

# RGICS

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**RGICS**  
**Brief**

**(27 February, 2015)**

**Union Railway Budget Brief 2015-16**

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### KEY MESSAGES

- **Pie-in-the-sky:** The NDA 2015-2016 Railway Budget presented on 26<sup>th</sup> February, 2015 amid high expectations turned out to be a “pie in the sky” – a “dreamy” budget instead of the promised dream budget.
  - The budget is rich in rhetoric; but poor in realism; it is opaque and lacking in transparency or specificity; it presents a vision without a strategy; it is misleading (hiding key pieces of information).
  - It promises 8.5 lakh crores rupees of investment, with vague statements of where this money will come from – but it is silent about how the poorest, who are the main users of this mode of transport, will pay for the proposed massive investment in up-market services catering to the demand of India’s top 10% middle and upper classes.
- **Changing the character of the Indian Railways:** The Budget pays lip service to the historic, pro-poor, public character of the Indian Railway which has been the pathway to progress for the rural poor. But its real design is hidden. --turning Indian Railway into a publicly subsidized seven star facility for the rich and well-to-do, owned and operated by private corporations, catering to the needs of the metropolitan elite, corporates and other revenue-generating business, including tourism.
- **Anti-poor:** It appears that the poor have reached the station called “NDA” – where they are being thrown off the train. They will be left stranded because they will not be able to afford to get back on to Indian trains if the plans of the NDA are implemented. Their desperate migration out of rural social oppression, searching for seasonal employment, will now be choked. The rail hike immediately after their assumption of office; and the refusal of the Government to pass on to the poorest passengers the dividend of the huge decrease in fuel costs is only an indication of where the poor actually stand in NDA’s scheme of things.
- **Financially unsound and bad for the economy:** The BSE [Sensex](#) reacted negatively to the speech, sinking 0.7 percent in response to it. Amidst high Six of the 10 listed Rail Stocks closed with losses, one ended flat and only three with gains. This is because people were looking for figures in a budget, not a purely vision statement. Also, the budget has no new big ticket projects.
  - The Merchants Chamber of Commerce said the hike in freight charges “will adversely impact the country’s industrial projects.” It also rued the lack of clarity on steps to complete ‘work-in-progress’.
- **Lost Opportunity:** The Railway budget was essentially a huge opportunity for the current government to push forward GDP growth by at least 2.5% and thus deliver on their promise of “Acche Din”. However, this government, in its second budget, has lost the opportunity.
- **Selective plagiarism from UPA’s 2012 Pitroda report:** The budget repackages, without acknowledgment, selected initiatives and ideas of the the Expert Group constituted in 2012 under the Chairmanship of Mr. Sam Pitroda by the UPA Government to recommend ways and means to modernize Indian Railways

### (1) IMPACT ON PEOPLE AND BUSINESS

#### ➤ Passenger fares

- Railways still remains the primary mode of transport for the poor in the country and is likely to remain so. It transports 30 million people on 12,000 trains in a day. An extremely large section of our population is dependent on subsidized railway tickets for mobility across the country.
- There has been a decline in prices of diesel, a major source of fuel for railways. This budget presented an opportunity for the Minister to reduce rail fares on account of global fall in crude oil prices. However the Government decided to ignore this pro-poor move. Passenger fares have not been reduced.
- Passenger fares were last increased by 14% in June last year along with a 6% rise in freight rates. The current Budget does not reverse this decision, adversely affecting the poor.

#### ➤ Freight Charges Hiked; Knock-on Impact of Price Rise for Consumers

- Freight rates have been increased to boost the revenue stream of the Railways. Rates have been hiked by 10% for urea, 2.7% for cement and 6.3% for coal, 0.8% for iron and steel.
- The Coal Consumers Association felt that the increase in hike in coal freight would translate into a 2.5 to 3 per cent increase in cost of coal at the consumers' end.
- This move to hike freight fares could potentially raise costs for local steel makers at a time when demand is weak and imports are surging. This will be inflationary in nature. (Business Today, 2015)
- There are possibilities of freight revenue migrating to road, considering the fact that freight has grown at an abysmal 3% over the last year. (The Hindu, 2015)
- Already, there is a competition from roadways which has resulted in a decline in the share of the Railways in total transport output. Currently, it stands at less than 36%. (The Hindu, 2015)
- Freight is the main source of revenue for the Railways; however no steps have been taken to reduce the turnaround time of wagons (TTW). (The Hindu, 2015)

#### ➤ Swachh Rail, Swachh Bharat

- The Minister has proposed building new toilets covering 650 additional stations. Bio-toilets are being installed in coaches. 17,000 toilets are intended to be replaced by bio-toilets in this year. Covering 650 additional stations is too small a step for a much-touted scheme like Swachh Bharat. More initiative was expected as it is the pet project of the Prime Minister.

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- The Railways continue to be the “biggest violator of the Manual Scavengers Prohibition Act as the practice of manual cleaning of railway tracks continues unabated. This issue has not been taken up at all, in the Budget and hence, the claims of Swachh Rail, Swachh Bharat are hollow. There is no seriousness in these efforts.
- According to activist Wilson Bezwada, “Going by a conservative estimate, there are 1, 78,000 railway coaches and an estimated 7,12,000 toilets in these coaches and now the government is saying it will install a mere 17,000 bio-toilets this year.” This abysmally low target is not likely to help the scenario significantly. (The Asian Age, 2015)

### ➤ **Welfare of Labour**

- The valid and legitimate demand of lakhs of railway employees, porters and informal workers who eke a livelihood centred around the railways have been completely ignored. No benefits have been mentioned to uplift the conditions of railway staff.
- With the prospect of privatization, the railways would cease to be a secure and stable employment for a large number of people in India.
- The process of survey of the insanitary latrines and manual scavengers across all the States/UTs is at varying stages, which needs to be completed on priority. Comprehensive rehabilitation of all identified manual scavengers is also to be ensured. The Railways continue to employ manual scavengers, but the Budget is silent on this issue and the benefits given to them. (Business Standard, 2015)

### ➤ **Safety**

- The Minister announced that CCTV cameras will be installed in coaches of long distance trains. But, given the state of CCTV cameras installed by the government in public spaces that does not seem reassuring as hundreds of these cameras lie defunct across the country.
- The Minister also gave no specifications as to who will monitor these cameras. This might end up being another empty promise. Even if an unwanted incident is observed on the camera, the reactionary forces have not been specified.
- The train protection warning systems and train collision avoidance system were initiatives of the UPA Government that the Budget hopes to take up “at the earliest”. Once again, there is no framework provided for the same.
- A series of technical advancements are mentioned such as modern track structures for curbing derailment, better welding techniques, digital type machines for testing of rails. Again, the Budget shows little regard for any bound commitments and several proposals are still in the development stage.

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### ➤ Convenience

- The Minister has proposed to move towards paperless ticketing, booking of tickets 120 days in advance, phone charging facilities in trains, online booking of wheelchairs for seniors, physically challenged passengers, Wi-Fi availability at 300 railway stations. Operation 5 minutes has been introduced to allow unreserved passengers to book tickets in 5 minutes.
- While the Budget detailed ideas of convenience, entertainment, catering, etc, but such measures, while important, require massive efforts not only in maintenance, but also in creating state-of-the-art infrastructure.
- The Budget forgets that the real struggle of the poor is to get into a compartment amid long queues. Compartments are overcrowded by twice their capacity. Poor people still travel in unreserved compartments in inhumane conditions.
- Customer experience cannot be limited to the Shatabdi and the Rajdhani trains alone. Customers on these trains would be more vocal perhaps, but the real help should be for the poorest of the poor and the Budget completely disregards this. (The Hindu, 2015)

## (2) ECONOMIC AND FINANCIAL CONCERNS

### ➤ Operations

- The Railways aim to improve the operating ratio to 88.5% during the next fiscal year, compared with the targeted 91.8% in 2014-15. The best ever Operating Ratio of the Indian Railways was 74.7% in 1963-64. In fact, as recent as in 2006-07, the operating ratio was 78.7%. The subsequent increases in operating ratio were caused due to the Sixth Pay commission's recommendations to increase salaries on account of human resource upliftment and compensation.
- The lower the operating ratio, the better is the profitability of an entity. It is the ratio of operating expenses to net sales. In order to lower this ratio, the government would have to bring down the operating expenses. With this new vision and the new operating target, the Railways would resort to outsourcing and contractualisation. As a consequence, the people employed by the Railways and whose lives depend on it, will suffer.

### (3) INSTITUTIONAL ISSUES

#### ➤ Investment

- Over the next five years, the Railways envisage an investment of Rs 8.5 lakh crore, to be mobilised from multiple sources to cater to funding i.e. multilateral development, pension funds, and sovereign bonds.
- The Railways Budget underlines a push in plan expenditure by 52% in 2015-16 to Rs 1,00,011 crore. The Centre is footing 41.6% of the total Plan budget and internal generation constitutes 17.8% of the Plan budget.
- The budget places high importance on institutional finance and long-term debt instruments as extra budgetary resource. But these “multilateral bilateral institutions” will not invest, solely based on rhetoric, in an organization which is practically in a financial crisis, thereby undermining its financial credibility in terms of non-availability of a revenue model. (The Hindu, 2015) Besides, capital from multilateral development banks and pension funds will only come if they see a higher rate of interest over a sustained period of time. Therefore, further budgets can be expected to be less people friendly.
- The sources of such huge funds are not clear. It can be expected that the Railways will fall into a debt-trap over time to meet the target.
- There is also a question mark on where these investments will go and who will be the ultimate beneficiaries. Whether these investments benefit the poor, or middle or the elite is questionable. Whether these investments would support small, medium or large business is also of concern.

#### ➤ Over-reliance on PPP model

- In his speech, the Minister stated, "Railways will also work out modalities to facilitate provision of spare Railway land and redundant goods sheds on nominal license fee to private developers for development of such facilities." This might end up being a new way of selling off public assets cheaply to facilitate private welfare.
- There is a tendency to over emphasize on the PPP model which might augment business and effectively privatize the Railways. This excessive reliance means that the costs associated with the upgrades would be passed on to the consumer, raising rail fares eventually. There is need to improve facilities but employing a PPP model on this is perhaps not the best way forward.
- National railways ensure job security to a considerable chunk of underprivileged. This PPP model may or may not ensure Reservation in Railway jobs, sharply hitting the poor.

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### ➤ Slowing the Path of Expansion

- With regard to enhancing capacity of Railways, the Minister stated that 492 sections of the Railways are running at a capacity of more than 100% and 228 are running between 80-100%.
- However, as a solution, the Minister only proposed fast tracking of sanctioned projects of doubling, tripling lines and priority to last mile connectivity projects, without any timeline. Here, fast-track is a deceptive word open to interpretation.

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