23

STANDING COMMITTEE ON RAILWAYS

(2006-07)

FOURTEENTH LOK SABHA

MINISTRY OF RAILWAYS
(RAILWAY BOARD)

[Action taken by the Government on the recommendations/ observations contained in the 11th Report of the Standing Committee on Railways (Fourteenth Lok Sabha) on 'X Five Year Plan of the Railways']

TWENTY THIRD REPORT

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

November, 2006/ Agrahayana, 1928 (Saka)

SCR No. 106

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Presented to Lok Sabha on ………..
Laid in Rajya Sabha on …………

LOK SABHA SECRETARIAT
NEW DELHI

November, 2006/ Agrahayana, 1928 (Saka)

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STANDING COMMITTEE ON RAILWAYS

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LOK SABHA SECRETARIAT

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2.	Shri A.K. Singh	-	Joint Secretary
3.	Shri V.S. Negi	-	Director
4.	Shri A.K. Kaushik	-	Assistant Director
5.	Shri U.C. Bharadwaj	-	Executive Officer

INTRODUCTION

I, the Chairman of the Standing Committee on Railways (2006-07), having been authorized by the Committee to present the Report on their behalf, present this Twenty Third Report of the Committee on Action Taken by the Government on the Recommendations/Observations contained in the Eleventh Report of the Standing Committee on Railways (2005-06) on 'X Five Year Plan of the Railways'.

2. The Eleventh Report was presented to Lok Sabha on 08.08.2005 and it contained 7 recommendations/observations. The Ministry of Railways have furnished their Action Taken Replies on all the recommendations/observations on 28.12.2005

3. The Committee considered and adopted the Draft Action Taken Report at their sitting held on 18.09.2006.

4. An analysis of the Action Taken by the Government on the recommendations/observations contained in the Eleventh Report of the Standing Committee on Railways (2006-07) Fourteenth Lok Sabha is given in Appendix-II.

NEW DELHI;
November, 2006
Agrahayana, 1928 Saka

BASUDEB ACHARIA
Chairman,
Standing Committee on Railways

CHAPTER - 1

REPORT

This Report of the Committee deals with the Action Taken by the Government on the recommendations/observations contained in the 11th Report of the Standing Committee on Railways (2004-05) on 'X Five Year Plan of the Railways' which was presented to Lok Sabha on 03.08.2005.

1.2. The aforesaid Report contained 7 recommendations/observations Paras. Action Taken Notes have been received from the Government in respect of all the recommendations/observations which have been broadly categorized as follows.

(i) Recommendations/observations which have been accepted by the Government – Para Nos.3.1, 3.2 and 3.3

(ii) Recommendations/observations which the Committee do not desire to pursue in view of Government's reply – Para Nos. 3.4, 3.6 and 3.7

(iii) Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee – Para No. 3.5

(iv) Recommendations/observations in respect of which final replies are still awaited – Nil

1.3. The Committee will now deal with the action taken by the Government on some of their Recommendations/Observations.

Viability criteria of Projects

Recommendation (Para No.3.5)

1.4 The Committee in the aforesaid paragraph had found that the Railways in the absence of substantial resources for investment in the infrastructure have for the first time in 1994 decided to mobilize resources for projects through external sources and floated a BOLT Scheme to attract private investment. Later on this Scheme was redesigned as Built, Operate and Transfer Scheme. However, the Committee noted that no substantial investment from Private Sector had registered during VIII and IX Plan under the Scheme. Later on in January, 2003 the Ministry constituted Rail Vikas Nigam Limited (RVNL) to focus towards resource mobilization and execution of bankable projects having Rate of Return (ROR) of more than 14%. To boost State Government and Public Sector participation in the execution of viable projects, the Committee had emphasized to explore the possibility of Joint Ventures and Special Purpose Vehicles (SPV) with States just as in the case of Maharashtra, Andhra Pradesh, Karnataka, Tamil Nadu, Jharkhand and West Bengal. They found that the requisite condition of 14 per cent as ROR to declare a project as viable had further worsened the malady and as a result most of the projects were left out of the scope of RVNL. The Planning Commission had also informed the Committee that the extant ROR (i.e. 14 per cent) could be reviewed in the light of low inflationary norms and declining interest rate. The Committee, having gone into the entire gamut of investments needs in rail infrastructure projects, had recommended that the Railways must accord utmost priority to partnership in execution of rail projects and the existing criteria of 14 per cent rate of return to decide the viability of projects be considered for review so that more and more projects could be brought in to the purview of RVNL for execution.

1.5. The Ministry of Railways, in their Action Taken reply have stated as under:-

"Prior to 1969, financial appraisal of Railway projects was done on the conventional system, taking into account a cut-off return of 6%, assuming that to be the dividend rate. However, later on, it was considered necessary that the productivity from the Capital should be improved and one of the ways was to undertake new investments only when the returns are higher. It was therefore decided to set up a Committee in 1968, which would examine and recommend suitable methods of project evaluation and cost benefit analysis to supplement/supplant the conventional menthod of assessement of financial viability of projects. The Committee recommended that the rate of return be so fixed for the Railway investment as to leave a surplus, after meeting the dividend liability, sufficient to cover Capital formation out of internal resources. The rate of return was enhanced to 10% in July, 1969.

Ministry of Finance vide their office memorandum dt. 23/08/1984 laid down that only those projects with a financial rate of return exceeding 12% should be posed to PIB for the consideration in future. In the background of

Ministry of Finance's letter the rate of return was further increased to 12%. Consequent on the reduction in budgetary support and limitation on internal generation of resources. Railways were required to resort to market borrowing, which was done through Indian Railway Finance Corporation and the lease charges were at the rate of 14.5%. This led to further increase in ROR from 12% to 14%.

The issue of revision of rate of return has also been deliberated upon by a number of high-powered Committees. Their recommendations are summarized below:-

(1) The **Railway Freight and Fare Committee (Dec.1993)** recommended vide para no.8.6.9 of their report that Indian Railway might have to earn a minimum of 16% return if it were to meet its investment needs.

(2) **Standing Committee on Railways (2001)** in the ninth report have stated as under "The Committee are of the firm opinion that the time has come to stop the blanket liberty presently in practice in the Railway Board to distribute the largesse resulting in spreading the rare resources thinly. They are of the opinion that those projects which are near completion stage/viable must get priority. The projects which are socially desirable be taken up only when matching funds are either assured by the States concerned or the Central Government. They strongly recommend that existing priority of on-going project be reviewed critically and it must not be a mere categorization of projects but realistic enough in terms of funding requirement."

(3) One of the recommendations of **Railway Safety Review Committee,** 1998 better known as Khanna Committee (para 2.3.2) which submitted its report in Feb. 2001, is as following:
"Financial justification should be the only consideration for approving and prioritizing an investment proposal. Further projects which yield a minimum return of 20 percent, slightly more than the prevailing market rate of return, should henceforth be undertaken."

(4) **Rakesh Mohan Committee** in Chapter IV of their Report, have observed that Indian Railways are at a crossroads. All the indications are that Indian Railways is facing a financial crisis and without a strategic change in direction its future as a viable entity is dim. There is a need for a more focused investment programme that enhance IR's productivity and which expands its capacity to cope with traffic growth projected. Investment expenditures that do not result in additional revenues must be eschewed. At another place in the same Chapter, the Committee has drawn attention to the great difficulties IR faces in keeping up adequate level of investments. The problem has been compounded by the change in investment priorities where attention has been given to unremunerative projects. Also projects funded out of internal resources need to be selected through a rigorous screening process and identified as being of the highest organizational priority on which the limited internal resources should be invested. It has also been observed by the Committee that "an inherent conflict of approach is evident in the promotion of an investment strategy that perpetuates resource constraint."

1.6 Railways are conscious of their responsibilities towards socio-economic and industrial development of backward areas not connected by a reliable transport network. Regardless of the benchmark of 14% many projects on Indian Railways are sanctioned on socio-economic and developmental considerations.

1.7 The prescribed cut – off rate of return being followed in Indian Railways for determining the financial viability of projects constitutes not only the cost of capital but also provision for capital formation, risk factors etc. Besides paying dividend to General Revenue, the Indian Railways are required to make provisions for Depreciation Reserve Fund (DRF), Pension Fund and Development Fund (DF). Since railways have initiated a plan to cater to the modernization, operational improvement and throughput enhancement for quantum jump in the traffic expected on Indian Railways, it has become imperative that adequate surplus is generated to take care of the requirements of Development Fund (DF).

1.8 It is also relevant to point out here that only about 50% of the total Plan Expenditure of IR, which is Rs.15,000 crore in 2005-06, gets Budgetary support from the Central Govt. The balance 50% has to be necessarily funded through internally generated surplus and other market borrowings. There is a crying need to increase the internal generation of resources for financing projects (through DRF, DF etc.). Therefore, only those projects which are capable of generating high returns, need to be taken up. To enable selection of such projects, it is necessary to keep the cut off percentage of ROR at sufficiently high level and this justifies 14% ROR as cut off percentage for selecting projects for investment.

1.9 Railways are at present having a shelf of 240 projects, of which only about 17.5% are meeting the criteria of ROR laid down. Addition of projects to the existing basket without the requisite ROR will affect the financial viability of the system. So far as RVNL is concerned, the projects are examined by independent financial institutions for their bankability. Considering the long gestation period for the infrastructure projects like Railways, it will be difficult to find resources, for unremunerative projects. Unlike budgetary support, debt servicing liability on these projects will devolve on the Railwys and it is necessary to exercise adequate caution before posing projects for debt financing."

1.10. The Committee had made the aforesaid recommendation with a view to facilitating the inclusion of more and more projects under the purview of RVNL. They note that RVNL constituted in January, 2003 with the main objective to supplement the efforts of the Railways to mobilize adequate resources for investment in rail infrastructure, selects only those projects for execution which has a rate of return of 14 per cent or more so as to ensure their financial viability. The Committee have time and again glossed over the extant criteria of 14 per cent as rate of return to declare a project as financially viable. To this sequel, they had discussed with the Planning Commission and they were also of the view that considering the declining interest rates and low inflationary regime, the prevailing criterion of 14 per cent rate of return could be reviewed. The Committee are constrained to note from the Action Taken Reply that the Ministry of Railways have not given any serious consideration to their recommendation about according of utmost priority to partnership in execution of rail projects. As the Railways find it

difficult to mobilize adequate resources through the normal course of budgetary support for ongoing projects which have a huge throw forward of more than Rs.47000 crore, the Committee are of the considered view that investment through Joint Ventures of Public Sector Undertakings and State Governments participation is an inevitable preposition. They consider that in this way the Railways would be able to meet their obligation of socio-economic development of backward regions by ensuring adequate funds for execution of ongoing projects in these areas and leaving the bankable projects exclusively under the RVNL for implementation and execution. They, therefore, reiterate their earlier recommendation for according utmost priority to partnership and also stress that the existing criteria of 14 per cent Rate of Return for deciding viability of the project be reviewed at the earliest.

CHAPTER-II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

(Recommendation Para No. 3.1)

The Committee note that gives the huge throw forward of ongoing projects of about Rs.46000 crore and inadequate mobilization of resources particularly the Internal & Extra Budgetary Resources (IEBR), the Railways at present are facing tremendous pressure to sustain their growth. Their credibility in terms of safety, punctuality, speed and reliability has further added to their concern. The emergence of quality highways and pipeline sectors have also posed stiff competition in regaining the lost traffic from these sectors. The unabated inclusion of non-viable projects year after year without making provisions of adequate financial resources has put tremendous pressure on the Railways to cope up with maladies affecting their growth. The Committee find that out of Rs.27,600 crore budgetary support earmarked for X Plan, more than 70 per cent has already been placed at the disposal of the Railways during initial three years of the X Plan itself. The Contribution of IEBR as percentage of total X Plan IEBR is only about 55 per cent whereas the share of internal resources has drastically plummeted to 17 per cent in 2002-03, 19 per cent in 2003-04 and 20 per cent in 2004-05 (BE) of the Plan outlays. Taking into account all these facts, the Committee are of the view that Railways have not been able to install the self-propelling system which progressively pushes the organization towards the achievement of higher growth rate year after year. They find that the X Five Year Plan (2002-07) also emphasize for commercial role for the Railways while it continues to play social and developmental role for which suitable compensation be provided. The Committee are of the opinion that the Railways should gradually more towards self-sustaining, commercial system. However, while doing so the Railways must continue to play social and developmental role.

Further, in view of the new emerging horizons of conpetition from the quality highways and pipeline sectors and the lack of desired efficienc, safety and reliability levels, the Committee are of the considered view that the Railways must

concentrate to improve their efficiency level by (i) adopting transparent accounting system based on cost center and profit center approach, (ii) providing better throughputs on Golden Quadrilateral diagonals and viable corridors and (iii) ensuring better connectivity between ports and hinterlands.

Reply of the Government

(i) Terms of reference (TOR) of the Accounting Reforms Project already includes the Standing Committee on Railway's recommendations contained in Para 3.1 on the subject "X Five Year Plan of Railways" and will be duly implemented at the time of execution of the project.

(ii) In order to improve the throughput on the Golden Quadrilateral and its diagonals, the National Rail Vikas Yojana was announced in 2002, which includes strengthening of the Golden Quadrilateral and its diagonals. Rail Vikas Nigam Ltd. (RVNL), a special purpose vehicle has been set up to execute the works of strengthening of the Golden Quadrilateral and its diagonals. Apart from the projects covered in National Rail Vikas Yojana, Minister for Railways in his reply to the Budget 2005-06 mentioned that Dedicated freight Corridors are proposed to be provided on Golden Quadrilateral and other high density routes. The study for dedicated corridor on Delhi-Howrah and delhi-Mumbai routes has already been taken up.

The removal of bottlenecks on other freight intensive routes is also being given priority and works related to doubling and multiple lines on these routes have been taken up/are planned so as to generate additional capacity. Seven high density corridors have been identified and route wise approach is being adopted in implementation of various throughput enhancement works.

(iii) Indian Railway attaches considerable importance to the development of rail connectivity to the ports under National Rail Vikas Yojana (NRVY). An initiative has been undertaken for strengthening port connectivity. A total of 29 projects including 21 sanctioned and 8 unsanctioned projects have been identified as port connectivity works as of now. Out of this total of 21 projects (13 sanctioned and 8 unsanctioned projects) have been transferred to Rail Vikas Nigam Limited.

A Committee of Secretariat under the Chairmanship of Member Secretary, Planning Commission has been formed on the directives of Hon'ble Prime Minister to make recommendations on improving rail-road connectivity of major ports. Member traffic, Railway Board is also one of the members of the Committee along with Secretary, Shipping, Secretary/Road transport & Highways and Secretary/Environment & Forest. Meetings are being held by the Committee to identify the projects needed for strengthening rail connectivity to major ports.

[Ministry of Railways OM No.2005/BC-II/XIV/300/6 dt.02.11.2005]

(Recommendation Para No.3.2)

The Committee find that the Central Exchequer has provided about Rs.58474 crore since 1951 to 2004-05 to Railways as Budgetary Support enabling them to invest in infrastructure projects. The latter has paid Rs.34756 crore as dividend to the formaer during the same period. The Budgetary Support to the Railways has increased manifold in absolute term since VIII Five Year Plan. The Railways received Rs.7311 crore as central assistance in VIII Five Year Plan. During the IX Plan Rs. 15551 crore was provided to the Railways as Central Assistance including Rs.1140 crore a share of Road Safety Fund and Special Railway Safety Fund. The average share of the Railways in budgetary support to the Central Plan during IX Plan was 6.32 per cent. During the X Five Year Plan, the Gross Budgetary Support (GBS) has been approved to the order of Rs.27600 crore including Rs.10,965 crore and Rs.2150 crore contribution under the SRSF and RSF respectively. The Planning Commission submitted that 70 per cent of the X Plan budgetary support has already been provided to the Railways. During 2004-05, the budgetary support has been raised to Rs.8157 crore and this will not come down from Rs.8000 crore per year during the remaining two years of the X Plan. Thus, Railways would be getting about Rs.36000 crore as Gross Budgetary Support by the end of X Plan which is more than approved in the Plan document. However, the Planning Commission stated that the real problem is not the Gross Budgetary support to the Railways but the low level of IEBRs.

Further, over the years acquired financing pattern by the Railways exhibits a continued reliance on the budgetary support. The share of the Central Assistance to the Railways has become more than 50 per cent of the Plan. The Commission further stated that the Railways being a commercial organization should first finance its Plan substantially by Internal Resources. The Committee observe that due to some inherent distortions in the Railways Policy framework, the financial health of the Railways is not growing with the result that even the projected targets

of IEBRs could not be achieved during the IX Plan. They feel that Railways have to ensure greater financial discipline and efficiency in their functioning.

<u>Reply of the Government</u>

The trend of funding in the first four years of the X Five Year Plan is given in the following table :

(Rs. in crore)

		As proposed by Railways	As approved by Planning Commission	Actual Performance				
				Year	Internal Generation	Market Borrowings		Total IEBR
A.	IEBR	24,072	33,000	2002-03	3113	2517		5630
	Internal Resource (incl. Safety surcharge)	14,072		2003-04	3475	2837		6312
	Market borrowings	10,000		2004-05 (Actuals)	3712	3041		6753
				2005-06 (BE)	4718	3400		8118
				Total	15018	11795		26813
				Year	BS	SRSF Cont.	Diesel Cess Share*	Total CBS
B.	Gross Budgetary Support	40,615	27600	2002-03	4264	1350	164	5778
	• Budgetary Support	27,500		2003-04	5315	1600	166	7081
	• Contribution to SRSF	10,965		2004-05 (Act.)	5466	2975	201	8642
	• Share out of diesel cess	2,150		2005-06 (BE)	3821	2699	711	7231
				Total	18866	8624	1242	28732

- The amount received as Railway share out of diesel cess have been Rs.264 crore, Rs.433 crore, Rs.401 crore as per RE of 2002-03, 2003-04, 2004-05 respectively.

From the above table it will be seen that under IEBR portion, while the Railways has already achieved a higher internal generation in first four years of the X Plan s per the projections made, by the end of the terminal year of the plant it would also be achieving the IEBR target fixed by the Planning Commission. As regards Budgetary Support, the demand has been toned down by the Planning Commission initially. However, in the first four years the funds received have already crossed the allocated funds. This is mainly an account of Rs.1550 crore received for funding the national project of Udhampur-Srinagar-Baramulla New Line, which is treated as outside the Railway Plan and Rs.1017 crore received for Rail Vikas Nigam Limited out of the Viability Gap Fund which did not form part of the initial X Plan.

It is the endeavour of the Railways to increase its internal resources by increasing the earnings and managing the expenditure. These efforts have resulted in increased internal resource generation of the Railways and the same facilitated an increased appropriation to various funds by Rs.1861 crore over the budgeted figure of Rs.10,140 crore in 2004-05. It also enabled the Railways to discharge the deferred dividend liability by Rs.483 crore. Further, the Operating Ratio for 2004-05, which broadly indicates the financial health of the system, improved to 90.98% as against budgeted projection of 92.58%. The financial results in the current fiscal, so far, are also encouraging and Railways are expected to further improve their Operating Ratio and appropriation to various funds over the budgeted figure.

[Ministry of Railways OM No.2005/BC-II/XIV/300/6 dt.02.11.2005]

(Recommendation Para No.3.3)

Despite the fact that the Railways have registered a continuous improvement in the utilization of their assets, a shortfall to the extent of 36 million tones in the freight traffic in the terminal year or IX Plan was registered. The Railways attributed this to the recessionary trends in the economy. The Committee note that during the X Plan, the freight traffic for that terminal year of X Plan is fixed at 624 MTS of original traffic and 396 BNTKMS of freight output. In the mid term appraisal, the freight output has been revised to 424 BNTKMS. The Committee were informed that against the target of 580 MTs planned during 2004-05. Railways would be achieving something in between 590 to 595 MTs and 5.8 per cent compounded growth to BNTKMS. Therefore, freight target of 624 MTS targeted would be achieved easily while keeping the average growth rate of freight at 5.6 per cent per annum as against the required growth rate of 4.8 per cent. However, the growth rate in passenger segment would be approximately 1.9 per cent in number of passenger and 3.8 per cent in passenger Kms. Only as against the

target growth rate of 2.6 per cent in number of passengers and 4.8 per cent in passenger Kms. Respectively.

The Committee feel that the Railways do need a strategic shift in their objectives to become more and more user friendly and market savvy in their business. They should develop their enterprise to respond instantly to customers needs and market forces. The committee are of the view that the Railways must augment their capacity and simultaneously accord topmost priority for improvement of safety and reliability.

Reply of the Government

During 2004-05, Railway achieved revenue earning originating freight loading of 601.89 million tones, registering a growth of 7.98% on the originating freight loading of 2003-04. In terms of freight output, railway achieved 411354 million NTKM, which was 7.90% as compared to the freight output of 2003-04. the revenue earning freight loading target for the year has been kept at 431800 million NTKM, a growth of 4.9% over the freight output of 2004-05.

The Railways have worked out strategies to meet the market demand. The significant contribution in achieving this objective were:

(i) Radical changes have been made in the Good Tariff to make it simple, rational and transparent. While, rationalizing Goods tariff in the Railway Budget 2005-06, the total number of classes have been reduced from 59 to 27 in stages and over 4000 commodities have been reduced to 80 main commodity heads. Each group of commodities has a single uniform class for the various commodities in the group irrespective of there being in different physical form, shapes or conditions.

The concept of minimum weight for charge (MWC) has been done away with to bring in complete transparency in the system of charging freight by suitably adjusting freight rate for lighter commodities.

(ii) Improved back loading of traffic in the empty direction of movement of rolling sotkc.

(iii) Intensive monitoring of freight stock through the use of FOIS which has resulted in improved wagon turn round and the resultant wagon productivity.

(iv) Focused attention on the terminal performance in the zonal railways will help in improving the mobility of wagons.

(v) For improving the wagon turn round further, the terminal improvement works, throughput enhancement works and sidings required to be electrified have already been identified. The Preferential Traffic Schedule has been replaced by Preferential Traffic Order (General Order No.79), the provisions of which will help in improving the wagon turn round.

(vi) For addressing the need of consumers of various sectors, Indian Railway had organized meeting with these sectors. The issues raised by the consumers are accordingly being addressed appropriately.

Railways have also introduced a strategic shift in their objective by becoming more user friendly and market savvy in their business. In the current year's Railway Budget, a number of innovative schemes have been announced for attracting freight traffic. These include:-

(i) Wagon Investment Scheme
(ii) Integrated Warehousing Scheme
(iii) Liberalisation of Siding Rules
(iv) Premium Registration Scheme
(v) Incentives for adopting Engine on Load Concept
(vi) Rationalisation of free time for Loading/Unloading
(vii) New initiatives in Parcel Policy

As a result of the above initiatives, it is expected that additional freight traffic would be attracted towards railways.

Safety is the prime concern of Indian Railways and adoption of new measures to improve safety is a continuous process. The measures being taken by Indian Railways to improve safety include adoption of suitable and modern technology for interlocking and signaling system, upgradation of standards of track and rolling stock, modernization of maintenance practices, replacement of overaged assets, upgradation of training aids like simulator, checks on observance of safety precautions and provision of Anti Collision Device (ACD).

In order to improve the Railway safety, a Corporate Safety Plan for the next ten years i.e. from 2003 to 2013 has been drawn up. The main objectives of the Safety Plan are to achieve reduction in rate of accidents per million train kilometers, implement measures to reduce chances of passenger fatality substantially in consequential train accidents by 2013, focus on development of manpower through major improvements in working environment and training to reduce the accidents attributable to human failure, achieve safety culture on all fronts including maintenance depots, worksites, stations, control etc. progressively achieve an environment of “Fail-proof” from the present “Fail-safe” system of asset failures by upgrading the systems by 2013, prioritization of safety related projects and implementations of accepted recommendations of RSRC at an accelerated pace.

[Ministry of Railways OM No.2005/BC-II/XIV/300/6 dt.02.11.2005]

CHAPTER-III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT'S REPLY

(Recommendation Para No.3.4)

As on date, the Railways' shelf consists of more than 200 ongoing projects of New Line, Gauge Conversion, Doubling, Electrification and Metropolitan Transport. The present throw forward of these ongoing projects has been assessed more than Rs.46000 crore. Majority of these projects are found to be non-viable i.e. having less than 14 per cent rate of return required as per the extant guidelines.

The Committee find that inadequate funding to execute these projects has led to time-overrun which has ultimately resulted in enormous cost overrun. The rare and valuable resources allocated to complete these projects were allowed to spread scarcely, which did not yield any tangible results. The priority criteria adopted by the Railways in November, 1998 did not adhere to the principles of capacity augmentation and completion of last mils projects in true sense. The Committee also notice that the Planning Commission has been consistently emphasizing for the review of the criteria of priority norms fixed in 1998. However the Ministry of Railways are not adhering to that. The Committee are of the considered view that unless pragmatic approach towards the priority fixation criterion is accorded, the desired results are not going to be achieved. Commercial viability, capacity augmentation and strategic consideration require urgent attention of the Railways while fixing the priority of projects. Therefore, the Committee recommend the Railways to review the extant criteria of priority fixation procedure and fix the priority of projects afresh in consultation with the Planning Commission. The Committee also recommend that the socially desirable projects may also be accorded due consideration while priroritising the projects.

Reply of the Government

The large shelf of projects of more than Rs.47,000 crore is primarily on account of number of projects taken up on socio-economic consideration and to meet aspirations of the people, which could not be ignored. On the one hand, Railway is expected to function as a commercial organization but on the other hand Railway is also asked to discharge country's social obligation for providing an easy & economic mode of transport to the general public at large, helping in the overall development of economy of the area and bringing about national integration. Hon'ble Supreme Court have also commented on the role of Railways in the development of backward areas in their judgment on the writ petition challenging the formation of seven new Railway Zones, as under:

"It has been contended that the objective of developing backward areas or to meet public demand, new zones have been formed and such a step will not be consistent with efficiency in administration. There two factors are noticed not in isolation but along with other criteria as to increase in traffic load and accessibility. Therefore, the contention ignores all the factors taken into consideration and is not tenable. Even otherwise to meet the demands of backward areas cannot by itself be inconsistent with efficiency. When Railway is a public utility service it has to take care of all areas including backward areas."'

However, to have focused investment so as to complete expeditiously the last mile projects and viable/operationally required projects of new line and gauge conversion. Railways have reviewed the criteria for priority fixation of the projects. The Cabinet Committee on Economic Affairs 9CCEA) has considered the note for prioritization of railway projects of new lines and gauge conversion excluding the projects under implementation by Rail Vikas Nigam Limited (RVNL), in their meeting held on 20.04.2005. While considering this note, CCEA has taken due note of the social obligation to be discharged by Indian Railways. As per this, the prioritization of ongoing new line and gauge conversion projects have been done and projects have been categorized in the following four categories:-

(i) Last mile projects – where expenditure is more than 60% of estimated cost and throwforward is less than rs.100 crore.
(ii) Viable projects/those required on operational considerations.
(iii) National Projects, Defence funded projects, cost sharing, public private partnership projects and those in North Eastern Region.
(iv) Other ongoing projects that are not covered in the above categories.

The projects under category (iv) include projects taken up on sociao-economic considerations.

While the projects have been categorized in different categories as given above, within a category there is no inter-se-priority.

[Ministry of Railways OM No.2005/BC-II/XIV/300/6 dt.02.11.2005]

(Recommendation Para No.3.6)

The Committee note that the Railways are simultaneously implementing various funds/schemes like the Special Railway Safety Fund, Road Safety Fund, Corporate Safety Fund, Integrated Railway Modernisation Plan, Remote Area Rail Sampark Yojana and National Rail Vikas Yojana. Though the objectives of these schemes may be different but the overall aim is to ensure better capacity, safety, reliability and punctuality of trains. Moreover, the Central Assistance is separately earmarked for each of these schemes. The Committee apprehend that so many schemes may cause confusion and lead to over lapping of aims and objectives of these schemes. They further apprehend that it may lead to over lapping of expenditure also. They are of the view that all these ongoing schemes may be pooled together under an integrated scheme to ensure cost and time efficiency and to avoid over lapping of expenditure and efforts.

Reply of the Government

The funds/Schemes detailed in para 3.6 are not exactly "Schemes" as normally visualized in the Planned Schemes of the Planning Commission. Works sanctioned under the various scheme like Integrated Railway Modernisation Plan, Remote Area Rail Sampark Yojana, National Rail Vikas Yojana etc. appear as individual items in the Railway Budget document "Works, Machinery and Rolling Stock Programme" of the Railways and as such the question of overlapping of expenditure does not arise Special Railway Safety Fund and Road Safety Fund are funds set up to fund individually sanctioned works as mentioned above. Railways have elaborate rules of allocation which ensure that every sanctioned work draws money from an identified source and no duplication/overlapping takes place.

There is no such fund like Corporate Safety fund. It may, however, he stated that as a follow up action for implementation of one of the recommendations made in the Report of Railway Safety Review Committee – 1998 (Khanna Committee), the "Corporate Safety Plan" of Indian Railways for the period 2003-2013 has been finalized . The Corporate Safety plan states the objectives, targets and strategies for which the Indian Railways would be striving in the period 2003-2013. The document encompasses the priorities for the safety related works and time frame to complete them alson with assessed approximate requirement of financial investment.

Integrated Railway Modernisation Plan states the objectives, targets and strategies for modernization of Railways in the period 2005-2010. The document encompasses the priorities for the modernization related works and time frame to complete them along with assessed approximate requirement of financial investments.

The Remote Area Rail Sampark Yojana is a scheme consisting of projects sanctioned on socio-economic consideration with the intention of connecting remote and backward areas with the Rail network. In Order to speed up the execution of these already sanctioned projects the Remote Area Rail Sampark Yojana was announced.

National Rail Vikas Yojana consists of identified works for removal of capacity bottle necks on Indian Railways Rail Vikas Nigam Limited has been set ujp for execution of projects under National Vikas Yojana.

[Ministry of Railways OM No.2005/BC-II/XIV/300/6 dt.02.11.2005]

(Recommendation Para No.3.7)

The Committee find that the target for the X Plan for major projects namely new lines, gauge conversion and doubling of tracks has been fixed as 1310 kms., 4000 kms. And 150 kms. Respectively. In the first two years of the Plan the target fixed were 439 kms. For new lines, 1317 for gauge conversion and 590 kms. or doubling. The Committee find that as against these targets, Railways could achieve 340 kms. of new lines, 1684 kms. of gauge conversion and 400 kms. of doubling during the period. The Railways are way ahead in achieving the gauge conversion target of 2684 kms. set by the end of 2004-05, but are lagging behind in the field of new lines and doublings because of the problems relating to land acquisition, forestry clearance and contractual failure etc. Railways are therefore, not keeping pace with the pro-rate targets of X Plan target under these Heads. The committee further recommend that the Railways and the Planning Commission should shun their conservative approach while clearing the projects which are socially desirable and having great importance in view of the developmental needs of the backward areas. They also recommend that the Railways must identify the missing links and areas requiring where gauge conversion from Narrow/Metre gauge to broad gauge is undertaken extensions and accord due priority to complete the same which on completion will increase the freight earnings and market share of the Railways.

Reply of the Government

Railways have been taking up numerous new line and gauge conversion projects on socio-economic consideration and/or having great importance in view of the developmental needs of the backward areas. In fact most of the 84 projects falling in category IV as per the prioritization of the Railway Projects recently approved by the Government on 20.04.2005, have been taken up on socio-economic consideration though not justified on viability criteria . The throwforward of these projects as on 01.04.05 is approximately Rs.20,000 crore. Every year, as part of the Budget exercise, the missing links and areas are identified and works got sanctioned and executed to remove bottlenecks and operational constraints.

CHAPTER – IV

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

(Recommendation Para No.3.5)

The Committee find that the Railways does not have substantial resources for investment in the infrastructure. The Railways first time in 1994 decided to mobilize resources for projects through external sources and floated a BOLT Scheme to attract private investment which was later on redesigned as Build Operate Transfer (BOT) Scheme. The Committee note with concern that no substantial investment from private sector has been registered during VIII and IX Plan for rail infrastructure projects under the aforesaid scheme. A Rail Vikas Nigam Limited (RVNL) has been constituted in January, 2003 to focus towards resource mobilization and execution of bankable projects having rate of return of more than 14%. Though the Railways have recently initiated certain efforts for Joint Ventures and Special Purpose Vehicle as in the case of State of Maharashtra, Andhra Pradesh, Karnataka, Tamil Nadu, Jharkhand and West Bengal, to boost State Government and Public Sector participation in the execution of viable projects, the Railways still needs to mobilize the much needed investment. The Committee emphasise that Railway should explore the possibility of joint ventures with other States and well on the similar lines. The committee have found that the requisite condition of 14 per cent as rate of return to declare a project as viable has further worsened the malady as most of the projects are not judged as viable project and are left out of the scope of RNVL. The committee were informed by the Planning Commission that under the present low inflationary norms and declining interest rate, the extant rate of return (i.e.14%) could be thought of for review. The Committee, after having gone into the full spectrum of the need for investment in rail infrastructure projects, have come to a conclusion that the State Government and Public Sector participation in rail infrastcture projects may prove the real panacea for financial health of the Railways, They, therefore, recommend that the Railway's must accord utmost priority to partnership in the execution of rail

projects. They also recommend that the existing rate of return i.e. 14 per cent as the viability criteria of the projects be considered for review so that more and more projects could be brought into the purview of RVNL for their execution.

Reply of the Government

"Prior to 1969, financial appraisal of Railway projects was done on the conventional system, taking into account a cut-off return of 6%, assuming that to be the dividend rate. However, later on, it was considered necessary that the productivity from the Capital should be improved and one of the ways was to undertake new investments only when the returns are higher. It was therefore decided to set up a Committee in 1968, which would examine and recommend suitable method of project evaluation and cost benefit analysis to supplement/supplant the conventional menthod of assessement of financial viability of projects. The Committee recommended that the rate of return be so fixed for the Railway investment as to leave a surplus, after meeting the dividend liability, sufficient to cover Capital formation our of internal resources. The rate of return was enhanced to 10% in July, 1969.

Ministry of Finance vide their office memorandum dt. 23/08/1984 laid down that only those project with a financial rate of return exceeding 12% should be posed to PIB for the consideration in future. In the background of Ministry of Finance's letter the rate of return was further increased to 12%. Consequent on the reduction in budgetary support and limitation on internal generation of resources. Railways were required to resort to market borrowing, which was done through Indian Railway Finance Corporation and the lease charges were at the rate of 14.5%. This led to further increase in ROR from 12% to 14%.

The issue of revision of rate of return has also been deliberated upon by a number of high-powered Committees. Their recommendations are summarized below:-

(1) The **Railway Freight and Fare Committee (Dec.1993)** recommended vide para no.8.6.9 of their report that Indian Railway might have to earn a minimum of 16% return if it were to meet its investment needs.

(2) **Standing Committee on Railways (2001)** in the ninth report have stated as under "The Committee are of the firm opinion that the time

has come to stop the blanket liberty presently in practice in the Railway Board to distribute the largesse resulting in spreading the rare resources thinly. They are of the opinion that those projects which are near completion stage/viable most get priority. The projects which are socially desirable be taken up only when matching funds are either assured by the States concerned or the Central Government. They strongly recommend that existing priority of on-going project be reviewed critically and it must not be a mere categorization of projects but realistic enough in terms of funding requirement."

(3) One of the recommendations of **Railway Safety Review Committee,** 1998 better known as Khanna Committee (para 2.3.2) which submitted its report in Feb. 2001, is as following:
"Financial justification should be the only consideration for approving and prioritizing an investment proposal. Further projects which yield a minimum return of 20 percent, slightly more than the prevailing market rate of return, should henceforth be undertaken."

(4) **Rakesh Mohan Committee** in Chapter IV of their Report, have observed that Indian Railways are at a crossroads. All the indications are that Indian Railways is facing a financial crisis and without a strategic change in direction its future as a viable entity is dim. There is a need for a more focused investment programme that enhance IR's productivity and which expands its capacity to cope with traffic growth projected. Investment expenditures that do not result in additional revenues must be eschewed. At another place in the same Chapter, the Committee has drawn attention to the great difficulties IR faces in keeping up adequate level of investments. The problem has been compounded by the change in investment priorities where attention has been given to unremunerative projects. Also projects funded out of internal resources need to be selected through a rigorous screening process and identified as being of the highest organizational priority on which the limited internal resources should be invested. It has also been observed by the Committee has "an inherent conflict of

approach is evident in the promotion of an investment strategy that perpetuates resource constraint."

Railways are conscious of their responsibilities towards socio-economic and industrial development of backward areas not connected by a reliable transport network. Regardless of the benchmark of 14% many projects on Indian Railways are sanctioned on socio-economic and developmental considerations.

The prescribed cut – off rate of return being followed in Indian Railways for determining the financial viability of projects constitutes not only the cost of capital but also provision for capital formation, risk factors etc. Besides paying dividend to General Revenue, the Indian Railways are required to make provisions for Depreciation Reserve Fund (DRF), Pension Fund and Development Fund (DF). Since railways have initiated a plan to cater to the modernization, operational improvement and throughput enhancement for quantum jump in the traffic expected on Indian Railways, it has become imperative that adequate surplus is generated to take care of the requirements of Development Fund (DF).

It is also relevant to point out here that only about 50% of the total Plan Expenditure of IR, which is Rs.15,000 crore in 2005-06, gets Budgetary support from the Central Govt. The balance 50% has to be necessarily funded through internally generated surplus and other market borrowings. There is a crying need to increase the internal generation of resources for financing projects (through DRF, DF etc.). Therefore only those projects, which are capable of generating high returns, need to be taken up. To enable selection of such projects, it is necessary to keep the cut off percentage of ROR at sufficiently high level and this justifies 14% ROR as cut off percentage for selecting projects for investment.

Railways are at present having a shelf of 240 projects, of which only about 17.5% are meeting the criteria of ROR laid down. Addition of projects to the existing basket without the requisite ROR will affect the financial viability of the system. So far as RVNL is concerned, the projects are examined by independent financial institutions for their bankability. Considering the long gestation period for the infrastructure projects like Railways, it will be difficult to find resources, for unremunerative projects. Unlike budgetary support, debt servicing liability on these projects will devolve on the Railwys and it is necessary to exercise adequate caution before posing projects for debt financing."

[Ministry of Railways OM No.2005/BC-II/XIV/300/6 dt.02.11.2005]

CHAPTER - V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH FINAL REPLIES ARE STILL AWAITED.

- N I L -

NEW DELHI;
November, 2006
Agrahayana 1928 Saka

BASUDEB ACHARIA
Chairman,
Standing Committee on Railways

APPENDIX-I

MINUTES OF THE SECOND SITTING OF THE STANDING COMMITTEE ON RAILWAYS (2006-07)

The Committee sat on Monday, the 18th September, 2006 from 1500 hours to 1630 hours in Committee Room No. 139, Parliament House Annexe, New Delhi.

PRESENT

SHRI BASUDEB ACHARIA - CHAIRMAN

MEMBERS

LOK SABHA

2. Shri Prasanna Acharya
3. Shri S. Ajaya Kumar
4. Shri Ramdas B. Athawale
5. Shri Bapu Hari Chaure
6. Shri Kishan Lal Diler
7. Shri Giridhar Gamang
8. Shri Mahesh Kumar Kanodia
9. Shri Laxman Rao Patil
10. Shri A. Sai Prathap
11. Shri Kishan Singh Sangwan
12. Shri K. Subbarayan

RAJYA SABHA

13. Shri Karnendu Bhattacharjee
14. Maulana Obaidullah Khan Azmi
15. Shri Satyavrat Chaturvedi
16. Shri Lalit Kishore Chaturvedi
17. Shri Shreegopal Vyas
18. Shri Tarini Kanta Roy
19. Shri Isam Singh
20. Shri Harendra Singh Malik
21. Shri Abani Roy

SECRETARIAT

1.	Shri A.K. Singh	-	Joint Secretary
2.	Shri V.S. Negi	-	Director
3.	Shri Arun K. Kaushik	-	Assistant Director

2. xxx xxx xxx xxx

3. The Committee then took up for consideration the draft Report on Action Taken by the Government on the recommendations/observations contained in their 11th Report on – 'X Five Year Plan of the Railways' and adopted the same without any modifications.

4. The Committee authorized the Chairman to finalise the Reports and present the same to the House during Winter Session.

The Committee then adjourned.

APPENDIX-II

ANALYSIS OF ACTION TAKEN BY GOVERNMENT ON THE RECOMMENDATIONS/ OBSERVTIONS CONTAINED IN THE 11th REPORT (14TH LOK SABHA) ON 'X FIVE YEAR PLAN OF THE RAILWAY'.

Total number of Recommendations/Observations			**07**
(i)	Recommendations/observations which have been accepted by Government (*Vide* recommendations/observations)	03
	Para Nos. 3.1, 3.2 and 3.3	
	Percentage of total	42.86%
(ii)	Recommendations/observations which the Committee do not Desire to pursue in view of Government replies (*Vide* recommendations/observations)	03
	Para Nos. 3.4, 3.6 and 3.7	
	Percentage of total	42.86%
(iii)	Recommendations/observations in respect of which replies of which replies of Government have not been accepted by the Committee which require reiteration. (*Vide* recommendations/observations)	01
	Para No. 3.5	
	Percentage of total	14.28%
(iv)	Recommendations/observations in respect of which final replies of Government are still awaited. (*Vide* Recommendations/observations)	---
	Para Nos. Nil	
	Percentage of total	---