RAILWAY CONVENTION COMMITTEE (1985)

(EIGHTH LOK SABHA)

SIXTH REPORT

ON

RESOURCE MOBILISATION—PUBLIC BORROWING FOR AUGMENTING RAILWAY PLAN FINANCE

Presented in Lok Sabha on 2.12.1986
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15

LOK SABHA SECRETARIAT
NEW DELHI

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RAILWAY CONVENTION COMMITTEE
(1985)

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2. Shri K. H. Chhaya—*Chief Financial Committee Officer.*
3. Shri Krishnapal Singh—*Senior Financial Committee Officer.*

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*Nominated on 27.1.1986 vice Shri Manvendra Singh resigned.

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**Nominated w.e.f. 19.6.1986 vice Shri M. Maddanna ceased to be member of the Committee consequent on his retirement from the Rajya Sabha on 2.4.1986.

INTRODUCTION

I, the Chairman of Railway Convention Committee (1985) having been authorised by the Committee to submit the Report on their behalf, present this Sixth Report on "Resource Mobilisation—Public Borrowing for augmenting Railway Plan Finance."

2. The Committee took evidence of the representatives of the Ministry of Transport (Department of Railways—Railway Board) and of the Ministry of Finance (Department of Economic Affairs) jointly on 24 September, 1986. The Committee requested Dr. H. K. Paranjpe, Ex-Chairman, Railway Tariff Enquiry Committee, Shri C. Venkataraman, IA&AS (Retd.), former Financial Commissioner, Railways and Shri M. N. Buch, IAS (Retd.), Chairman, National Centre for Human Settlements & Environment, Bhopal to furnish their views through memoranda and subsequently invited them for oral evidence on 6 November, 1986.

3. The Committee wish to express their thanks to the Ministry of Transport (Department of Railways—Railway Board) for placing before them the material and information they desired in connection with the examination of the subject. The Committee also wish to place on record their appreciation of the valuable assistance rendered to them by the Chairman and Members of the Railway Board, the Additional Secretary, Ministry of Finance (Department of Economic Affairs) and their officers and staff.

4. The Committee also wish to express their thanks to Dr. H. K. Paranjpe, Shri C. Venkataraman and Shri M. N. Buch for furnishing memoranda to the Committee and also for giving evidence and making valuable suggestions.

5. The Report was considered and adopted by the Committee at their sitting held on 26 November, 1986.

6. A statement showing the summary of recommendations of the Committee contained in this Report is at Appendix II.

NEW DELHI;
November 27, 1986
Agrahayana 6, 1908 (S)

SUBHASH YADAV
Chairman,
Railway Convention Committee.

REPORT

Capital requirements of the Indian Railways are met by the General Revenues of the Government of India on the basis of perpetual loan. Railways pay dividend on the loan capital so provided by the General Revenue at the rates fixed from time to time on the recommendations of the Railway Convention Committee of Parliament. All capital investments on railway projects and acquisition of rolling stock, etc. are subjected to financial appraisal to ensure that the investment generates return equivalent to—or preferably higher than that the dividend payable to the General Revenues on the capital-at-charge. However, the overall ability of the Indian Railways to achieve this objective depends on productivity inputs costs and tariffs in force from time to time. Regulated tariffs and increasing cost of inputs has resulted in inadequate surplus (net revenues), to discharge dividend liability in full. At times it has been possible for the Indian Railways not only to bear the dividend for the year in full but also to discharge a part of the deferred dividend. Such buoyancy has, mostly been achieved by deferring or depressing the requirements for replacements and other funded liabilities.

2. The payment of dividend has been at the rate of 6 per cent on the capital invested upto 31-8-1980 and 6.5 per cent on capital invested thereafter. Dividend to this extent has not been paid so far by the Railways to the General exchequer. It is seen from the Explanatory Memorandum on the Railway Budget for 1986-87 that at the end of 1985-86 the Railways had defaulted payment of dividend to the extent of Rs. 526.86 crores and this outstanding amount is termed as 'Deferred Dividend Liability'. In addition, an amount of Rs. 336.36 crores was due to be paid to the General Revenues, for loan taken for development fund works. The total indebtedness of the Railways to the General Revenues was, therefore, Rs. 863.22 crores at the end of 1985-86.

3. The capital output ratio of the Railways as seen from the statistical summary of the Annual Reports and Accounts of the Railways for the year 1984-85 during the last ten years has been as under:

1975—76	3·15
1976—77	6·54
1977—78	7·35
1978—79	5·19
1979—80	4·14
1980—81	2·09
1981—82	6·02
1982—83	7·64
1983—84	5·01
1984—85	3.26

4. The Railways projected before the Planning Commission a requirement of Rs. 18,500 crores for the Seventh Five Year Plan laying emphasis on:

(i) replacement of over-aged assets particularly the track;

(ii) Development of capacity for freight to the extent of 350 million tonnes and adequate passenger traffic in the last year of the Seventh Plan;

(iii) Reduction in operation costs by bringing about superior modes of traction and other measure.

However, as seen from the Budget speech of the Hon'ble Minister for Railways for 1986-87 that a Seventh Plan outlay of Rs. 12,334 crores only has been fixed for the Railways. Out of this, in the first year of the Plan, according to the Revised Estimates, the outlay was Rs. 2,050 crores and for the current year it is expected to be Rs. 2650 crores.

5. The financial position of the year 1985-86 is as follows:

(Figures in crores)

	1985-8
Capital-at-charge	9078·07
Netrevenues	685·87
Dividend and other payments@	507·04
Surplus (+)	178·83
Percentage of Net Revenue to the capital-at-charge	7·6
Operating Ratio (Present)	90·6

@Includes payment in lieu of passenger fare Tax and contribution to Railway Safety Works Fund.

6. Here, it is pertinent to mention that the Indian Railways carry a considerable amount of social burden by way of charging freight below cost in respect of certain commodities used by common man; similarly they charge below cost fares on suburban sections and long distance passenger services. This social burden they will continue to shoulder for quite some time to come. Cumulative financial burden thereof came to Rs. 1121 crores during the year 1985-86. If this were added to the net revenue figure of Rs. 686 crores for the year 1985-86, then the percentage of net revenue to the capital-at-charge could be 19.9 per cent as against 7.6 per cent mentioned above.

7. With the ever increasing tempo of economy and the need to develop the Railway system adequately, the Railways have experienced that the resources available to them by way of budgetary support or internal resources generated by them are not sufficient. With a view to augmenting the resources, the Railways, in consultation with the Ministry of Finance, contemplate to resort to public borrowings.

8. Till now, Government companies were predominantly depending on government funds for capital outlay on new projects, capital expenditure for modernisation, expansion or diversification, etc., of existing projects. With a severe strain on its financial resources at present, the Government has now allowed them to mobilise their additional long term capital needs by issue of non-convertible bonds.

9. The issue of bonds has been approved, to begin with, in the case of industries in the telecommunication and power sectors. Accordingly, the Indian Telephone Industries, the National Thermal Power Corporation, the Neyveli Lignite Corporation, the National Hydro-electric Power Corporation and the Rural Electrification Corporation Ltd., have raised funds by issue of bonds for public subscription. The Mahanagar Telephone Nigam Ltd. are in the process of issuing bonds.

10. It may be of interest to note that the bonds proposed to be issued by Mahanagar Telephone Nigam Ltd. *inter alia* highlights the following benefits:

10 per cent (Tax free) Bonds exempt from Income tax without any limit

Wealth tax exemption without any limit

No deduction of tax at source

Interest from day on

Choice between cumulative and non-cumulative interest under both the schemes

14 per cent bonds under cumulative scheme yield 22.5 per cent simple interest and 10 per cent bonds yield an annual return of 16.5 per cent (Tax free).

11. In this connection the Ministry of Transport (Department of Railways—Railway Board) submitted the following memorandum of the consideration of the Railway Convention Committee:

> "In a centrally-planned economy like ours, a departmental undertaking like the Railways depends on the Planning Commission to determine its plan outlay requirements and on the General Revenues of Government of India to make the required funds available for investments in assets and works to enable the Railways to carry the traffic generated by the economy. The fund generated internally by the Railways are also reckoned as the resources for the national plan as a whole."

The part of the Plan outlay which is to be used to undertake works of capital nature is considered as the loan-capital provided by the General Revenues on which the Railways are required to pay dividend. This is a "loan in perpetuity" and the present rate of interest to be paid in the shape of dividend is 6.5 per cent. The internal resources generated by the Railways themselves, which form the remaining part of the Plan outlay, are used to finance the works/assets chargeable to:—

(a) Depreciation Reserve Fund

(b) Development Fund

(c) Accident Compensation, Safety and Passenger Amenities Fund, and

(d) Open Line Works (Revenue).

In the years when the resources generated by the Railways themselves are not adequate, loans have to be taken from the General Revenues to finance works chargeable to Development Fund.

As it is becoming increasingly difficult for the General Revenues to make adequate funds available to the Railways to meet their growing requirements, it was recommended by the Railway Reforms Committee that the Government of India in the Ministry of Finance might float certain bonds, the proceeds of which should be passed on to the Railways as an additionality to the otherwise Plan outlay. Notwithstanding the interest liability of the Government of India (Ministry of Finance) on such bonds, the Railways would be asked to bear only the normal dividend liability. The text of the relevant recommendation of the Railway Reforms Committee is reproduced in Appendix I.

The subject of floating of bonds for augmenting finance for the plan outlays of the Railways was also discussed by the Railway Convention Committee 1980 (Seventh Lok Sabha), vide paragraph 22, page 13 of their Twelfth Report on Track Expansion Programmes of Railways. No recommendation on this aspect was, however, made by the Railway Convention Committee.

In the Railway Budget for 1986-87 introduced by the Transport Minister on 26th February, 1986 in the Parliament, it was indicated that the Railways contemplated to raise upto Rs. 250 crores through market borrowings. For this purpose, it is proposed to create a new company to be called the Indian Railway Finance Corporation Ltd. under the aegis of Department of Railways. The bonds will have a maturity period of 10 to 20 years and will carry the rate of interest of about 10 per cent per annum which will be totally tax-free and is thus expected to be adequately attractive in the market. It is not proposed to go in for the floatation of bonds of the total amount at one time. The Railways may start with Rs. 100 crores as a first tranche. Depending upon the success of this and in the light of the experience gained, further issues of such bonds will be considered.

It is in the national interest to augment the resources for meeting the Railways' requirements and thereby reduce the pressure on the General Revenues of Government of India. By increasing the proportion of internal resources and decreasing that of Budgetary support, it is also expected that this will tend to enable the Government to fix Railways total outlay at levels higher than what might otherwise be possible. Moreover, the scheme once started may open possibilities for the Railways being able to go in for further borrowings both in the domestic market as well as in the international market at competitive rates of interest.

Under the extant rules, investment needs of the Railways are met by the General Revenues in the form of perpetual loan on which a dividend rate of 6.5 per cent is charged. This will now require a change as part-financing of the capital works will be from the money realised through the proposed issue of bonds and the remaining from the General Revenues. As against the rate of dividend of 6.5 per cent chargeable by General Revenues, the interest payable (by the proposed company) on the bonds will be slightly above 10 per cent.

Further, it is necessary that the company floating the bonds must have some assets which would constitute the security for the investors. It is proposed that the money raised through the bonds be invested by the Company in assets useable by the Railways; these could then be hired out to Railways on recovery of charges that would cover (i) interest payable by the company on the bonds (ii) its service charges and (iii) also annuity towards repayment of the bonds may also become necessary so that the company can redeem the bonds in time.

The company must have some equity capital equivalent to 1/10th of the proposed amount of the bonds. This will be made available from General Revenues."

12. The Railway Convention Committee held discussion with the representatives of Ministries of Transport (Deptt. of Railways—Railway Board), and Finance on Resource Mobilisation—Public borrowing for augmenting Railway Plan Finance.

The Committee enquired whether the proposal for establishing the Indian Railway Finance Corporation had been cleared by the Ministry of Finance. The representatives of the Ministry of Finance stated:

> "It has been cleared by the Ministry of Finance. This decision is part of a total package for financing the annual Plan for 1986-87, when it was decided that Rs. 1130 crores would be raised by various public sector undertakings."

13. In reply to a question whether the establishment of the Indian Railway Finance Corporation required amendment in Railway Act, the Chairman, Railway Board stated that it did not require any amendment of the Railway Act.

14. In view of the additional funds being raised through proposed bond, the Committee enquired whether the finances of Railways would need restructuring, the representative of Ministry of Finance stated:

> "The total 7th Plan outlay for the Central Sector is Rs. 95,000-odd crores. I will omit the minor details. The Budget support which Government has to give is close to Rs. 45,000 crores. Rs. 50,000 crores are expected from public sector undertakings, including Railways and Posts and Telegraphs by way of internal and extra-budgetary resources. The Budget support comes to 47 per cent. In actual practice,

if you look at 1985-86 revised Plan outlay, the Budget support was 66 per cent of the Plan outlay of Rs. 20,000 crores. For the 7th Plan as a whole, the commitment was 47 per cent and from internal resources 53 per cent. You will find a similar picture for 1986-87 i.e., a slight improvement at 39 per cent, with a Budget support of 61 per cent.

We are talking about the global feature of the entire Plan for Railways. A decision was taken in principle at the time of the Budget finalisation that public sector undertakings, Railways and Telecommunications taken together will aim at an additional resource of Rs. 1130 crores through Bonds floatation. It is after taking this into account that the total internal resources work out to 39 per cent which is lower than the normal 53 per cent. When we decide to raise so much of money through Bonds, it will have to be done through organisations which have profitable managements. In picking and choosing sector, we have to go in for power corporations, telecommunications, to some extent oil, as also Railways. That is why it was decided that Railways would also raise them. It is not 100 per cent, related to Railways Finance; it has been decided at the macro level. Even with regard to Railways, the original 7th Plan provision was Rs. 12,334 crores. It was expected that they would contribute Rs. 6700 crores through internal resources—partly at the 1984-85 rate of tariff and freight, and partly through additional resource mobilisation. Their contribution will be 55 per cent.

For 1985-86, the revised estimates say that their contribution would be 51 per cent. In 1986-87, including Bonds to the extent of Rs. 250 crores, it is expected that it will be 61 per cent. We were not looking so much at the cost of funds for the undertaking, as the totality of resources necessary for reaching the Plan figures, because there is a constraint on contributing more and more by way of budgetary support, with the Government being committed to non-Plan expenditures like those on Defence, subsidized foodgrains, etc. If these Bonds are not put through to reach target, to that extent taxes through Budget will have to go up. This is the important rationale. Originally, we thought of 14 per cent interest. It was felt that 14 per cent will be too heavy a burden on

Railways. For them to substitute Budget support with 14 per cent money would be costlier. That is why we have thought of a revised schemes with 10 per cent interest".

15. The Committee enquired as to what were the consideration which weighed with the Ministry of Finance to forego revenue on the proposed issue of 10 per cent tax free bonds. The representative of the Ministry of Finance informed as follows:—

"If we are not raising the Rs. 1,000-odd crores, there is no tax. Looking from the point of view of the Telecommunications, if they are going to raise it at 15 per cent, normally their entire capital is raised by internal resources or capital given by Government at 6 per cent or 6.5 per cent & compared to that—this alternative method of 14 per cent would be not realistic, and not economical. That is why case of these basic hard care infrastructures like Railways, Telecommunications etc. which are getting money virtually interest-free, *i.e.*, at 6 per cent, it would be better to have it at 10 per cent."

16. Asked to explain the difference in rate of interest of bonds to be issued by the Ministries of Railways and Communications, the representative of the Ministry of Finance stated:—

"The Communications will go to the market shortly. They have a target of raising Rs. 330 crores. Possibly, in the Telecommunications, they have a greater flexibility in the sense that they could afford at slightly higher cost of money. The returns on investment are quicker. In the case of Railways, as a basic infrastructure, there is a limitations, we are trying to tap both markets at 10 per cent and 14 per cent."

17. On being asked whether paying a high rate of interest will not force the Government to raise their fare and freights, the representative of the Ministry of Finance explained as follows:—

"If the Railway wants Rs. 250 crores and if this is to be contributed by the government, we have to raise it by taxation and the railway would have paid 6 per cent. On the other hand if the railways get Rs. 250 crores from Bonds they would be paying 10 per cent. Whereas the extra burden to the government would have been the entire amount of Rs. 250 crores".

18. The Committee pointed out that there were already two sets of capital on which the Railways paid dividend. One set related to capital invested on the Railways up to 31st March, 1980 where rate of interest was 6 per cent. The other set of capital related to the period thereafter where the rate of interest was 6.5 per cent. The present contemplated borrowing will be the third set carrying a rate of interest of 10 per cent. On an enquiry of the Committee whether it would not lead to multiplicity in railway finances, the representative of the Ministry of Finance stated:

> "Between two requirements, one is the additional requirement of money. For instance, railway's approved Plan outlay is Rs. 12,340 crores. If we are to live with this, then this bond may not be necessary. There are basic requirements. What you say is mere accounting jugglery, which I am confident, the FC and the other people will be able to take care."

19. In reply to a question as to how the additional funds sought to be raised would be utilised, the Chairman Railway Board replied:—

> "There are certain specific type of activities which IRFC will undertake. It is true that the expansion of track does not fall within the purview of the fund taken. IRFC will raise the fund from the market. Certain equipments will be leased to us. It is true that this money will be utilised for certain specific purposes but indirectly it will help other areas also. The allocation of money which we would have otherwise given on rolling stock will now come down and the money will therefore, become available for other activities. Therefore, to some extent, it can go to other plans like new railway line. Therefore, it should be possible to spare something more even for other Plans."

20. Asked whether the results achieved commensurated with the investment made in the Railways, the Chairman Railway Board stated:—

> "About what has been the return to the nation or to the country on the investments made on the Railways which are quite huge, this matter was gone into by the Pande

Committee in great depth. When the Committee was appointed, at that time, they had given excellent graphs or tables, which have got index number of investment and output in physical terms. They show that by and large the proportion of output increases in physical terms has been much higher than the inputs. The number of wagons has gone up in certain proportion. The output has gone up in such higher proportion, except a particular bad year when there was a strike. We have got an excellent certificate from the Pande Committee. After the Pande Committee Report, the performance of the Indian Railways has been even better, particularly in the year 1983 onwards and particularly last year. Although we are not increasing the track km. much more, but it is quite true the output in terms of freight from that very km. by more intensive utilisation has been quite remarkable."

21. On this the Committee pointed out that the number of coaches and wagons was less than warranted, at present, the Chairman, Railway Board stated:

"First of all, the replacement requirements of the Indian Railways itself are massive because the system is a very big system. Lot of money of the plan goes for it. Then our DRF is counted in the Plan. Earlier, the replacement was kept outside the Plan. Later on it is within the Plan. Just to improve the system and the level of capacity, we do some things but what percentage of outlay goes to increase the capacity is a comparatively small percentage. Whatever money we get for creation of additional capacity is spent on extension of track, and other things like. We do spend on line capacity increases, workshop electrification, new locomotives, and so on. That is how the traffic has increased so much. This is done by making more intensive utilisation and by increasing productivity. For increasing productivity our workmen work more efficiently. Workers turn out is good. Because of them, the improvement is seen in the workshops, but it is also partly due to increase in the rolling stock and partly due to modernisation of equipment."

22. The Committee enquired whether a study of working of Railway Finance Corporations in foreign countries had been undertaken, the Chairman, Railway Board replied:—

> "The one which we are thinking of is IFRC. We have not yet made a detailed study of the foreign countries. The conditions in other countries are different as far as financing is concerned. In the U.S.A. the whole system is in private hands, and the Government is only subsidising them. This has been the practice in the other countries also. In India the position is different, in the sense that we, the Indian Railways are expected to run the passenger traffic and also the goods traffic even if there is a loss on passenger, the socio-economic conditions being what they are, we are not expected to increase the passenger fares very high. The result is that passenger services are running into loss which is made up by freight. Thus, the position here is different from the other countries. Passenger lines in other countries are being subsidised considerably by the Government. In the British Railways and in the USA Government has taken over or subsidised the services which cater to passenger traffic. Whatever losses occur there they are borne by Government. Here we are expected to run the total system at profit."

23. Asked to give the capital output ratio, Chairman, Railway Board informed the Committee as follows:—

> "The ratio of our return and capital is also linked with the policy of tariff that we have. We have evolved a conscious policy of restraints on tariffs. We do not increase the tariff in line with increase in input costs. We have to face difficulties due to increase in prices, but we have to run the system by absorbing and partly by better productivity.
>
> Secondly, we have to go by the socio-economic policies also. If we take into account the socio-economic obligation of the Railways alone, the rate of return is 18 per cent to the capital".

The Chairman, Railway Board further added:

> "There were some increases later. We could not increase the tariff. Though we have now and then increased

them, we cannot increase the same way from year to year. For one or two years, position can vary. It cannot be seen over a short period. But over a number of years, there are increases in the input costs. This year, we went a step furtner and decided that no increase in freight be there. These things have to be seen over a period.

The only other way left is by raising the tariff, but it will have inflationary effect on the economy. Our aim is to remain a surplus railway because it is good for the organisation that we should remain surplus. It is good for the image of the organisation for consultancy abroad. So, our effort always is to remain surplus even though marginally surplus after paying full DRF and dividend to the Government."

24. On the Committee pointing out that the Government could help the Railways by providing capital at low cost, the representative of the Ministry of Finance reacted by saying:

"There is no way budget support can be increased. If the extra amount of Rs. 150 is to come it is only through tax efforts."

25. The Committee enquired as to how the Deptt. of Railways would identify the assets acquired as a result of public borrowing of funds from those created out of internal resources of Railways. The Adviser (Finance) Railway Board replied:

"The arrangement is that whatever money is to be raised by the Indian Railway Finance Corporation—they will purchase rolling stock, equipment, etc. as needed by the Railways and will give them over to the Railways. We have made a calculation also. It is all for purchase of equipment, instead of rolling stock, locomotives, wagons, etc. They will purchase these and hand them over to us. The calculation that has been made is that they will charge us 5 per cent by way of service charges. In other words, if they raise a loan @10 per cent., they will charge the Railways 10.5 per cent. If today, we need a loan of Rs. 100 crores, they will float bonds for Rs. 100 crores. Then they will purchase assets of various categories amounting to Rs. 100 crores. We have made a calculation that we will pay them back Rs. 17 crores to Rs. 18 crores a year for a period of ten years. In the process, we will pay them back the entire capital of Rs. 100 crores plus 10.5 per cent interest per annum."

26. Asked about the surety the Railway bonds would provide to their purchasers, the Adviser (Finance) Railway Board stated:

"These bonds are being floated initially against the equity capital given to us by the Ministry of Finance and the assets created from Bond money by the company will constitute security for Bond holders. Then this company will held a lien in the Railways on the assets."

27. In reply to further question as to who will guarantee the money of the purchaser of the bonds, the representative of the Ministry of Finance stated:

"If guarantee is to be given, then there is no need for these bonds because in that case the Government could have increased their open market borrowings. But there are certain ceilings to do that. Here basically, the idea is to mobilise the surpluses of money available with the Public. For instance, in the year 1985-86, the various private companies raised Rs. 2000 crores but the public sector raised only about Rs. 350 crores. The basic idea is taking note of the fact that large surplus monies are available with the public, whether we can directly mobilise that money. If we give a guarantee, then that will become a part an parcel of the deficit financing. So, the question of guarantee does not arise. But here again the vehicle that we are choosing is that the agencies would inspire the confidence of the public. Here, a new corporation is being set up. The entire assets which they will be giving on lease to the Railways will belong to them. Afterall, Railways are not going to run away with these assets. With this money Railways will be earning more. As far as the contributing public is concerned, they will go in for a company which will make a certain profit. Secondly, it is totally secured by the assets. They see in this new organisation a vehicle which is profitable and where the entire money raised is backed up by assets."

28. The Committee pointed out that since there was no government guarantee for these bonds and the period involved was as long

as 20 years, the Government might not get as much money as anticipated. The representative of the Ministry of Finance stated:

"Our people are extremely discerning people. They go through each and every word written in the form."

29. To a further query of the Committee about Rail India Technical and Economic Services and Indian Railway Construction Company Limited going in for public borrowing, the Director (Finance), Railway Board stated:

"We did contemplate that IRCON could go to the market for borrowings. The equity capital of IRCON at present, is about Rs. 5 crores. The return on the investment is pretty high because they earn a profit of about Rs. 19 crores a year. If IRCON is to go to the market, their equity capital will have to be raised by about Rs. 50 crores or so. Then what will happen is that the return on investment will go down considerably and when the foreign railways see this low return on equity, that is likely to spoil their image and affect their competitiveness adversely."

Clarifying about RITES the witness further stated:

"It is basically a consultancy firm. Equity capital is Rs. 50 lakhs. It will have to be increased to Rs. 50 crores. Return on that equity will be 2 to 3 per cent."

30. In reply to a question whether Government anticipated a good response in raising Rs. 100 crores, through the sale of bonds, the representative of Ministry of Finance stated:

"If you take it from the beginning of the calendar year, NTPC, REC and other they got the requisite amount. In this way, we have already raised 550 crores so far from the market. We have not had any major difficulty in raising this loan so far.

So far as Railways is concerned, the proof of the pudding will be in the eating. Last year, in the private sector and in the public sector we did realise Rs. 250 crores in the bond market with return of 14 per cent. Now we have 10 per cent. tax free."

31. On comparing the loosing nature of Railways and profitability of NTPC, etc. by the Committee, the representative of the Ministry of Finance stated:—

"Credibility is very high so far as Railways are concerned. Bonds are secure 100 per cent.

It is not Railways who are entering the market today. It is the Indian Railway Finance Corporation that is being set up. It will give a good account of itself".

The Adviser, Finance Railway Board further added:

"Indian Railway Finance Corpoartion is a leasing Company. They will be leasing to the Railways. Most of the leasing companies are making profit."

32. The Committee also heard the views of some non-officials in this regard on 6th November, 1986. All of them agreed that there was no doubt that the Indian Railways badly needed additional investment, if they were to fulfil their role in the smooth functioning and growth of the Indian economy and also provided proper services. They felt that there was lack of adequate appreciation of Railways on the part of the Government, as was evident from the fact that the percentage of outlay on Railways to the total plan allocations was gradually coming down from Plan to Plan from 11.05 per cent in the first Five Year Plan to 5.23 per cent in the Sixth Five Year Plan. They also expressed the apprehension whether the Railways will be able to pay interest at the rate of 10 per cent on the bonds, when the dividend liability which was at much lower rate, was not being met in full. One of the non-officials was even doubting the capacity of the Railways to pay back the principal amount after 10 or 20 years with the existing financial management in the Railways. It was by and large opined that since the Railways are part and parcel of the Government, the Government themselves should explore the avenues of funding the Railways, instead of passing on the onus to the Railways to explore market borrowings. According to them, the Railways carried a heavy social burden and for that Railways needed a special treatment while allocating them the budgetary support. Even if this borrowing was necessary, there was no point in setting up a separate organisation, particularly as a short term measure, or this purpose. They felt that the proposed bonds will only be competing with bonds of other Public Sector Undertakings and other savings schemes of the Government.

33. The Committee note that with a view to augmenting the resources for meeting Railways' requirement and thereby reducing the pressure on the General Revenues of the Government of India, it is proposed to create a new company to be designated—the Indian

Railways Finance Corporation Ltd., under the aegis of the Department of Railways.

34. The proposed company will issue bonds, which will have a maturity period of 10 to 20 years and will carry interest at the rate of 10 per cent per annum. The bonds will be totally tax free to make them attractive in the market. The initial equity capital equivalent to 1/10th of the proposed issue of the bonds, will be provided from the General Revenues.

35. The money raised through the bonds will be invested by the company in assets usable by the Railways; these assets would constitute the security for the investors. These assets would then be hired out to Railways on recovery of charges that would cover (i) interest payable by the Company on the bonds; (ii) its service charges and (iii) also annuity for redemption of the bonds in time.

36. The Committee further note that under the extant rules, investment needs of the Railways are met by the General Revenues in the form of perpetual loan on which a dividend rate of 6 and 6.5 per cent is paid.

37. The Committee are aware that the Railways are currently finding it difficult to meet the existing low rate of dividend liability. The Committee have their own apprehensions about the position of Railways when they borrow funds from the market at a cost which may amount to 11 per cent as against 6 or 6.5 per cent which they pay as dividend to the General Revenues.

38. The Committee observe that the capital output ratio of the Railways in 1984-85 was 3.26 per cent. The interest payable on the bonds proposed to be floated would be 10 per cent and according to the Railways about 1 per cent would be administrative cost thereon. Further, the Ministry of Finance have made these bonds tax-free, which will yield additional 6 per cent benefit to the investors, as it estimated in respect of similar bonds which have come in the market recently. Therefore, the total cost of this capital, to the Government as a whole, would be in the region of 17 per cent. As the Railways have not been able to discharge their dividend payment liability even at the concessional rate of 6.5 per cent and have incurred deferred dividend liability to the tune of Rs. 526.86 crores, the Committee apprehend that the additional burden for payment of interest on bonds, administrative charges, etc. would further reduce, Railways ability to pay normal dividend. In these circumstances the Committee feel the scheme for floating bonds may instead of relieving burden may in fact increase the burden on the General Exchequer.

39. The Committee are of the view that since the Finance Ministry take a total view of the overall resources mobilisation in the country and float loans/bonds from time to time, a certain part of it could be earmarked for the Railways, which is a part and parcel of the Government. Market borrowings should be done by a single Government agency viz. the Government of India in the Ministry of Finance or a single corporation as mentioned in para 42 below. The problem of limit to Government borrowing vis-a-vis deficit financing is not unsurmountable and some ways and means should be explored to overcome it.

40. The Committee observe that the Railways' Seventh Plan outlay is Rs. 12,334 crores. Out of this, in the first year of the Plan, according to the revised estimates, the outlay was Rs 2,050 and for the current year it is expected to be Rs. 2,650 crores. The efforts to raise Rs. 100 crores by creating a new vehicle and resorting to public borrowing will thus not form even an insignificant part of the total requirement. At the same time, if requirement of this amount is to be met from General Revenues, fund raising effort for the General Revenues should also not be a matter of significance, as the total capital budget of the Government of India as a whole is of a much larger magnitude.

41. The Committee observe that in the Budget for 1985-86 the increase in Railways fares and freight made was estimated to generate additional revenue of Rs. 505 crores. In the month of November 1985 Supplementary Budget adjusting the freight charges has been presented, which is estimated to mobilise revenues to the extent of Rs. 329 crores. Keeping these facts in view, the Committee consider that efforts to mobilise additional sum of Rs. 100 crores for the purpose of Plan expenditure would not be a matter of considerable effort.

42. If the present scheme of raising Rs. 100 crores through the issue of Bonds is only a first step towards generating much larger resources and the efforts to mobilise larger funds for Railways through similar bonds are to follow, the Committee would suggest that instead of creating a separate corporation for the Railways, a bigger corporation under the Ministry of Finance should be established to deal with the Bond issues or market borrowings of all the Government Corporations and Companies. Such a step would not only increase the efficiency and expertise in mobilising the public funds but would also ensure uniformity of approach, coordination and the methodology of raising public borrowings.

43. Keeping the totality of the issues involved and the dire need to provide additional finances to match the needs of the railway transport for the future development of the country, the Committee have a feeling that repeated issues of bonds/public borrowings to raise funds may have to be resorted to. In that event the Committee agree to the Government issuing separate bonds earmarked for Railways or a bigger Corporation being set up under the Ministry of Finance for raising funds for Government Companies and the Railways as mentioned in para 42 above.

NEW DELHI;
November 27, 1986.
Agrahayana 6, 1908 (*S*)

SUBHASH YADAV,
Chairman,
Railway Convention Committee.

APPENDIX I

(Vide para 11 of the Report)

Extracts of Recommendation Nos. 24 and 25 contained in XVIII Report on Resources Mobilisation of the Railway Reforms Committee

"*Recommendation No.* 24

(i) The investment needs of the Railways are large and urgent, and in a centrally planned economy, they are not allowed to raise their own resources.

(ii) The Ministry of Finance should go to the market to attract more resources for them by:—

(1) Floating a series of Railway Bonds which will be trustees' securities under Section 20 of Indian Trust Act, 1882.

(2) Floating a series of Railway Bonds which will be approved securities for purpose of the Banking Regulation Act, 1949, Statutory Liquidity Requirement (SLR) which at present is 35 per cent may be raised to say about 40 per cent in appropriate stages with the direction that the amount to make up for this additionality should be invested in these Railway Bonds.

(3) Floating another series of special bonds to unearth black money.

Recommendation No. 25

The proceeds of all these Bonds should be allocated to the Railways for their investment needs. The money borrowed through these bonds and loaned to the Railway should, like the other loans, be a perpetual loan and bear normal dividend liability."

APPENDIX II

(*Vide* para 6 of Introduction)

Conclusions/Recommendations of the Committee

S.No.	Para No.	Summary of conclusions/recommendations
1	2	3
1	33 to 37	The Committee note that with a view to augmenting the resources for meeting Railways' requirement and thereby reducing the pressure on the General Revenues of the Government of India, it is proposed to create a new company to be designated—the Indian Railways Finance Corporation Ltd., under the aegis of the Department of Railways. The proposed company will issue bonds, which will have a maturity period of 10 to 20 years and will carry interest at the rate of 10 per cent per annum. The bonds will be totally tax free to make them attractive in the market. The initial equity capital equivalent to 1/10th of the proposed issue of the bonds, will be provided from the General Revenues. The money raised through the bonds will be invested by the Company in assets usable by the Railways; those assets would constitute the security for the investors. These assets would then be hired out to Railways on recovery of charges that would cover (i) interest payable by the Company on the bonds; (ii) its service charges and (iii) also annuity for redemption of the bonds in time. The Committee further note that under the extant rules, investment needs of the Railways are met by the General Revenues in the form of

1	2	3
		perpetual loan on which a dividend rate of 6 and 6.5 per cent is paid. **The Committee are aware that the Railways are currently finding it difficult to meet the existing low rate of dividend liability.** The Committee **have their own apprehensions** about the position of Railways **when they borrow funds from the market at a cost which may** amount to 11 per cent as against 6 or 6.5 per cent which they pay as dividend to the General Revenues.
2	38	The Committee observe that the capital output ratio of the Railways in 1984-85 was 3.26 per cent. The interest payable on the bonds proposed to be floated would be 10 per cent and according to the Railways about 1 per cent would be administrative cost thereon. Further, the Ministry of Finance have made these bonds tax-free, which will yield additional 6 per cent benefit to the investors, as is estimated in respect of similar bonds which have come in the market recently. Therefore, the total cost of this capital, to the Government as a whole, would be in the region of 17 per cent. As the Railways have not been able to discharge their dividend payment liability even at the concessional rate of 6.5 per cent and have incurred deferred dividend liability to the tune of Rs. 526.86 crores, the Committee apprehend that the additional burden for payment of interest on bonds, administrative charges, etc. would further reduce Railways ability to pay normal dividend. In these circumstances the Committee feel the scheme for floating bonds may instead of relieving burden may in fact increase the burden on the General Exchequer.
3	39	The Committee are of the view that since the Finance Ministry take a total view of the overall resources mobilisation in the country and float loans/bonds from time to time, a certain

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		part of it could be earmarked for the Railways, which is a part and parcel of the Government. Market borrowings should be done by a single Government agency viz., the Government of India in the Ministry of Finance or a single corporation as mentioned in para 43 below. The problem of limit to Government borrowing *vis-a vis* deficit financing is not surmountable and some ways and means should be explored to overcome it.
4	40	The Committee observe that the Railways' Seventh Plan outlay is Rs. 12,334 crores. Out of this, in the first year of the Plan, according to the revised estimates, the outlay was Rs. 2,030 and for the current year it is expected to be Rs. 2,658 crores. The efforts to raise Rs. 100 crores by creating a new vehicle and resorting to public borrowing will thus not form even an insignificant part of the total requirement. At the same time, if requirement of this amount is to be met from General Revenues, fund raising effort for the General Revenues should also not be a matter of significance, as the total capital budget of the Government of India as a whole is of a much larger magnitude.
5	41	The Committee observe that in the Budget for 1985-86 the increase in Railways fares and freight made was estimated to generate additional revenue of Rs. 505 crores. In the month of November 1986 Supplementary Budget adjusting the freight charges has been presented which is estimated to mobilise revenues to the extent of Rs. 320 crores. Keeping these facts in view, the Committee consider that efforts to mobilise additional sum of Rs. 100 crores for the purpose of Plan expenditure would not be a matter of considerable effort.
6	42	If the present scheme of raising Rs. 100 crores through the issue of Bonds is only a first step

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		towards generating much larger resources and the efforts to mobilise larger funds for Railways through similar bonds are to follow, the Committee would suggest that instead of creating a separate corporation for the Railways, a bigger corporation under the Ministry of Finance should be established to deal with the Bond issues or market borrowings of all the Government Corporations and Companies. Such a step would not only increase the efficiency and expertise in mobilising the public funds but would also ensure uniformity of approach, coordination and the methodology of raising public borrowings.
7	43	Keeping the totality of the issues involved and the dire need to provide additional finances to match the needs of the railway transport for the future development of the country, the Committee have a feeling that repeated issues of bonds/public borrowings to raise funds may have to be resorted to. In that event the Committee agree to the Government issuing separate bonds earmarked for Railways or a bigger Corporation being set up under the Ministry of Finance for raising funds or Government Companies and the Railways as mentioned in para 42 above.

PART—II

Minutes of the sittings of the Railway Convention Committee relating to the Sixth Report.

RAILWAY CONVENTION COMMITTEE (1985)

19th Sitting 24.9.1986

PRESENT

MEMBERS OF THE COMMITTEE

Shri Subhash Yadav—*Chairman*

2. Shri Basudeb Acharya
3. Shri B. Devarajan
4. Prof. Narain Chand Parashar
5. Shri Vijay N. Patil
6. Shri Ram Dhan
7. Shri Ram Ratan Ram
8. Shri S. Thangaraju
9. Shri Dipen Ghosh
10. Shrimati Amarjit Kaur
11. Shri Bhagatram Manhar
12. Shri P. Upendra

WITNESS EXAMINED

Department of Railways

1. Shri Prakash Narain—Chairman, Railway Board
2. Shri R. K. Jain—Member (Engineering), Railway Board
3. Shri S. K. Mitra—Adviser (Finance)

Ministry of Finance

1. Shri K. P. Geetakrishnan—Additional Secretary

SECRETARIAT

1. Shri N. N. Mehra—*Joint Secretary*
2. Shri K. H. Chhaya—*Chief Financial Committee Officer*
3. Shri Krishnapal Singh—*Senior Financial Committee Officer.*

The Railway Convention Committee held discussion with the representatives of Ministries of Transport (Deptt. of Railways—Railway Board), and Finance on Resource Mobilisation—Public borrowing for augmenting Railway Plan Finance.

The Committee enquired whether the proposal for establishing the Indian Railway Finance Corporation had been cleared by the Ministry of Finance. The representatives of the Ministry of Finance stated:

> "It has been cleared by the Ministry of Finance. This decision is part of a total package for financing the annual Plan for 1986-87, when it was decided that Rs. 1130 crores would be raised by various public sector undertakings."

In reply to a question whether the establishment of the Indian Railway Finance Corporation required amendment in Railway Act, the Chairman, Railway Board stated that it did not require any amendment of the Railway Act.

In view of the additional funds being raised through proposed bond, the Committee enquired whether the finances of Railway would need restructuring, the representative of Ministry of Finance stated:

> "The total 7th Plan outlay for the Central Sector is Rs. 95,000—odd crores. I will omit the minor details. The Budget support which Government has to give is close to Rs. 45,000 crores. Rs. 50,000 crores are expected from public sector undertakings, including Railways and Posts and Telegraphs by way of internal and extra-budgetary resources. The Budget support comes to 47 per cent. In actual practice, if you look at 1985-86 revised Plan outlay, the Budget support was 66 per cent of the Plan outlay of Rs. 20,000 crores. For the 7th Plan as a whole, the commitment was 47 per cent and from internal resources 53 per cent. You will find a similar picture for 1986-87 i.e., a slight improvement at 39 per cent, with a Budget support of 61 per cent.
>
> We are talking about the global feature of the entire Plan for Railways. A decision was taken in principle at the time of the Budget finalisation that public sector undertakings, Railways and Telecommunications taken together will aim at an additional resource of Rs. 1130 crores through Bonds floatation. It is after taking this into account that the total internal resources work out to 39 per cent which is

lower than the normal 53 per cent. When we decide to raise so much of money through Bonds, it will have to be done through organisations which have profitable managements. In picking and choosing sector, we have to go in for power corporations, telecommunications, to some extent oil, as also Railways. That is why it was decided that Railways would also raise them. It is not 100 per cent. related to Railways Finance; it has been decided at the macro level. Even with regard to Railways, the original 7th Plan provision was Rs. 12,334 crores. It was expected that they would contribute Rs. 6700 crores through internal resources—partly at the 1984-85 rate of tariff and freight, and partly through additional resource mobilisation. Their contribution will be 55 per cent.

For 1985-86, the revised estimates say that their contribution would be 57 per cent. In 1986-87, including Bonds to the extent of Rs. 250 crores, it is expected that it will be 61 per cent. We were not looking so much at the cost of funds for the undertaking, as the totality of resources necessary for reaching the Plan figures, because there is a constraint on contributing more and more by way of budgetary support, with the Government being committed to non-Plan expenditures like those on Defence, subsidized foodgrains, etc. If these Bonds are not put through to reach target, to that extent taxes through Budget will have to go up. This is the important rationale. Originally, we thought of 14 per cent interest. It was felt that 14 per cent will be too heavy a burden on Railways. For them to substitute Budget support 14 per cent money would be costlier. That is why we have thought of a revised schemes with 10 per cent interest".

The Committee enquired as to what were the considerations which weighed with the Ministry of Finance to forego revenue on the proposed issue of 10 per cent tax free bonds. The representative of the Ministry of Finance informed as follows:—

"If we are not raising the Rs. 1,000—odd crores, there is no tax. Looking from the point of view of the Telecommunications, if they are going to raise it at 15 per cent, normally their entire capital is raised by internal resources or capital given by Government at 6 per cent or 6.5 per cent and compared to that—this alternative method of 14 per cent would be not realistic, and not economical. That is why in case of these basic hard care infrastructures like Railways,/ Telecommunications etc. which are getting money virtually interest-free, *i.e.* at 6 per cent, it would be better to have it at 10 per cent."

Asked to explain the difference in rate of interest of bonds to be issued by the Ministries of Railways and Communications, the representative of the Ministry of Finance stated:

"The Communications will go to the market shortly. They have a target of raising Rs. 330 crores. Possibly, in the Telecommunications, they have a greater flexibility in the sense that they could afford a slightly higher cost of money. The returns on investment are quicker. In the case of Railways, as basic infrastructure, there is a limitations, we are trying to tap both markets at 10 per cent and 14 per cent."

On being asked whether paying a high rate of interest will not force the Government to raise their fare and freights, the representative of the Ministry of Finance explained as follows:—

"If the Railway wants Rs. 250 crores and if this is to be contributed by the government, we have to raise it by taxation and the railway would have paid 6 per cent. On the other hand if the railways get Rs. 250 crores from Bonds they would be paying 10 per cent. Whereas the extra burden to the government would have been the entire amount or Rs. 250 crores".

The Committee pointed out that there were already two sets of capital on which the Railways paid dividend. One set related to capital invested on the Railways upto 31st March, 1980 where rate of interest was 6 per cent. The other set of capital related to the period thereafter where the rate of interest was 6.5 per cent. The present contemplated borrowing will be the third set carrying a rate of interest of 10 per cent. On an enquiry of the Committee whether it would not lead to multiplicity in railway finances, the representative of the Ministry of Finance stated:

"Between two requirements, one is the additional requirement of money. For instance, railway approved Plan outlay is Rs. 12,340 crores. If we are to live with this, then this bond may not be necessary. There are basic requirements. What you say is mere accounting jugglery, which I am confident, the FC and the other people will be able to take care".

In reply to a question as to how the additional funds sought to be raised would be utilised, the Chairman Railway Board replied:—

"There are certain specific type of activities which IRFC will undertake. It is true that the expansion of track does not fall within the purview of the fund taken. IRFC will raise the fund from the market. Certain equipments will be leased to us. It is true that this money will be utilised for certain specific purposes but indirectly it will help other areas also. The allocation of money which we would have otherwise given on rolling stock will now come down and the money will therefore, become available for other activities. Therefore, to some extent, it can go to other plans like new railway line. Therefore, it should be possible to spare something more even for other Plans."

Asked whether the results achieved commensurated with the investment made in the Railways, the Chairman, Railway Board stated:—

"About what has been the return to the nation or to the country on the investments made on the Railways which are quite huge, this matter was gone into by the Pande Committee in great depth. When the Committee was appointed, at that time, they had given excellent graphs or tables, which have got index number of investment and output in physical terms. They show that by and large the proportion of output increases in physical terms has been much higher than the inputs. The number of wagons has gone up in certain proportion. The output has gone up in much higher proportion, except a particular bad year when there was a strike. We have got an excellent certificate from the Pande Committee. After the Pande Committee Report, the performance of the Indian Railways has been even better, particularly in the year 1983 onwards and particularly last year. Although we are not increasing the track km. much more, but it is quite true the output in terms of freight from that very km. by more intensive utilisation has been quite remarkable."

On this the Committee pointed out that the number of coaches and wagon was less than warranted, at present, the Chairman, Railway Board stated:

"First of all, the replacement requirements of the Indian Railways itself are massive because the system is a very big system. Lot of money of the plan goes for it. Then our DRF is counted in the Plan. Eearlier, the replacement was kept outside the Plan. Later on it is within the Plan. Just to improve the system and the level of capacity, we do some things but what percentage of outlay goes to increase the capacity is a comparatively small percentage. Whatever money we get, for creation of additional capacity is spent on extension of track, and other things like. We do spend on line capacity increases, workshop, electrification, new locomotives, and so on. That is how the traffic has increased so much. This is done by making more intensive utilisation and by increasing productivity. For increasing productivity our workmen work more efficiently. Workers turn out is good. Because of them, the improvement is seen in the workshops, but it is also partly due to increase in the rolling stock and partly due to modernisation of equipment."

The Committee enquired whether a study of working of Railway Finance Corporations in foreign countries had been undertaken, the Chairman, Railway Board replied:—

"The one which we are thinking of is IRFC. We have not yet made a detailed study of the foreign countries. The conditions in other countries are different as far as financing is concerned. In the U.S.A. the whole system is in private hands, and the Government is only subsidising them. This has been the practice in the other countries also. In India the position is different, in the sense that we, the Indian Railways are expected to run the passenger traffic and also the goods traffic even if there is a loss on passenger, the socio-economic conditions being what they are, we are not expected to increase the passenger fares very high. The result is that passenger services are running into loss which is made up by freight. Thus, the position here is different from the other countries. Passenger lines in other countries are being subsidised considerably by the Government. In the British Railways and in the USA, Government has taken over or subsidised the services which cater to passenger traffic. Whatever losses occur there they are borne by Government. Here we are expected to run the total system at profit."

Asked to give the capital output ratio, Chairman, Railway Board informed the Committee as follows:—

"The ratio of our return and capital is also linked with the policy of tariff that we have. We have evolved a conscious policy of restraints on tariffs. We do not increase the tariff in line with increase in input costs. We have to face difficulties due to increase in prices, but we have to run the system by absorbing and partly by better productivity.

Secondly, we have to go by the socio-economic policies also. If we take into account the socio-economic obligation of the Railways alone, the rate of return is 18 per cent to the capital."

The Chairman, Railway Board further added:

"There were some increases later. We could not increase the tariff. Though we have now and then increased them, we cannot increase the same way from year to year. For one or two years, position can vary. It cannot be seen over a short period. But over a number of years, there are increase in the input costs. This year, we went a step further and decided that no increase in freight be there. These things have to be seen over a period.

The only other way left is by raising the tariff, but it will have inflationary effect on the economy. Our aim is to remain a surplus railway because it is good for the organisation that we should remain surplus. It is good for the image of the organisation for consultancy abroad. So, our effort always is to remain surplus even though marginally surplus after paying full DRF and dividend to the Government."

On the Committee pointing out that the Government could help the Railways by providing capital at low cost, the representative of the Ministry of Finance reacted by saying:—

"There is no way budget support can be increased. If the extra amount of Rs. 150/- is to come it is only through tax efforts."

The Committee enquired as to how the Department of Railways would identify the assets acquired as a result of public borrowing of funds from those created out of internal resources of Railways. The Adviser (Finance) Railway Board replied:

> "The arrangement is that whatever money is to be raised by the Indian Railway Finance Corporation—they will purchase rolling stock, equipment, etc. as needed by the Railways and will give them over to the Railways. We have made a calculation also. It is all for purchase of equipment, instead of rolling stock, locomotives, wagons, etc. They will purchase these and hand them over to us. The calculation that has been made is that they will charge us 0.5 per cent by way of service charges. In other words, if they raise a loan @10 per cent, they will charge the Railways 10.5 per cent. If today, we need a loan of Rs. 100 crores, they will float bonds for Rs. 100 crores. Then they will purchase assets of various categories amounting to Rs. 100 crores. We have made a calculation that we will pay them back Rs. 17 crores to Rs. 18 crores a year for a period of ten years. In the process, we will pay them back the entire capital of Rs. 100 crores plus 10.5 per cent interest per annum."

Asked about the surety the Railway bonds would provide to their purchasers, the Adviser (Finance) Railway Board stated:

> "These bonds are being floated initially against the equity capital given to us by the Ministry of Finance and the assets created from Bond money by the company will constitute security for Bond holders. Then this company will hold a lien in the Railways on the assets."

In reply to a further question as to who will guarantee the money of the purchaser of the bonds, the representative of the Ministry of Finance stated:

> "If guarantee is to be given, then there is no need for these bonds because in that case the Government could have increased their open market borrowings. But there are certain ceilings to do that. Here basically, the idea is to mobilise the surpluses of money available with the public. For intance, in the year 1985-86, the various private companies raised Rs. 2000 crores but the public sector raised only about Rs. 350 crores. The basic idea is taking note of the fact that large surplus monies are available with the public, whether we can directly mobilise that money

If we give a guarantee, then that will become a part and parcel of the deficit financing. So, the question of guarantee does not arise. But here again the vehicle that we are choosing is that the agencies would inspire the confidence of the public. Here, a new corporation is being set up. The entire assets which they will be giving on lease to the Railways will belong to them. Afterall, Railways are not going to run away with these assets. With this money Railways will be earning more. As far as the contributing public is concerned, they will go in for a company which will make a certain profit. Secondly, it is totally secured by the assets. They see in this new organisation a vehicle which is profitable and where the entire money raised is backed up by assets."

The Committee pointed out that since there was no government guarantee for these bonds and the period involved was as long as 20 years, the Government might not get as much money as anticipated. The representative of the Ministry of Finance stated:

"Our people are extremely discerning people. They go through each and every word written in the form."

To a further query of the Committee about Rail India Technical and Economic Services and Indian Railway Construction Company Limited going in for public borrowing, the Director (Finance) Railway Board stated:

"We did contemplate that IRCON could go to the market for borrowings. The equity capital of IRCON at present, is about Rs. 5 crores. The return on the investment is pretty high because they earn a profit of about Rs. 19 crores a year. If IRCON is to go to the market, their equity capital will have to be raised by about Rs. 50 crores or so. Then what will happen is that the return on investment will go down considerably and when the foreign railways see this low return on equity, that is likely to spoil their image and affect their competitiveness adversely."

Clarifying about RITES, the witness further stated:

"It is basically a consultancy firm. Equity capital is Rs. 50 lakhs. It will have to be increased to Rs. 50 crores. Return on that equity will be 2 to 3 per cent."

In reply to a question whether Government anticipated a good response in raising Rs. 100 crores, through the sale of bonds, the representative of Ministry of Finance stated:

> "If you take it from the beginning of the calendar year, NTPC, REC and others they got the requisite amount. In this way, we have already raised 550 crores so far from the market. We have not had any major difficulty in raising this loan so far.
>
> So far as Railways is concerned, the proof of the pudding will be in the eating. Last year, in the private sector and in the public sector we did realise Rs. 250 crores in the bond market with return of 14 per cent. Now we have 10 per cent tax free."

On comparing the loosing nature of Railways and profitability of NHPC, etc. by the Committee, the representative of the Ministry of Finance stated:

> "Credibility is very high so far as Railways are concerned. Bonds are secure 100 per cent.
>
> It is not Railways who are entering the market today. It is the Indian Railway Finance Corporation that is being set up. It will give a good account of itself".

The Adviser, Finance Railway Board further added:

> "Indian Railway Finance Corporation is a leasing company. They will be leasing to the Railways. Most of the leasing companies are making profit."

On a suggestion by the Committee that the funds sought to be raised by the Railways through the sale of bonds should be earmarked for construction of new lines and expansion and only then more people will buy these bonds, the Chairman, Railway Board replied:

> "Project linked debentures have got many limitations. First, the project must be remunerative. There are projects of socio-economic nature. Of course, many of them are linked with some factory or some plant or some commodity or the other. That has to be done. But then if we can save the money from the rolling stock and put it there, what is the difficulty?"

On a further query, Member, Engineering stated that:

> "It is true that some people are interested in the line; it is also equally true, some other people may not be interested in the line. The market that would be attracted by this thing would be different. I do not think that in some of the States there will be people who will be able to afford the total cost of the project, who will be able to come for these debentures. The cost of the project is fairly high."

The Committee enquired about the probable amount of money, proposed to be invested in new lines, as obtained from the sale of these bonds. The Chairman, Railway Board stated:

> "It is very difficult to give any sort of percentage. It will certainly give relief to the Railways in the overall situation. If we don't float Rs. 250 crores, our total plan outlay will go down. By floating this Rs. 250 crores, there is a bigger plan. The relief will have to be divided proportionately. I very much wish total and plan head-wise outlays could be determined in advance. But this has to be done on a year-by-year exercise."

The Member (Engineering) Railway Board further added:

> "Rs. 2650 crores is the annual plan outlay. Rs. 250 crores is to be raised by the debentures. Rs. 2650 crores is already allocated to the various plan heads and various works. Unless these Rs. 250 crores come, even those works under various plan heads may not get executed. If additional money comes we can do more."

On a suggestion that Government should take initiative in this matter, the Chairman, Railway Board stated:

> "That will be done in any case. We are thinking of new ways in which new lines can be operated in this country. In some of the foreign countries they have a system by which the regional and State Governments are funding new railway line projects—such system is there in foreign countries. It is not mutually exclusive. Sometimes the Railways may not want that line, but somebody else may want that line very badly. So, it is being done in those countries. This can be thought of as a separate procedure."

The representative, Ministry of Finance further pleaded before the Committee:

> "Basically, what we are thinking in terms is not new. One of the hon. Members has stated the procedure. What we are thinking is only supplementing to the margin, to the extent of 10 per cent. In the case of tele-communication, our thinking is that the entire funding will become independent of the Government. That is why we have set up Telephone Corporation. We feel they can run by themselves by raising money, totally and independent of the Government. In the case of railways, as we see in the near future, that situation will not happen. They will continue to be dependent on the Government. The joint market is only to a margin. We are thinking in terms of a new vehicle. I do not think it will seriously conflict with any, if we are thinking in terms of a new arrangement for substituting the existing method of financing. But it is only in the margin. This suggestion seems to be finally acceptable."

The Chairman, Railway Board further added:

> "You might allow it as an experimental measure for some time, for a year or so, and see how it works. During this period, we will not create a big infrastructure so that this Corporation will manage with minimum staff.
>
> With the help of the Finance Ministry, we will have a minimum skeleton staff. We need not perhaps delay the matter."

The Committee enquired about the desirability of making all the production units under the Department of Railways, as autonomous under one Corporation and thereafter allowing them to float bonds for purchase of rolling stock on hire purchase basis. The Chairman, Railway Board reacted by saying as follows:

> "This question of making production units as separate autonomous units has been debated in the past also. The thinking is that the present system has been working

well. In fact, all the production targets are being fulfilled these days. One of the dictum of the management is not to change a winning game if the strategy is working well. As a Government department, the production units have a certain authority, a certain weightage in dealing with various other people. For example, GM of DLW can have greater access to the Chief Minister of the State as he is a General Manager of the Indian Railways. In a sector like railways which is so huge and massive, neither pure Government department nor pure public sector will work successfully. The public sector was created mainly to have flexibility. The Railway Board which is a dual purpose organisation has worked well because we have more flexibility than what the normal Government departments have and at the same time, we have all the authority of the Government. This also percolates down to the production units. The second point is about coordination. The production units under the railways are better coordinated; otherwise, there will be all the time friction between producers and users. That is why, we are not making it into a corporation. And unless you make them a corporation, they cannot go to the market for borrowing."

The Chairman, Railway Board further stated that:

"It is not desirable to convert the production units into corporations. So, we are finding out a solution by which the departmental nature of these production units continues with better coordination with the users and States, etc. and with better authority. At the same time, we may have a corporation which goes into the market for borrowings.

Railways' experience with these departmentally run units has been found to be quite satisfactory but there is lot of coordination require. The Government's policy is that if you do not create autonomous bodies, then let these units work independently. It is a better system that they should remain under the same management. Public sector is supposed to be autonomous. Once they are autonomous, we cannot have same kind of control over them which we are having today. The very concept of public sector is one of basic autonomy."

In regard to the Coal India Ltd., controlling the coal companies, the Chairman, Railway Board stated:

> "They are supposed to be autonomous bodies under one administrative jurisdiction. Coal India's product is being used by somebody else but the products of our production units are being used by us. Secondly, the entire wagon industry is not under public sector."

Thereafter, the Committee adjourned.

RAILWAY CONVENTION COMMITTEE
(1985)

22nd Sitting 6-11-86

The Railway Convention Committee held its sitting from 1500 hrs. to 1715 hrs.

PRESENT

MEMBERS OF THE COMMITTEE

1. Shri Subhash Yadav—*Chairman*
2. Shri Ram Dhan
3. Shri Ram Ratan Ram
4. Shrimati Amarjit Kaur
5. Shri Bhagatram Manhar

SECRETARIAT

1. Shri N. N. Mehra—*Joint Secretary*
2. Shri K. H. Chhaya—*Chief Financial Committee Officer*
3. Shri Krishnapal Singh—*Senior Financial Committee Officer.*

NON OFFICIAL WITNESSES

1. Shri H. K. Paranjpe—*Ex-Chairman Rail Tariff Enquiry Committee*
2. Shri C. Venkataraman IAAS (Retired)—*Ex-Financial Commissioner, Railways*
3. Shri M. N. Buch—I.A.S. (Retd.)

The Railway Convention Committee took evidence separately of the three non-officials, whose names are mentioned above, on the subject of Resource Mobilisation—Public Borrowing for augmenting Railway Plan Finance.

A. Shri H. K. Paranjpe made the following points during his evidence:—

1. Railways have suffered from shortage of capital during the last two decades due to (a) static Railway Tariff Policy;

(b) dependence on Central Exchequer and consequent inadequate maintenance and arrears in replacements.

2. Requirement of railways for funds are always larger than actual allocations.

3. VIIth Plan needs more investment.

4. Internal resources of Railways are inadequate to provide investment, 50 per cent of funds have to be obtained from outside.

5. Idea to raise resources by railways from outside should be welcomed.

6. Railways to operate like a joint stock company having separate resources of finance and separate creation of assets.

7. Hire charges for use of assets will cover maintenance of assets and depreciation as well as replacement

8. Railways will have to adjust their tariffs and functioning to cover hire charges on assets.

9. The issue of railway bonds carrying interest at the rate of 10 per cent would only add to competition with other saving schemes of the Government of India.

10. Railways should issue bonds like other Government company i.e., IPCL, NTPC, etc. to tap small savings.

11. No separate company is justified if the borrowing is one time affair.

12. Borrowing from commercial Banks even at a rate lower than 10 per cent is not feasible as banks are compelled to invest certain parts of their capital in government loans at low rate.

13. Railways in foreign countries are operating by raising their capital requirement from open market and by mobilisation of their internal resources through freight and fare rate structure. Indian Railways should also be run on the same lines.

14. Take-over of railways by govt. as in case of sick industries is not possible under mixed economy, as ours, where individuals invest savings to earn profit.

15. People prefer road transport to rail transport to avoid pilferage.

16. There is no need for Ministry of Finance to obtain funds for railways if they are capable of raising it themselves.

B. Shri C. Venkataraman raised the following points:

1. Inadequate appreciation of the role of Railways in the economy of the country.

2. The allocations made by the Government to the Railways since Third Plan has been steadily going down, from 15½ per cent of the total Plan outlay on Railways in Third Plan, this percentage has come down to 5.23 in Sixth Plan.

3. Railway have to renew 20,000 kms. of track, replace 9,000 wagons etc. during VIIth Plan. All these require funds.

4. Two sources of funds; (a) internal generation; (b) Consolidated Fund of India.

Internal generation of funds is a first charge on profits. This is used in replacement of track, wagons, etc.

Depreciation has been stepped up to Rs. 200 crores in Sixth Plan and is going to be not less than Rs. 6,000 crores during Seventh Plan. It is 10,000 crores on capital-at-charge currently. Rs. 1250 crores is charged to depreciation this year. Thus Railways are generating adequate internal resources during Seventh Plan period.

Consolidated Fund—The RRC suggested that internal generation of funds by Railways should be 40 per cent and remaining 60 per cent should be contributed by the Ministry of Finance. But the position is reverse. More than 50 per cent of funds are provided by internal resources and the assistance from the Finance Ministry is coming down. This year's allocation by the Ministry of Finance is Rs. 1280 crores.

5. Railways to arrange Rs. 250 crores from market borrowing. Public borrowing is not a right thing to do since railways are a part and parcel of Government of India. It is unlike other public undertakings as there is no equity capital.

6. Railway Bonds will carry the rate of interest of 10 per cent per annum which will induce RCC to recommend an increase in the rate of dividend to 10 per cent or 10½ per cent.

7. For the past 35 years performance of Railways has indicated a rate of return on capital-at-charge varying from 5 per cent, 5.6 per cent, 6 per cent to 7.3 per cent. It is, therefore, doubtful whether railways could generate revenues to cover rate of interest at 10½ per cent.

8. Reasons for this are (i) Railways carry a lot of social burden; (ii) Unremunerative branch lines; (iii) No increase in passenger fares and freight rate is desirable as it will lead to inflation.

9. In case it is considered pressing to raise funds then it should be done through the Ministry of Finance and after raising the funds the Ministry should give the necessary funds to railways.

10. If Railways themselves are to raise funds then at a later stage Finance Ministry may press railways to generate their own resources by 50 to 55 per cent, reduce their contribution to railways; and further ask the Railways to raise the rest of their requirement of funds through Public borrowing.

C. Shri M. N. Buch raised the following points during his evidence:—

1. No justification for setting up Indian Railway Finance Corporation. The Government of India as a whole are in need of more resources, so why a corporation for railways only.

2. Creation of assets for Railways by RIFC can also be created in private sector.

3. Railways can earn a good income by constructing commercial buildings on their own lands instead of giving their land on lease or sent to other companies and then taking on rent the buildings constructed by them.

4. It is doubtful whether the income of Railways by floating bonds will increase to such an extent that they are able to pay off the principal and the interest thereon.

5. Additional expenditure will also have to be incurred on servicing the bonds.

6. Redemption period of ten years provided for repayment by Railways is too long.

7. Railways are a department of Government of India. Parliament have full control over its working. In case of Corporation, there is no such control over its working by Parliament. Capital acquired through bonds might dilute Parliament's authority.

8. In case railways are allowed to raise their own funds from the open market, it is likely that other departments of Government of India may also come up with such request.

9. It is doubtful whether within the existing financial management system, the Railways would be able to repay the bonds after 10 or 20 years.

Thereafter the Committee adjourned.

RAILWAY CONVENTION COMMITTEE
(1985)

23rd Sitting 26-11-1986

The Railway Convention Committee held its sitting from 15.00 hrs. to 16.30 hrs.

PRESENT

MEMBERS OF THE COMMITTEE

1. Shri Subhash Yadav—*Chairman*
2. Shri Basudeb Acharia
3. Shri Vijay N. Patil
4. Shri Ram Dhan
5. Shri V. Tulsiram
6. Shri Dipen Ghosh
7. Shrimati Amarjit Kaur
8. Shri Bhagatram Manhar

SECRETARIAT

1. Shri N. N. Mehra—*Joint Secretary*
2. Shri K. H. Chhaya—*Chief Financial Committee Officer*
3. Shri Krishnapal Singh—*Senior Financial Committee Officer.*

The Committee considered and adopted the draft Report on "Resource Mobilisation—Public Borrowing for Augmenting Railway Plan Finance", subject to the amendment mentioned in the Appendix.

The Committee authorised the Chairman to Finalise the Report and present the same to Parliament.

Thereafter the Committee adjourned.

APPENDIX

Page 25, paragraph 43: *For* the existing sentences beginning from "In that event the Committee" and ending in the last line "above may be examined", *read* the following:

> "In that event the Committee agree to the Government issuing separate bonds earmarked for Railways or a bigger Corporation being set up under the Ministry of Finance for raising funds for Government Companies and the Railways as mentioned in para 42 above."

MGIPMRND—(Latter Unit)—LS II—2613 LS—2-2-87—1180.