores)
1991-92	626
1992-93	855
1993-94	960
1994-95	1125
1995-96 (B.E.)	1395

The annual leasing charges payable to Indian Railway Finance Corporation have risen to Rs.13950 million in less than a decade amounting approximately to 6% of Indian Railways working expenses.

11. Commenting on the lease charges paid to IRFC, the Chairman Railway Board, during evidence stated,

"I want to tell this august body that even if finances are available, railway infrastructure cannot give a return of 18 to 19 per cent."

12. The Standing Committee on Railways in their 20th Report presented to the House in February, 1996 had pointed out "generation of resources through market borrowing needs to be done with great caution after working out the financial implication of each project for which the resources are being generated and the financial return expected to accrue therefrom. The Committee need hardly emphasis that inadequate returns which are not enough to cover the repayment charges may lead to debt trap."

The Railway Capital restructuring Committee in their report in April, 1996 has also stated:—

"In the expenditure side, the most disturbing point is the rapid growth of leasing charges due to large amount of assets created through Indian Railways Finance Corporation borrowings."

Recommending that limits should be imposed on borrowings other than budgetary support it has stated,

"The main objective of desiring to fix some limits on borrowings was to ensure that the debt servicing charges are within affordable limits so that Indian Railways do not get upto debt trap.

It will be reasonable to limit all the borrowing, other than the budgetary support from government, to a figure of Rs. 2000 crores per annum till the end of Ninth Five Year Plan. This should be subject to the overriding consideration that borrowed funds are used only for projects which bring in adequate return well over cost of borrowings."

13. The Committee wanted to know the response of the 'BOLT' and 'Own Your Wagon' Schemes of the Railways which were started in 1994 for raising market borrowings. The representative of Ministry of Railways admitted that response to BOLT scheme has not been encouraging. In a written note to the Committee regarding current

status of BOLT scheme the Ministry of Railways furnished the following information:—

Head (Rs. in crores)	No. of projects	Est. Cost (Rs. in crores)	Awarded so far
Originally contemplated	40	4390	
Subsequently added	13	951	
Total	53	5341	
BOLT approved	35	3942	
Dropped/Discharged	12	946	
Awarded	3	758	360
In process	20	2238	

Dividend on Budgetary Support

14. The dividend paid by Railways on Budgetary Support at the rate of 7% during the last 3 years as follows:—

	Rs. in crores
1994-95	1361.71
1995-96	1360.16
1996-97 (B.E.)	1587.37

It is seen that the Railways are paying Rs. 1587.37 crores as dividend whereas the Railways will recover Rs. 1269 crores as budgetary support. When asked the views of Ministry of Finance that the Railways are paying dividend even for the loans raised 100 years ago, the Secretary (Expenditure), Ministry of Finance stated,

“It is because they never return the funds since it is a nonreturnable fund whereas the Government borrowings have to be returned even at the higher rates. So, the Government always pays at the current rates of interest whereas it is true that some of the earlier borrowings were at a cheaper rates of interest. But the Railways never repay the money; it is the cheapest possible money.”

15. The Chairman, Railway Board during evidence informed the Committee that as on 31st March, 1997 the Railway fund balances

with the Central Government will be Rs. 3860 crores on which they get seven per cent interest.

The Chairman Railway Board stated,

“Now a stage has come where the budgetary support is given by the Railways to the Central Government and not the reverse. If you see, as on 31st March, 1997 the Railways fund balances with the Central Government will be Rs. 3860 crore on which we get seven per cent interest. The budgetary support expected is Rs. 1269 crore.”

16. It is noteworthy that most of the assets created through investment made before thirty years or more have depreciated totally and have been put out of use. Indian Railways has thus to pay dividend on investments that are currently no longer giving any return since the provision to write off the wasted assets from the capital at charge when they are abandoned without replacement is sparingly if ever, invoked.

Decline in Budgetary Support

17. Keeping in view the important role played by Railways in economic development of country, various Committees including Parliamentary Committees have recommended higher budgetary support to Railways. A Study Group of Consultative Committee on Railways headed by Shri Ram Naik, in 1993 in their Report on ‘Financial Prospects of Indian Railways’ had recommended the 75% of budgetary support be provided to Railway Plans. The Standing Committee on Railways and Railway Convention Committee have also time and again recommended higher budgetary support to Railways.

18. The Committee enquired from Railways if they have represented to Planning Commission in light of Committee’s recommendations’ for more budgetary support, the Chairman, Railway Board stated,

“The parleys were held with the Planning Commission. In every forum we asked for more budgetary support, we asked for higher size of the Plan.”

19. The Draft Eighth Five Year Plan for Railways was reduced from Rs. 45,000 crores to Rs. 27,202 crores by the Planning Commission. When asked how they are going to achieve targets of Eighth Plan with less budgetary support, the Chairman, Railway Board stated,

“For one or two years, it is okay. The Railways cannot create capacity in a day or two. If we start today, only then we will be able to have it after four or five years.”

He further clarified,

“For two or three years we may be able to continue and draw those reserves. After that it will not be possible. Investment in Railway Sector will be necessary. If we have to improve our GDP at the rate of six to seven per cent the present rate of growth of the Railways will not do. We have to increase it. Our current year’s plan is Rs. 8130 crores. If we are to go at least just for walking and not for running we will have to go for Rs. 11000 to Rs. 12000 crores. If you want us really to run, it will be about 15000 crores.”

20. The Committee enquired from the representative of Planning Commission the reasons for decline in the budgetary support to Railways, the representative of Planning Commission stated,

“Firstly, Sir, I would like to bring to your kind attention the fact that in the overall economy, the purpose of the plan is to allocate resources to various sectors depending upon the linkages and certain kind of technical parameters which are established between various sectors. If you look at the planning process from the beginning, we find that the investment in transport have been declining. If you look at the total investment in the transport sector, we find over the years, from the First Five Year Plan when it was 22 per cent forty years ago, today we are spending only 12 per cent. Within that there are various modes of transport, Railways being the dominant mode. Railways always enjoyed fifty per cent of the total outlay for transport sector. When it was 22 per cent, Railways got 11 per cent and when it is 12 per cent, Railways got 6.5 per cent. This is one general picture which we have to keep in mind that overall investment in transport sector, as a percentage, has been coming down.”

21. Giving details of investment made by Government in various sectors of economy, the Planning Commission furnished in a written reply :

	1992-93	1993-94	1994-95	1995-96	1996-97
A. Budgetary Support for Central Plan (Rs. crores)	19777	23685	26675	28830	32713
Percent	100	100	100	100	100
1. Eco Services	15412	17892	19370	19157	20690
Percent	77.93	75.54	72.61	66.45	63.25
Agri. & Allied Acti.	1897	2005	2697	2655	2777
Percent	9.59	8.47	10.11	9.21	8.49
Rural Development	3208	4676	5380	6095	5394
Percent	16.22	19.74	20.17	21.14	16.49
Irrigation & Flood Control	75	143	222	249	1248
Percent	0.38	0.60	0.83	0.86	3.81
Energy	3143	4308	3508	3171	3302
Percent	15.89	18.19	13.15	11.00	10.09
Industry & Minerals	2601	3371	2785	2780	2495
Percent	13.1	14.2	10.4	9.6	7.6
Transport (Incl. Railways)	3216	1742	2026	2088	2618
Percent	16.26	7.35	7.60	7.24	8.00
Communications	80	356	93	90	90
Percent	0.40	1.50	0.35	0.31	0.28
Science, Tech. & Environ.	838	953	1345	1533	1686
Percent	4.24	4.02	5.04	5.32	5.15
Gen. Eco. Service	354	338	1314	496	1080
Percent	1.8	1.4	4.4	1.7	3.3
Social Service	4294	5648	7150	9475	11742
Percent	21.71	23.85	26.80	32.87	35.89

22. Asked about the reasons that the budgetary support has come down to 15% from 20% in 1992-93 as in the meanwhile the support to other sector has gone up, the witness stated :

"The allocation for social sector has gone up from 1992-93. In 1992-93, it was 22 per cent, next year it was 20 per cent, next year it was 27 percent, next year it was 33 per cent and in 1996-97 it is 36 per cent. So from 22 per cent it has come to 36 per cent. It has to come from somewhere. This is regarding social sector."

He further clarified :

"It is a fact that plan after plan and year after year allocation for social sector and allocation for poverty alleviation are being increased for very good reasons. The reasons are approved by Parliament. They have to take the money from other schemes."

23. The Committee wanted to know the thinking of Planning Commission that has led to such drastic reduction in transport sector and consequently to Railways, the representative of Planning Commission stated :

"I am explaining it, Sir. The last Planning process involved certain other things. For example, you were investing in the infrastructure, on poverty alleviation, in welfare measures, manpower, health and such other things. Plan after plan certain priorities changed because of the newly emerging things; change in thinking, change in pressure and various other things that come up in the economy."

He further stated :

"In the beginning of this Plan there was a thinking, as part of the new Economic Policy, that since the Government's role in certain sector has to be reduced, because it has to be increased in certain other sectors, the pattern of financing should change. Therefore, it was felt that in the public sector greater attempt should be made to raise resources either from within or by going into the market so that the public sector should not depend too much on Government and Budgetary resources should be used more and more on welfare and poverty alleviation programme. As you are aware, in the Eighth Five Year Plan Rs. 30,000 crore were provided for the poverty alleviation programme. Consciously it was decided that in the transport sector, areas in which some money can be raised internally should be raised internally. If they can raise money from the market, it should be raised from the market. Internally

means that the Railways should look at the fare and freight structure and see if there is scope for mobilisation of resources through raising the rates, etc. And, if they have certain commercial activities, from which they can raise resources from outside by raising bonds or by BOLT or by giving out certain activity to contractor, this should be done. That approach should be followed. Therefore, in the Eighth Plan period the Budgetary support has been coming down. If it was not done, those resources have to be drawn from other sources. The kitty is given to us that so much is the Budgetary resources, so much is available from the market. This is also fixed by the Government. So much deficit financing will be done. All that picture is a fixed one. We are only supposed to make allocations looking at the requirement and capacity of those particular sectors to raise resources."

24. The Special Secretary (Planning Commission) informed the Committee of constitution of a working Group for the Ninth Five Year Plan which will work on inter model linkages and programs. The composition of the working Group includes Chairman of Railway Board, Secretary, Department of Surface Transport and Department of Civil Aviation. The working group is going to give its report to the Steering Committee. This would take an integrated view of transport sector as a whole.

The representative of Planning Commission however stated :

"Now, there is a realisation that probably the infrastructure as a whole and transport as a part of it is not being properly served. There is a starvation of funds in the infrastructure sector which primarily consists of power, transport and communication. All of you are aware that even the new Government has come out in its Common Minimum Programme that in the infrastructure sector there has been a starvation of funds and this needs to be made up."

Social obligations of Railways

25. The Indian Railways have, since their inception faced a certain dualism, in the role expected to be played by them. On the one hand they are the prime movers of goods and passengers over long distances and are traditionally been constrained to discharge several public service obligation at the same time the Railways are expected to function like a commercial organisation and are expected to show surpluses to provide funds for expansion/upgradation through internal generation.

26. The Railways have to bear loss due to social burden on account of (a) the loss on passenger and other Coaching Services (b) loss on transport of essential commodities, (c) loss on uneconomic branch lines and (d) loss on new lines opened for traffic during the last 15 years.

The extent of 'social cost total loss' incurred to Railways on these accounts during the last 3 years are as follows:

1992-93	Rs. 1548.50 crores
1993-94	Rs. 1216.50 crores
1994-95	Rs. 1215.64 crores

27. The Chairman (Railway Board) during the course of evidence stated that all over the world the railway system is subsidised by all the Governments. He mentioned figures of the subsidies given to Railways in some of the countries as follows:

		Total Revenue	Subsidy	Percentage (%)
British Railway	1993-94	3498 Pound Sterling Million	808 Million Pounds	23.1%
Swiss Railway	1994	6347 Swiss Frank	2546 Swiss Frank	40.1%
German Railway	1993	33771 D. Mark	23128 D. Mark	68.5%
French Railway	1994	90007 French Frank	42900 French Frank	47.7%
Indian Railways	1994	18253 Rupees	412 crores	2.2%

28. When asked about the reasons for giving concessions when Finance Ministry is not conceding their request for compensation for social burdens, the Chairman, Railway Board stated,

"When a Railway Budget is made, we first discuss with our own Railway Minister. Then, we discuss it with the Finance Ministry and then ultimately with the Prime Minister. So these issues are brought and the permission sought. This year we increased the freight by 10 per cent, but 15 commodities were left out. So, it was with the direction of the Government. Unless the Government gives the direction, we cannot do anything. It will not be correct on my part to say what we had suggested. But ultimately, it is the decision which is taken by the Government."

Linking Rail Development Programme with Poverty Alleviation Programme

29. The Committee enquired from the Railways if they have taken up the matter of linking Rail development with poverty alleviation programme in order to get more budgetary support, the Chairman, Railway Board stated that the Railway Minister has written to Prime Minister seeking diversion of a portion of the funds earmarked for schemes such as Jawahar Rozgar Yojana etc. for funding construction of the Railway Lines in the Backward, Tribal and Frontier areas;

He however stated that they have noted down the points.

30. When enquired from Planning Commission that Railway Development Works like construction of new lines etc. generate employment and has a role in poverty alleviation, the representative of Planning Commission stated,

"Now, so far as the Railways are concerned, I fully agree that it is the single largest contributor to the country's development and it makes contribution even to the poverty alleviation. I do not say that Railways have no role in the poverty alleviation. But the allocation for poverty alleviation have to be made separately. There are social programmes like poverty alleviation and employment generation within the Railways also on which considerable money has been spent. For example, the programme of gauge conversion. The gauge conversion programme was largely justified on the grounds that this programme will generate large employment opportunities and it will create so many man-days per one kilometer gauge conversion. May be due to this some new lines could not be laid."

31. Asked as to why the poverty alleviation programme cannot be linked with the railway network development programme (as the laying of new lines etc. generate employment) the witness stated,

"A very important suggestion has been made for integrating Railway development with poverty alleviation programmes and with employment generation. It is already being done. I am sure that in some of the works undertaken by the Railways—particularly those like the gauge conversion works—the study has stated that there is a reduction in the cost as well as employment generation. I am sure that this idea could be gone into in greater detail. It could be discussed with the Railways. I think that this is an excellent idea for which a lot of finances could be found. We will

definitely look into this. It is an important new approach which has been suggested to us now."

Expansion of Railway Network

32. At the time of the independence the rail infrastructure was spread over 54693 route kms., whereas from 1947 to 1996 only 8000 kms. have been constructed.

33. The Committee enquired whether they have made any analysis of the States where Railways have not made its entry, the witness stated,

"It is true that there are areas where Railways have not reached. Therefore, whenever proposals for new Railway lines are brought up, due consideration is given to this fact. Normally, new Railway lines are to be considered on the basis of a certain minimum rate of return that so much commercial return must be available before a new line can be taken up. But constant expansions are made in underdeveloped areas, in isolated areas, for example, the North Eastern region. In certain areas where the lines have not come up, these considerations are taken into consideration while sanctioning new railway projects."

Development of Railway Network *vis-a-vis* Road

34. The market share of Railways in the total surface transport has declined from 88% and 68% to 48% and 20% respectively in respect of freight and passenger traffic between 1950 & 1995. The Committee inquired that even though Railways are eco-friendly, energy efficient it has been allowed to be taken over by road transport which is less efficient, the representative of Planning Commission stated;

"Initially Railways were laid in a manner when the Government came in a major way. It was done in large areas by way of scarcity release work etc. if there was a famine, this was one way of creating jobs. After that, from 30s and 40s all over the world a large amount of investment in the transport sector has gone into roads because roads became a necessity with the glut of automobiles. Everywhere in the world including USA laying of highways started taking place. This is an international trend. In this country also for road building in the 20s and the 30s, a lot of investment has gone into."

He further clarified,

The first reason is that the reach of the road has always been much wider than that of the Railways. A road can be constructed anywhere, even in a small place. The convenience and flexibility are there for that. The investment required is also much less. Once it is done, all the money comes from the private sector. Somebody send his trucks and buses through that route and the route is utilized. So, only a minimum impact on the Budget is there, though it could be argued that in the overall national terms, the total cost would not be less, the impact on the Budget or the Budgetary burden is much less. Therefore, the road has been expanding much faster.

35. The Chairman Railway Board in this regard stated,

"All over the world whether it is Europe or America the Railways suffered humiliation of getting reduced in size and a number of lines were closed inspite of the fact that a huge subsidy was being given by the Government. And then the Railways could not sustain this because a lot of traffic was diverted to road sector, the reason being that there is tremendous development on road sector also. I am happy to report to this august Committee that everywhere the realisation has come that it was totally incorrect thing to develop the road structure so wonderfully at the cost of the Railways. They have realised that Railway is the best mode of transport for a number of reasons. Firstly it is eco-friendly and the energy cost is minimum. If you do not see that financial rate of return and if you see the economic rate of return for the country then you will know that railway transport is the best."

The representative further added,

"Lastly I want to say that there was an international Conference recently in one of the countries where another reason was given for this. Apart from being eco-friendly and energy efficient they said that railways cannot compete with other modes of transport because of the very nature of railways. In the case of shipping industry the seas are given by the God and in the case of air transport the air space is free and in the case of roadways the roads are created by the local and State Government. But Railways is the only organisation where we are asked to create our own pathway and then to operate. So, it was said that these three modes of transport are not on an equal footing and they decided that Railways need as much support as possible."

Pending Railway Developmental Projects

36. Asked about the views of Planning Commission in a number of new line project where progress have been slow due to resource constraints leading to time & cost over run, the Advisor (Transport) stated :

There is also the question of taking up many projects for which foundation stones have been laid but no progress has been made. Ultimately, it boils down to the same complex picture that we have been putting before you again and again. These resources are small and they are chasing a large number of projects. This ultimately results in a very large time and cost overrun. It is a fact, which is of great concern. It has been brought out by the Ministry of Planning and Programme Implementation also that a large number of railway projects are facing time and cost overrun and one of the reasons is that too many projects are being taken up when the Budget is small. So, we will be grateful for any guidance given by this Committee to overcome this problem.

Recommendations

37. The Railways are the principal mode of transport in the country and has a vital contribution to nation's economic progress. They are eco-friendly, fuel efficient and herald economic progress in the areas where expansion of Railways takes place. The Committee however find that due to inadequate investment expansion on Railways has not been to the desired pace.

38. The Committee find that there has been continuous decline in budgetary support to Railways Plans from 75% in Vth Five year plan to 16% in the terminal year of Eighth Five year Plan. Consequently there has been increased dependence on market borrowings. Market borrowings which were nil upto 6th plan have increased to 34% in the terminal year of VIIIth plan. In 1996-97 itself the Railways propose to raise Rs. 2450 crores from market borrowings out of the total annual plan outlay of Rs. 8130 crores. The Railways have thus to incur an additional liability in terms to repayment charges (lease hire charges) to the market borrowings which have been increasing rapidly. During 1995-96, the Railways had to pay Rs. 1350 crores as lease hire charges to Indian Railways Finance Corporation (IRFC). The Committee strongly feel that payment of much high lease hire charges are detrimental to Railway finances. In this connection the Committee find that the

recommendation of Committee on 'Restructuring of Railways Finance' & 20th Report of Standing Committee on Railways very significant wherein they have cautioned the Railways against market borrowings at such high rate of interest as it could lead to debt trap. The Committee also feel the comments of Chairman Railway Board noteworthy when he said that even if finances are available, Railways can never get 18 to 19% return on investments.

39. The Committee therefore are of the firm opinion that there is an urgent need to restrict this element of market borrowings to the minimum and to impose a limit on market borrowings. They also find that raising of resources through BOLT Scheme for infrastructural development has not given the desired results. Even after two years since it was started, only 3 projects at an estimated cost of Rs. 360 crores have been awarded under BOLT Scheme. The Committee therefore recommend that the Railways should review these schemes to make necessary changes so that Railway projects are not delayed due to inadequate resources to their schemes.

40. The Committee find that cut in budgetary support has adversely affected the Railway's plan size. The Draft Eighth Five Year Plan was reduced from Rs. 45,000 crores to Rs. 27,202 crores by the Planning Commission. As a consequence, drastic cut was made in allocations under different plan heads especially relating to expansion of Railways network.

41. The Chairman, Railway Board during evidence repeatedly emphasised that unless plan size of Railways is increased, it will not be possible to absorb the incremental increase in traffic after 2 or 3 years.

As the transport capacity has to be created well ahead of the demand and the Railway projects have long gestation period, it is essential for Railways to generate adequate capacity to meet the challenges of 21st Century. This would require major investments and increased budgetary support.

42. It has been brought to the notice of the Committee that Railways have to carry social burden on various counts which are not adequately compensated by the Central Government. In 1994-95 the Railways incurred loss of Rs. 1216 crores in social costs. The Committee find the degree of the social burden compensated in some of the foreign countries by giving subsidy on General revenue. The Committee feel that Railways can at least be compensated on this account by way of enhancing their budgetary support.

43. The Committee note that there has been a decline in budgetary support to transport sector as a whole during the Eighth Five Year Plan. The Planning Commission during evidence stated that it is due to the thinking that this sector has a commercial orientation and can raise the resources through market borrowings and that the social sectors and poverty alleviation programmes which are wholly dependent on budgetary support be given higher priority. The Committee do not agree with this contention of Planning Commission. The Railways are the lifeline of economy and is a utility service. They have also to bear social burdens. It cannot operate on commercial basis as Railways have a limited freedom to fix fares & freight rates. There is a need to urgently develop Railways in the interest of economic & social development. With decline in budgetary support, Developmental lines have suffered the most and consequently expansion of Railways in undeveloped and remote areas have been very little. The Committee are of the firm view that this thinking of Planning Commission needs a change and it should treat the Railways as a tool for economic and social upgradation of undeveloped areas than a commercial enterprise as Railways generate large scale employment in the area where its projects are being taken up and link the remote areas to country's mainstream.

44. The Committee desire that taking into account large scale employment the Railway projects generate and the development it heralds, the Planning Commission should link the developmental Railway Projects with some of their social schemes like Jawahar Rojgar Yojna (JRY); and Intergrated Rural Development Plan (IRDP) and other Poverty alleviation schemes and funds be provided to Railway from these schemes.

45. The Committee are of the view that initiative in this regard should be taken by Railways and they should place before the Planning Commission some well defined plan for development of Railways in under developed and remote areas linking them with social schemes of the Government.

46. The Committee find there have been a large number of projects of Railways which are in various stages of completion and are pending due to resource constraints leading to time and cost over runs. They desire that a Committee, having representatives of Planning Commission, Ministries of Railways and Finance be constituted to examine all these pending projects and to provide

special budgetary support urgently for faster completion of these projects so that investments already made on the projects may give benefit to the people.

47. The Committee are concerned to note that even though Railways are more eco-friendly and fuel efficient than road transport yet the traffic mix has been changing in favour of road transport rather than the Railways. The market share of Indian Railways in the total surface transport in the country declined from 85% and 68% to 48% and 20% respectively in respect of freight and passenger traffic between 1950 and 1995. This is a disturbing trend which needs to be reversed. For this additional capacity has to be created and Railway infrastructure strengthened. The Committee therefore recommend that more funds may be infused in Railways and budgetary support be substantially enhanced.

48. The Committee note that the Government in their Minimum Needs programme, have given priority to strengthening of transport infrastructure. The Committee hope that the Working Group constituted for Ninth Five Year Plan on inter modal linkages would examine all the aspects in right perspective and recommend much higher budgetary support to Railways and thereby giving development of this vital infrastructure the rightful place.

NEW DELHI;
10 September, 1996
19 Bhadra, 1918 (Saka)

BASUDEB ACHARIA,
Chairman,
Standing Committee on Railways.

PART II

MINUTES OF THE SECOND SITTING OF THE STANDING COMMITTEE ON RAILWAYS (1996-97)

The Committee sat on Thursday the 22 August 1996 from 1500 hrs. to 1800 hrs. in Conference Hall, Second Floor, Rail Bhawan, New Delhi.

PRESENT

Shri Basudeb Acharia — *Chairman*
Lok Sabha

2. Shri Jagdambi Prasad Yadav
3. Shri Satyadeo Singh
4. Shri Anand Ratna Maurya
5. Shri Dharendra Agarwal
6. Shri Ashok Sharma
7. Shri Ramvilas Vedanti
8. Shri Priya Ranjan Das Munshi
9. Shri Nandi Yellaiah
10. Shri K.P. Singh Deo
11. Km. Shushila Tiriya
12. Shri Imchalemba
13. Shri V.M. Sudheeran
14. Shri Chun Chun Prasad Yadav
15. Shri Ram Singh Shakya
16. Shri K. Parasuraman
17. Shri Kondapalli Pydootallinaidu
18. Shri Sukh Lal Kushwaha

19. Shri Ram Bahadur Singh
20. Shri Basant Singh Khalsa
21. Dr. Prabin Chandra Sarma
22. Shri E. Ahamed

Rajya Sabha

23. Shri Satyanarayana Dronamraju
24. Shri Balbir Singh
25. Shri W. Angou Singh
26. Shri Shivajirao Giridhar Patil
27. Shri Gopalsinh G. Solanki
28. Smt. Malti Sharma
29. Shri Nagmani
30. Shri Rahasbihari Barik
31. Dr. Chandra Kala Pandey
32. Shri S. Naraikulathan
33. Shri Saifulla

SECRETARIAT

1. Smt. Roli Srivastava — *Joint Secretary*
2. Shri R.C. Gupta — *Under Secretary*

2. The Committee took evidence of representatives of Planning Commission and Ministry of Finance on the subject 'Budgetary Support to Railways'. The representatives of Planning Commission replied to various queries of the Committee on their criteria for giving Budgetary support to various sectors and reasons for decline in Budgetary Support to Railways. The representatives of Ministry of Finance also clarified certain points on the above subject.

3. A verbatim record of the proceedings has been kept.

The Committee then adjourned.

MINUTES OF THE THIRD SITTING OF THE STANDING
COMMITTEE ON RAILWAYS (1996-97)

The Committee sat on Tuesday, the 27 August, 1996 from 1500 hrs. to 1800 hrs. in Committee Room 'C', Parliament House Annexe, New Delhi.

PRESENT

Shri Basudeb Acharia — *Chairman*

Lok Sabha

2. Shri Ram Naik
3. Shri Jagdambi Prasad Yadav
4. Shri Ashok Sharma
5. Dr. Sahebrao Bagul
6. Dr. Ramvilas Vedanti
7. Shri Priya Ranjan Das Munshi
8. Shri K.P. Singh Deo
9. Shri V.M. Sudheran
10. Shri Qamarul Islam
11. Shri K. Parasuraman
12. Shri Narayan Athavale
13. Shri Ram Bahadur Singh
14. Dr. Prabin Chandra Sarma
15. Shri E. Ahamed
16. Shri S. Bangarappa

Rajya Sabha

17. Shri W. Angou Singh
18. Shri Shivajirao Giridhar Patil
19. Shri Gopalsinh G. Solanki
20. Dr. Chandra Kala Pandey

SECRETARIAT

1. Smt. Roli Srivastava — *Joint Secretary*
2. Shri R. C. Gupta — *Under Secretary*

2. The Committee took evidence of the representatives of Ministry of Railways (Railway Board) on the subject 'Budgetary Support to Railways' and heard their views on impact of decline in budgetary support to Railways for their various projects.

3. A verbatim record of the proceedings has been kept.

The Committee then adjourned.

MINUTES OF THE FIFTH SITTING OF THE STANDING
COMMITTEE ON RAILWAYS (1996-97)

The Committee sat on Tuesday, the 10 September, 1996 from 1700 hrs. to 1815 hrs. in Committee Room 'D', Parliament House Annexe, New Delhi.

PRESENT

Shri Basudeb Acharia — *Chairman*

Lok Sabha

2. Shri Ram Naik
3. Shri Jagdambi Prasad Yadav
4. Shri Ashok Sharma
5. Dr. Sahebrao Bagul
6. Dr. Ramvilas Vedanti
7. Shri Imchalemba
8. Shri V.M. Sudheran
9. Shri Raja Rangappa Naik
10. Shri K. Parasuraman
11. Shri Kondapalli Pydootallinaidu
12. Shri Narayan Athavale
13. Shri Sukh Lal Khushwaha
14. Shri Basant Singh Khalsa
15. Dr. Prabin Chandra Sarma
16. Shri E. Ahamed
17. Shri S. Bangarappa

Rajya Sabha

18. Shri Satyanarayana Dronamraju
19. Shri Balbir Singh
20. Shri Rahasbihari Barik
21. Shrimati Chandra Kala Pandey

SECRETARIAT

Shri R.C. Gupta — *Under Secretary*

The Committee took up the following draft reports of the Committee for consideration:—

- (i) Draft First Report on Budgetary Support to Railways

** ** **

2. The Committee considered and adopted the above reports subject to amendments/modifications made as shown in Appendices I.

3. The Committee authorised the Chairman to finalise the Reports after making consequential changes, if any, arising out of the factual verification by the Ministry of Railways or otherwise and to present the Reports to both the Houses of Parliament.

The Committee then adjourned.

***Relates to other matters.

AMENDMENTS/MODIFICATIONS MADE BY STANDING
COMMITTEE ON RAILWAYS IN THE DRAFT REPORT
ON BUDGETARY SUPPORT TO RAILWAYS

Sl. No.	Page No.	Para No.	Line	
	31	39	5 & 6	<p><i>For</i> 'BOLT & Own your wagon Schemes have'</p> <p><i>Read</i> 'BOLT scheme for infrastructure development has'</p> <p style="text-align: right;"><i>For</i> response</p> <p style="text-align: right;"><i>Read</i> resources</p> <p style="text-align: right;"><i>For</i> para 47</p> <p style="text-align: right;"><i>Read</i> The Committee are concerned to note that even though Railways are more eco-friendly and fuel efficient than road transport yet the traffic mix has been changing in favour of road transport rather than the Railways. The market share of Indian Railways in the total surface transport in the country declined from 85% and 68% to 48% and 20% respectively in respect of freight and passenger traffic between 1950 and 1995. This is a disturbing trend which needs to be reversed. For this additional capacity has to be created and Railway infrastructure strengthened. The Committee therefore recommend that more funds may be infused in Railways and budgetary support be substantially enhanced.</p>