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PRIVATISATION OF INDIAN RAILWAYS

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Abstract: Foreign direct investment plays an important role in developing countries such as India where every sector is developing and the government sometimes faces the shortage of investments. In such situations foreign direct investment plays an important role. Indian railways are such an example which has shortage of funds. our Indian railways need robust investment which can be met only if private investment or investors are attracted. Indian railways are the one single entity that touches lives of all Indians, some more regularly than others. Indian passengers trains is subsidized by freight trains. Not only this India loses as much as 45 billion dollar a year due to poor logistics infrastructure. **As of 1st April 2020, Indian railways has electrified 39,866 route KMS which accounts for 58.49% of total route KMS and 62.65% of total broad-gauge route KMS.** on July 1, 2020 the railway ministry announced that 151 trains in 109 pairs of routes will be operated by the private sectors. to develop India's railway infrastructure government are planning to privatize the Indian railways. The privatization has been recommended for many decades, by the erstwhile planning commission of India and now by Niti ayog. Liberalizing the entry of new operators in the public transport that remains a government monopoly, may be the path for improving services, and facilitating growth of the sector. However, the idea of privatization has its own merits and demerits.

The objectives of this research are :-

To study the need of privatization of Indian railways, and for this secondary data is used and that has been collected from different sources which is analyzed and interpreted properly.

Index terms- Freight wagons, Locomotives, FDI, transformative recommendation.

I. INTRODUCTION

Indian railways started its 53 km journey between Mumbai and Thane on **April 16, 1853** and is total one of the largest railways in the world. The Indian railway network invariably referred to as "**The lifeline of the Indian economy**" is spread over **115,000 km as of 1st April 2020** (Largest rail network in Asia), covering 7349 stations. Now India is largest rail network in Asia and the world second largest network operated under a single management. operates more than 20,000 passenger trains daily, on both suburban and long distance routes. It has **2,89,185 freight wagons, 74003 passenger coaches and 12,147 locomotives**. The railway board has moved ahead with a long pending plan, setting a tentative schedule for private train operations, expected to begin in 2023 and in 12 clusters. In December 2019, union railway minister Piyush Goyal had said that a group of secretaries had gone into the question of allowing private trains services.

The IRCTC, in which the government is the majority shareholder, was given pilot Tejas operations in the new Delhi-Lucknow, and Mumbai-Ahmedabad sectors.

Indian railways have joined the select club of countries comprising Chinese, Russian and United states. Railways with an originating freight loading of 1.225 billion tonnes (2019). Indian railways is primarily financed through Gross budgetary support from the union budget, its own internal resources and extra budgetary resources. The share of internal resources has been declining from past some years continuing with its expansion plans the railways capital expenditure is pegged at rs 1.61 lakh crore for 2020-21 which is 3% higher than the previous years CAPE of rs 1.56 lakh crore.

Data collection is a systematic approach to collecting information from the variety of sources to get a complete and accurate picture of an area of interest. For this study the data collected is purely secondary data collected from the website of the Railway Board.

3.2 Sources of Data

Secondary data:- secondary data is the data which is already collected in the past. The secondary sources of data for the study are:-

- 1) Indian railway board.
- 2) Economic survey, WTO and RBI Reports, World Investment Reports, World Bank Reports.
- 3) Central Statistical Organization (CSO).
- 4) Ministry of commerce and Government of India.

3.3 Theoretical framework

FOREIGN DIRECT INVESTMENT:- FDI is an investment in a business by an investor from another country for which the foreign investors has control over the company purchased. It is thus distinguished from a foreign portfolio investment by a notion of direct control. The organization of economic corporation and development defines control as owning 10% or more of the business. Business that often make foreign direct investments are called multi-national corporations (MNCs) or multi-national enterprises (MNEs). An MNE may make a direct investment by creating a new foreign enterprises, which is called a green field investment, or by the acquisition of a foreign firm, either called an acquisition or brown field investment. The railway infrastructure segment allows 100% foreign direct investment, opening opportunity for participation in projects such as high speed railways, railway lines to and from coal mines and ports, electrification, high speed tracks and suburban corridors. FDI in service sectors is vital as contributes over 60% to the gross domestic product.

PRIVATISATION:- Indian railways, the largest railway network in the contemporary economy operating 21,000 trains across, 1,15,000 km of network managed by the government of India under the Ministry of Railways for the last 166 years with 14 lakh employees making it the 2nd largest utility employer run as a single management. Over the past 166 years has undergone paradigm shift in the technology and administrative front. The railway initially started as a private entity with eight railway companies entrusted with the responsibility of managing railways and paying 5% of the profits as dividends to the government. Eventually owning the lack of favorable complemented with piling liabilities on the government, brought the private control to an end. As Indian railways are incurring losses every year and there is a need of huge investment. FDI is needed in the infrastructure, signaling, doubling and tripling of tracks logistics etc. The privatization will also help in accommodating the latest technology in railways coaches, safety and travelling experience. FDI in railways will result in increased efficiency of railways. Therefore, it may help Indian railways to become a world-class network.

3.4.1 Some of the major advantages claimed for the privatization of Railways are :-

- 1) Improved efficiency of Indian railways.
- 2) Great responsiveness to the customer a higher quality of service.
- 3) Greater emphasis on the profitability and better value for money for the public travelling by rail.

3.4.2 Indian Railways : 10 transformative recommendations of the committee report :-

- 1) Accounting process needs to be simplified and as per international standards :- according to Debroy, the process of accounting in Indian railways is very complicated.
- 2) Streamline recruitment and HR processes :- there is a multiplicity of different channels through which people enter the railway services. We essentially recommended unifying and streamlining the process according to Bibek debroy committee.
- 3) Focus on non-core areas :- according to Debroy committee they feel like a lot of tasks carried out by the Indian railways are not at the core of the prime business of rail transportation .
- 4) Decentralization - to ensure proper decentralization, there is a need to delegate enhanced powers, especially in respect of tenders connected with works, stores procurement , service or even revenue earning commercial tenders to the DRMs.
- 5) Encouraging private entry :- private entry into running both freight and passenger trains in competition with Indian railways should be allowed and private participation in various railway infrastructure services and non-core activities like production and construction, should be encouraged by the ministry of railways.
- 6) Indian railways manufacturing company :- according Debroy, wagons are already produced by the private sector. Coaches and locomotives could follow. Unless they are freed from 59 their constraints, the existing production units will be unable to face this competition.
- 7) Independent regulatory :- shift regulatory responsibility from the government to an independent regulator as the private sector will only come in if there is fair and open access to infrastructure, recommends Debroy.
- 8) social costs & JVs to bear them :- constructing new suburban lines should be undertaken as joint ventures with state governments, not otherwise, says Debroy committee. There are too many zones and divisions and thus a rationalization exercise is required.
- 9) Changing relationship between government and railways :- A saperate railway budget should be phased out progressively and merged with the general budget, according to the report.
- 10) Raising resources :- for raising resources for investments, an investment advisory committee may be set up, consisting of experts , investment bankers and representatives of **SEBI**, RBI, IDFC and other institutions.

Hence the committee has recommended encouraging the private entities which can bring the railways out of the ICU. "The radical measures suggested include switching over to commercial accounting, corporatization of production units and involving private sector in manufacturing coaches, wagons and locomotives."No doubt the fares will go up but according to NCAER morgan stanley report indian passengers are ready to pay extra if they are provided the best amenities on railway.

3.4.3 REVIEW OF LITERATURE :- Bharti Sonam (2014) in there research article "Foreign direct investment in Indian railways "say FDI is allowed now in Indian railways which was earlier prohibited. FDI up to 100% is allowed through automatic route for mass rapid transport system in all metropolitan cities. They say FDI is allowed in high speed train projects infrastructure in industrial parks, mass rapid transport system (MRTS), freight lines, rolling stock, railway electrification, signaling system, freight terminals and passenger terminals. Kaur manpreet (2010) according to him the availability of developed infrastructural facilities is the progress of the economy. Adequate Infrastructure is necessary not only to facilitate domestic investment but also to woo foreign investment. Many sectors are attracting the FDI like infrastructure, retail, and transport and there is a great need of FDI in all such sectors . Ramesh nanaji (2002) says most of

the railway facilities are accidental in nature and in the bread earning age group particularly among the males. The increasing number of population, overcrowding in the trains, reckless and careless behavior of the passengers, pedestrians and the train drivers towards safety norms are the constant causes of railway fatalities. The high levels of the railway fatalities make a strong case for the necessary accident control interventions. Public as well as the railways authorities must take some measures to bring down these fatalities. In such a case there is a need of huge investment to prevent such fatalities.

3.4.4 OBJECTIVES:-

- 1) To study the need of privatization in Indian railways.
- 2) To study the role of Indian railway in employment generation.
- 3) To study the advantages and disadvantages of privatization of Indian railways.

3.4.5 Tools used for Analysis:-

Compound Annual Growth Rate (CAGR) has been used for the study.

CAGR = compound annual growth rate is the rate of return that would be required for an investment to grow from its beginning balance to its ending balance, assuming the profits were reinvested at the end of each year of the investments lifespan.

3.4.6 OBJECTIVES OF INDIAN RAILWAYS:-

Niti Aayog report 'strategy for new India @ 75' mentioned several objectives which are to be achieved by the year 2022-23:

- Increase In the capacity of existing rail infrastructure.
- Increase the speed of infrastructure creation from 7km/day to 19km/day by 2022-23.
- The target of 100% electrification of broad gauge track is to be achieved by 2022-23 from the 40% level in 2016-17.
- Augment the average speed of freight to 50km/hr and also mail and express trains to 80km/hr.
- Improve the safety of the railways by achieving zero fatalities from 238 fatalities in the year 2016-17 and reduce the number of accidents from the 73 recorded in 2017-18.
- Improving service delivery by achieving 95% time arrivals by 2022-23.
- Increase the share of non-fare revenues in total revenue to 20%.
- Increase in the capacity of freight load up to 1.9 billion by 2022-23 and an improved model share of 40% of freight movement from the current level of 33%.

3.4.7 NEED OF PRIVATIZATION OF RAILWAYS:-

- The Indian railways is still dependent on the gross budgetary support from the government. As Indian railways incurring losses year-after-year.
- Indian railways always face criticism from the common people due to its punctuality. It has not been able to keep pace with modernization of the infrastructure and not able to keep pace with modernization of the infrastructure and not able to meet the increasing demands of the growing population.
- poor quality service delivery and catering are never up to a certain standard.
- almost every area of Indian railways required modernisation of equipment, processes and training as all of them are running over decades and this is the actual reasons for poor service delivery and inefficient functioning.
- poor decision making, inadequate market orientation and long project approval durations lead to slow turnover times and delays in the implementation of the project.
- cross subsidization is done to manage the imbalances as freight fares are kept high to manage the passenger segment.
- Indian railways acquire large tracts of land along its tracks which can be optimally monetized by inviting private players to invest and build properties over there.
- The Bibek Debroy committee recommended liberalization of the rail industry and allowing the private sector to provide services.
- In 2018, Niti Aayog proposed privatization of Indian Railways via a report titled 'New Delhi'.

3.4.8 ADVANTAGES OF PRIVATIZATION:-

- Improved Infrastructure- private sectors believe in customer satisfaction. In order to do so, privatization will lead to better infrastructure and better amenities for travellers.
- Improved safety- Recent rise in the number of accidents raises a major question on the safety of the Indian railways. Any train-related mishap comes as a nightmare to travellers and authorities.
- Improved efficiency- Any private company always have a profit incentive and interested in profit-making and government-run industry, managers do not usually share in any profits, so it is more likely to cut cost and be more efficient.
- Privatization can lead to an infusion of new technological innovation, capacity building and research and development could take place.

3.4.9 DISADVANTAGES OF PRIVATIZATION:-

- Coverage limitation- Indian railways being government-owned provides nationwide connectivity irrespective of profits. private operators in the way of profit-making can eliminate less popular route and thus major impact on the connectivity.
- Autonomy on the fare- Railways is still considered as an affordable easy means of locomotion. In order to make a profit in Indian Railways, the easiest way is to increase the fare which will make lower income group out of reach.
- Accountability- Private entities are unpredictable in their dealings and do not often share their governance secrets.
- Reliant on one entity would be a problem in the long run.
- Monopoly of private entities- problem of regulating private monopolies and needs proper rules and regulations.
- Private entities will focus on short term profits and thus avoid investing in long term projects.
- Private entities are more vulnerable during any crisis and sometimes lead to a debt trap.

3.4.10 CHALLENGES TO PRIVATIZATION:-

- One of the biggest hurdles in privatization is the strong worker unions of Indian railways and herculean task to convince union workers.
- The Indian railways moves over 2.3 crore people and 3 million tons of goods every day. it is not meant for purely for profit but public welfare.
- The government needs to take a bold and proactive approach in dealing with both political parties and trade unions and comes to a common agreement.

Many take up any government job just for the sake of job security, and this greatly affects the life of pensioners.

CONCLUSION & SUGGESTIONS-

The need of the hour is to find a balanced solution that would incorporate the pros of both private and government enterprises and enhance the image of Indian railways as it continues to serve the world's largest democracy.

India should have a rail network that is not only efficient, reliable and safe but is also cost effective and accessible.

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