

Report of the Committee Creative Financing for Indian Railways



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Creative Financing for
Indian Railways

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Foreword

The Indian Railways have suffered from a severe and prolonged under-investment in railway infrastructure. The present report outlines the possibilities of enhancing investment in Railways through creative financing. It responds to the direction from the Prime Minister to evolve a creative financing cum implementation mechanism for enhancing investment in Indian Railways. This would not only enable an accelerated rollout of projects but also help in clearing the backlog of approved projects which could not be taken up or completed for want of requisite funds. The Report was prepared by a Committee chaired by Shri B.K. Chaturvedi, Member, Planning Commission, and including experts and representatives from the Railway Board, Planning Commission, Ministry of Finance and the private sector.

It is well recognized that the quality of rail infrastructure bears a direct impact on the country's economic growth by facilitating smooth, efficient and environment friendly movement of passengers and freight, thereby spurring trade, industry and employment. During the last several years, the market share of rail sector has fallen significantly due to the inability of the rail system to carry the growing traffic, thereby yielding its share to the road sector. Obviously, the pace of development of rail infrastructure has been far slower than the demands of the economy. As a result, the quality of services provided by Indian Railways has also been adversely impacted.

To overcome the deficit in investment and to

mobilise additional resources for financing railway projects, the Committee has suggested a two-pronged approach, viz, firstly, through public investment and market borrowings and, secondly, through private investment. The Committee has identified the various models which can supplement the existing means of finance and has also indicated the potential resources that can possibly be mobilized through these models. For financially viable projects, additional public investments and market borrowings could be generated through (a) market borrowings of Railway PSUs and Indian Railway Finance Corporation (IRFC); and (b) contributions from State Governments, CIL, SAIL and other bulk users. Resources from the private sector could be generated for, *inter alia*, railway station redevelopment, construction of new lines, gauge conversions, dedicated freight corridors, procurement of locomotives and EMUs, power generation, private trains, etc.

The Committee has also made recommendations regarding review of the extant rules of Dividend payment, disintermediation of external borrowings, review of internal processes and procedures, adoption of model EPC contracts, accounting reforms and creation of institutional capacity.

The Committee has estimated that Indian Railways can generate Rs. 3,29,800 crore by way of creative financing suggested in this report in order to supplement its investment plans during the 12th Plan. This would also unlock and release committed resources of

about Rs. 1,36,500 crore for other railway projects which are not amenable to such means of financing.

It is hoped that the Ministry of Railways will deliberate on the recommendations contained in this Report with a view to generating additional resources for augmenting the rail sector in India. This will enable them to take up new projects and complete projects which have been languishing for want of funds. The proposed investment will also help in creating additional revenue streams that would improve the finances of the Railways.



April 9, 2014

(Montek Singh Ahluwalia)

Report on creative financing for Railways

Background

1. Following a communication from PMO, a meeting was held under the chairmanship of Deputy Chairman, Planning Commission on November 8, 2013, when it was decided that a committee under the chairmanship of Member (BKC), Planning Commission may be constituted to suggest creative financing for enhancing investment in Railways. Accordingly, a committee was constituted with the following composition:

- (i) Member (BKC), Planning Commission :
Chairman
- (ii) Adviser to Deputy Chairman, Planning Commission:
Member Convener
- (iii) Chairman, Railway Board :
Member
- (iv) Secretary, Department of Expenditure:
Member
- (v) Shri Madhav Dhar, Managing Partner, Traxis Partners :
Member
- (vi) Dr. Rajiv B. Lall, Executive Chairman, IDFC :
Member
- (vii) Adviser (Transport), Planning Commission:
Member
- (viii) Adviser (PAMD), Planning Commission:
Member

2. The Committee held meetings on November 18, November 25, December 2 and December 5, 2013. A presentation on pending projects was made by Ministry of Railways and presentations on creative financing were made by Adviser (Transport), Planning Commission, Adviser (PAMD), Planning Commission and Adviser (Infra), Planning Commission. Previous reports on the subject were also taken into account.

Overview of Railway projects

3. The Committee noted that the funds required for completion of sanctioned Railway projects as on January 21, 2013 are estimated at Rs. 1,47,188 crore. This does not include electrification and signaling projects, suburban and metro projects or potential projects such as freight corridors, redevelopment of railway stations etc.

4. The following overview of on-going Railway projects on the basis of profitability (as on 1st April, 2011) was presented by the Railways.

Table 1: Overview of Railway Projects on basis of Profitability

(As on 1st April 2011)

Sl. No.	Particulars	No. of Projects	Cost of Projects (Rs. in Crore)
A. ONGOING NEW RAIL LINE PROJECTS			
1.	Projects having ROR of 14% & above	13	8,364.98
2.	Projects having ROR between 1% to 14%	29	18,153.38
3.	Projects having a negative ROR	87	73,166.56
	Total (A)	129	99,684.92
B. ONGOING GAUGE CONVERSION PROJECTS			
1.	Projects having ROR of 14% & above	6	3,370.48
2.	Projects having ROR between 1% to 14%	26	18,425.01
3.	Projects having negative ROR	13	11,229.79
	Total (B)	45	33,025.28
C. ONGOING PROJECTS FOR DOUBLING OF RAILWAY LINE			
1.	Projects having ROR of 14% & above	57	16,131.62
2.	Projects having ROR between 1% to 14%	7	1,913.82
3.	Projects having negative ROR	102	22,178.71
	Total (C)	166	40,224.15
D. TOTAL (A+B+C)			
1.	Projects having ROR of 14% & above	76	27,867.08
2.	Projects having ROR between 1% to 14%	62	38,492.21
3.	Projects having a negative ROR	202	1,06,575.06
	Grand Total	340	1,72,934.35

Fiscal constraint

5. The Indian Railways suffer from a severe and prolonged under-investment in railway infrastructure. For example, against the projects included in Table 1, the annual allocation is only in the region of about Rs. 10,000 crore. There is an urgent need to enhance capacity and modernise railway infrastructure. The Committee noted that as against the 12th Five Year Plan outlay Rs. 5,19,221 crore, the Gross Budgetary Support (GBS) was projected at Rs.

1,94,221 crore. As against this projected GBS, the allocations during 2012-13 and 2013-14 were Rs. 24,000 crore and Rs. 26,000 crore respectively. Thus, 25.74% of the outlay has been provided during the first two years of the Plan Period which represents a lower than projected allocation of GBS. The shortfall in internal generation has been comparatively greater while the mobilisation of private investment has been negligible compared to the Plan projection of Rs. 1,00,000 crore. The Committee felt that due to fiscal constraints, the

allocation to Railways is likely to remain at the current levels and there is an acute need to find additional resources, other than GBS, to finance railway projects.

Existing Models of Alternate Financing

6. Although Indian Railways has traditionally created infrastructure from GBS and internal generation, the Committee noted that the following schemes involving private participation are available with the Railways for funding of infrastructure.

- A. Rail connectivity/capacity augmentation
 - (i) Policy of participative models
 - (ii) Cost sharing with States
- B. Container train operations
- C. Terminal facilities
 - (i) Private freight terminals
 - (ii) Station re-development
- D. Other assets
 - (i) Wagon investments schemes

7. So far, the aforesaid models have not been able to deliver significant investments. Some of these models are yet to be finalized. It is, therefore, necessary to review the progress so far and explore alternative models.

Proposed models of alternative financing

8. The Committee felt that mobilisation of additional resources for financing railway projects can be broadly divided into two categories viz. (a) Public investment and

market borrowings; and (b) private investment. While presenting these composite proposals, the Committee has attempted to identify the various models which can supplement the existing means of finance and has also indicated the potential resources that can possibly be mobilised through these models, based on further deliberations. The potential in respect of these two categories is briefly described below:

I. PUBLIC INVESTMENTS

9. Additional public investments and market borrowings would normally include (a) market borrowings of Railway PSUs and IRFC; and (b) contribution from State Governments, CIL, SAIL and other bulk users. These investments will need to be financially viable so that their financing can be self-sustaining. Viability gap, if any, may have to be provided through budgetary support or by the concerned States or bulk consumers. Some of the initiatives that can be undertaken through this mode, both in respect of new projects as well as for ongoing projects in early stages of construction, are briefly described below:

Financing of viable projects by IRFC

10. IRFC has somehow limited its mandate to leasing of rolling stock to the Railways. It is necessary to shed this self-imposed limitation in order to serve the broader objectives for which IRFC was created. However, any financing by or through IRFC will have to be self-sustaining as the borrowings raised for this purpose would have to be serviced. Some of the projects that

should qualify for IRFC financing are briefly described below.

11. The borrowings of IRFC will be transferred to the Ministry of Railways for carrying out the relevant works as deposit works or in any other manner mutually agreed upon. Funding by IRFC shall be restricted to projects which are financially viable and undertaken on turnkey basis in order to eliminate time and cost over-runs. For this purpose, a project report for each project shall be prepared clearly identifying the revenues/cost savings accruing therefrom and the costs and time of construction through turnkey contracts. Such projects will be approved by the Expanded Railway Board based on the aforesaid project report.

Railway electrification from IRFC borrowings

12. The Vision 2020 document of the Indian Railways recognises that the electrification of the railway network is a necessary component of modernisation. Electric traction is much cheaper than diesel and will lead to considerable savings to the Railways. It was noted that running trains on electric traction is about 43% cheaper for coaching traffic and about 44% cheaper for goods traffic. There are other savings on account of maintenance, increased revenue due to higher traffic (as electric trains are faster than diesel trains) and improved reliability/availability. The railways have identified 14,000 km of network for electrification. This would require about Rs.14,000 crore during the 12th Plan period.

However, the 12th Plan has provided only Rs. 6,500 crore for this purpose.

13. The Committee proposes that railway electrification projects should be prioritized on the basis of their financial viability and undertaken through turnkey packages (EPC) for about 500 km each to be completed within the next three years. The entire programme could cover about 10,000 km during the next three years. Since electrification would pay for itself due to savings in fuel costs, IRFC can finance this entire investment through market borrowings of about Rs.10,000 crore and the present allocation of Rs. 6,500 crore in the 12th Plan can be diverted for other projects of the Railways.

Railway signaling from IRFC borrowings

14. The Committee observed that provision of world-class and state-of-the-art signaling systems, train protection systems and synchronized maintenance controlled centres would go a long way in enhancing the throughput as well as reliability and safety of the railway system. This would involve implementing (a) Automatic Block Signalling on A and B routes with Train Management Systems; (b) communication based train control on C class routes of Western and Central Railways; (c) deployment of on-board protection system with cab signaling on A and B routes; (d) introduction of GSM-based mobile train control communication systems on A B and C routes; and (e) establishment of centralized maintenance control centers. This

would lead to an increase in line capacity by about 30% leading to a corresponding increase in revenue potential. The funding requirement on this account would be about Rs. 25,000 crore if the work has to be completed within the 12th Plan period. However, the budgetary allocation for this purpose is only Rs.1,500 crore in the 12th Plan. Extra budgetary resources by way of allocations from Development Fund and Depreciation Reserve Fund to the extent of Rs. 8,500 crore are also envisaged.

15. The Committee proposes that modernisation of signaling should be prioritized on the basis of financial viability and should be undertaken through suitable turn-key packages (EPC). Since signaling is viable and would pay for itself due to increase in line capacity and improved revenue generation, IRFC can finance the priority segments through market borrowings of about Rs. 15,000 crore and the present allocation of Rs. 10,000 crore can be diverted for other projects of Railways.

Line construction from IRFC borrowings

16. There are several line construction projects, including doubling of lines, gauge conversion and new lines, which have an IRR above 9%. These projects should be ring-fenced and financed through IRFC borrowings. Each of these lines should be projectised and constructed through turn-key EPC contracts that would eliminate time and cost over-runs. The payment to IRFC would be made out of Railway revenues and could also include a committed portion of budgetary support.

17. The Committee recommends that projects with an outlay of Rs. 25,000 crore may be undertaken through IRFC borrowings during the next three years.

Dedicated Freight Corridors

18. The Indian Railways have set up the Dedicated Freight Corridor Corporation of India Limited (DFCCIL) for construction and operation of western and eastern corridors. The western corridor project is being financed through loan funds from JICA while a part of the eastern corridor is being financed through World Bank funding.

19. The Committee observed that the financing for Khurja Ludhiana (APL-3) portion of the eastern corridor has not yet been firmed up by the World Bank. This would delay the entire project by about 3 years. It was felt that delay in completion of a section of the dedicated freight corridor project would prevent the Indian Railways from taking benefit of the entire corridor, besides increase in the costs of Khurja-Ludhiana section. The Committee, therefore, recommends that the Khurja-Ludhiana section may be financed through market borrowings of about Rs. 10,000 crore to be raised by DFCCIL so that the contract is awarded in the current financial year and completed along with the rest of the eastern corridor.

JVs with State Governments/PSUs

20. The Indian Railways are familiar with creating joint venture companies with State

Governments/PSUs/Port companies/private companies for construction of railway lines. While the existing model may continue for on-going works which have reached an advanced stage, a revised model is being suggested for wider usage.

21. Under the proposed model, a joint venture would be constituted between Indian Railways and the State Governments/PSUs/Port companies/private sector. The JV Company would undertake railway line projects on design, build, finance, maintain and operate basis while the railways will pay a pre-determined access charge to the JV on the same lines as applicable to the DFCCIL. The Railways will provide equity subject to a maximum of 49%, but no lower than 26%, thus leaving the controlling equity with the State Government/ PSU. In the event, any project is taken up at the behest of a State Government, the JV formed for this purpose shall be a State PSU and land will be made available by the State Government. In all the aforesaid cases, the State Government/ PSU would bear the operational losses, if any, which may be financed out of the other benefits arising from the new lines. The technical support for these projects would be provided by the Railways, including the railway personnel on deputation.

22. Projects in this category should be undertaken on the basis of a Detailed Project Report, EPC contracting and economic designs. A clear determination of financing costs, operational expenditure and subsidies should be spelt out and agreed upon prior to

commencement of projects.

23. The Committee recommends that projects with an investment of Rs. 40,000 crore may be undertaken over the next three years through the aforesaid JV mode.

II. PRIVATE SECTOR PARTICIPATION

Redevelopment of Railway Stations

24. The 12th Plan has proposed redevelopment of 50 railway stations to world-class standards through Public Private Partnerships (PPP).

25. Railway station projects should include:

- (a) redevelopment of the railway station including development of real estate;
- (b) operation and maintenance of the railway station; and
- (c) construction of building for use by the railways for its offices, rest houses and residential accommodation.

26. A Model Concession Agreement for redevelopment of railways stations is already available. The proposed model involves selection of a private concessionaire through a transparent and competitive bidding process. A concession period of about 40-50 years would be provided to enable the concessionaire to recover its investment with a reasonable rate of return. All project parameters such as the concession period, user fee, price indexation and technical parameters would be clearly stated upfront and the bidder who seeks the lowest

viability grant or offers the highest premium will be selected.

27. The concessionaire can undertake the development of real estate as specified in the concession agreement. The concessionaire can grant sub-licences for the real estate, but the same would revert to the Government at the end of the concession period.

28. These projects would generate additional revenues for the Indian Railways, besides providing world-class services to the passengers. A significant amount of budgetary resources would also be unlocked and can be used for non-remunerative projects. Moreover, most of the railway stations would provide a revenue share to the Railways, which would enable financing of other projects.

29. Projects for about Rs. 40,000 crore may be awarded by the Railways during the next two years with a view to attracting private investment of about Rs. 40,000 crore.

Construction of new lines and gauge conversion

30. For the construction of new lines and gauge conversion, a PPP (DBFOT) model is recommended. This could also apply to port connectivity projects. This DBFOT model can be used to finance, build and maintain railway projects with an IRR of more than 5%, which can be made viable by providing viability gap funding (VGF). The selected projects would be offered to the private sector on DBFOT mode

and the bidder requiring the least VGF support would be the preferred bidder. The railways would need to guarantee a minimum traffic and pay pre-determined track access charges to the concessionaire similar to DFCCIL.

31. The Committee noted that up to 20% of viability gap support could be available to the Railways under the existing VGF scheme while the balance VGF of up to 20% would have to be provided by the Ministry of Railways. These projects would also be eligible for long tenure debt from IIFCL for up to 20% of the project costs. The Railways could add the adjoining real estate and also redevelop railway stations to improve viability of these projects.

32. The Railway Ministry should award railway line and gauge conversion projects for at least Rs. 50,000 crore during the next three years.

Dedicated Freight Corridors

33. The committee also recommended that two freight corridors namely, East-coast corridor and Southern corridor, may be bid out on PPP mode and the preparation of feasibility report for these two projects may be initiated expeditiously. These corridors would be constructed on a DBFOT basis and up to 20% of the project cost could be available as viability gap support from the on-going VGF scheme while the balance VGF of up to 20% would have to be provided by the Railways. These projects would also be eligible for long tenure debt of up to 20% of the project cost from

IIFCL. Adjoining real estate and development of railway stations could be added to improve viability of these projects. Indian Railways would need to guarantee a minimum traffic and pay pre-determined track access charges similar to DFCCIL. The Railway Ministry should award projects for at least Rs. 25,000 crore during the next three years, in addition to the investment of Rs. 10,000 crore proposed in the 12th Plan for Sonnagar-Dankuni section of the Eastern Corridor.

Locomotives and EMUs

34. Railways should undertake creation of capacity for production, supply and maintenance of locomotives and EMUs through a transparently selected private entity. Investments should be made by the supplier and an assured output is to be absorbed by the Railways. This would ensure availability of 'state-of-the-art' locomotives and EMUs, which will improve railway services. This is expected to substantially bring down investments in railway-owned manufacturing units and also reduce maintenance costs. Due to reliability and efficient services, the loss of revenues on account of breakdowns is also expected to be minimized. The Railway Ministry should enable investment of Rs. 5,000 crore during the next three years.

Power Generation

35. The Committee was of the view that Indian Railways should set up captive power plants on the basis of the standard bidding

documents of the Ministry of Power to generate power on a PPP basis. This would ensure that Railways would have long term availability of power at competitive rates which will be much lower than the tariffs currently charged by the Discoms.

36. Creation of generation capacity through this process can generate about 2,000 MW at an investment of Rs. 10,000 crore.

Construction of new lines through PPP (Annuity) projects

37. The PPP (Annuity) model can be used for construction of Railway lines where the IRR is below 5%. Under this model, the private sector partner would be selected through transparent and competitive bidding to design, build, finance and maintain the project for a period of 10 years on the basis of minimum annuity demanded by the concessionaire. The railways would pay 50% of the capital cost during the construction period and the balance in the form of annuity over a 10 year period. A part of the revenue would finance the annuity payments while the balance annuity payments would have to be financed through budgetary support and internal generation.

38. These projects should be undertaken by the Indian Railways only if 50% of the construction cost is financed by other entities such as the State Governments, CIL, SAIL or other bulk consumers while the annuity payments shall be made by the Railways. The O&M of these lines would be undertaken by the

private entity while the rail operations would be undertaken by the Railways.

39. Railways may take up projects for Rs. 50,000 crore during the next three years.

Private Trains

40. Railways should allow operation of private inter-city trains broadly on the lines of private container trains already in operation. The entire capital and operational expenditure would be borne by the private operators who would have to conform to the specifications and standards laid down by the Railways. The Railway would provide pre-determined paths on the same lines as applicable to their own inter-city fast trains. The track-charges may be specified upfront and private operators may be selected on the basis of competitive bidding based on revenue share.

41. Railways may also permit operation of Freight EMUs comprising three coaches each. The FEMUs may be allowed to run behind Mail/ Express trains on payment of pre-

determined charges similar to container trains.

42. An investment of Rs. 5,000 crore may be mobilized through private trains and FEMUs.

Other PPP projects included in the 12th Plan

43. Apart from the projects identified above, the 12th Plan proposes to generate resources equivalent to Rs. 34,800 from PPP in other projects. These include logistic parks, PFT and freight schemes, Mumbai Elevated Rail Corridor and Port Connectivity. The Committee is of the view that these projects should be taken up expeditiously and awarded within timelines to be announced by the Railway Board within a month.

III. BUDGETARY SUPPORT

Committed liability for railway line projects

44. The Committee noted the following committed liability of the Railways on account of sanctioned projects:

Table 2: Committed liability of Railway projects

(As on April 1, 2013)

Category	No. of projects	Amount (Rs. in crore)
Projects requiring environmental clearances	8	10,254
Projects requiring land acquisition	17	14,878
Projects requiring clearances	27	22,648
Material modifications	-	11,796
Others	314	1,18,424

45. The Committee was informed that the Railways would prioritise these projects for accelerated completion. The Railways would also prepare a plan for year-wise funding of prioritised projects to ensure their early completion.

46. The Committee recommended the following for ensuring accelerated completion of the sanctioned projects:

- (i) assured funding for targeted completion of sanctioned projects from out of the budgetary support released on account of creative financing;
- (ii) allocation of additional GBS of about Rs.6,000 crore so that projects which have advanced appreciably can be funded;
- (iii) freezing some of the projects not yet taken off; and.
- (iv) Railways to adhere to strict time lines once the funding plans are committed.

Additional Gross Budgetary Support

47. The significantly low level of investment in Indian Railways has resulted in a shift of freight and passenger traffic to roads thereby leading to a substantial loss of revenue to the Indian Railways. For the economy as a whole, it means higher economic and environmental costs. Hence, there is an urgent need to modernize and increase the capacity of Indian Railways to meet the requirements of the country. The intermodal mix needs to be restored and the Railways need to urgently

implement a modernization plan. This not only requires creative financing to generate more resources, it also requires a higher provision of budgetary support, especially to be able to leverage additional resources from the market.

Unlocking of budgetary support

48. If the Railways are able to mobilise additional resources through the schemes described above, it will not only lead to a sharp rise in investment levels, the budgetary resources committed for some of these schemes would also be unlocked. On a rough estimate, it should be possible to unlock about Rs. 50,000 crore which may then be utilized for the projects which are currently languishing for want of resources. As a result, it would be possible to complete several pending works during the course of the 12th Five Year Plan. These released resources could be used for ongoing national projects, capacity augmentation works, projects in the North Eastern region and projects where more than 50% investment has been done. Further, it was also informed by the representative of Ministry of Finance that the Ministry is committed to providing additional funds for National Projects as and when the available allocations are utilised by the Railways.

Additional revenue generation

49. New investments such as re-development of railway stations, logistic parks, private trains, Freight EMUs, etc. have the potential of generating significant revenues. Such revenues

would boost the internal resources of the Railways and thus enable the completion of some of the projects currently suffering for want of funds.

First charge on GBS/ budget

50. Since resources would be raised by IRFC for utilisation by the Railways, repayments as per agreed schedule will constitute the first charge on the budget of the Railways. Similarly, the payments to be made by the Railways would have to be set aside in the Railway's GBS every year since they are also akin to borrowings and need to be serviced in time. Such measures will ensure that the committed payments are provided for every year in the Budget and the liabilities are liquidated.

Review of the rules of Dividend payment

51. All investments to be undertaken by the Railways in the North-eastern states, J&K and Himachal Pradesh should be exempt from payment of dividend. Further, at least 25% of the GBS should be earmarked for these States.

52. The Ministry of Railways is obliged to make investments in railway lines which are essentially loss-making. The Committee recommends that the GBS to be allocated for such projects from 2014-15 onwards should be exempted from payment of dividend and the funds provided for this purpose should be treated as grants. The existing dispensation for national projects as well as the projects in special category states may also continue.

53. Department of Expenditure is of the view that Railways could be exempted from payment of Dividend only for National Projects and non-remunerative strategic lines taken up at the behest of Government of India. Further, they also do not support earmarking 25% of the GBS for the North-eastern states and J&K on grounds of equity and recommend the retention of earmarking at 10%.

Disintermediation of external borrowings

54. External loans for railway projects implemented by Railway PSUs, such as the Dedicated Freight Corridor Corporation, are currently being routed through the railway budget. This tends to crowd the space available for GBS without offering any advantage to the Railways. In the past, loan agreements were revised to provide for disintermediation of the budget, thereby enabling the external assistance to be routed directly to the project companies. It is recommended that all future external borrowings should be received directly by the Railway PSUs and the ongoing loan agreements may also be revised to give effect to such disintermediation. It is felt that disintermediation of external assistance would help in relieving the pressure on budgetary allocations.

IV. OTHER RECOMMENDATIONS

Guarantee to IRFC for raising debt

55. IRFC is viewed by the market as a wholly-owned government entity which only lends to the Railway Ministry. As such, it enjoys a “AAA” rating and is able to raise funds from the market at very competitive rates. The market does not perceive it as a risk prone entity because all of its debt service is undertaken by the Central Government through the Ministry of Railways.

56. There is a perception in IRFC that if it enhances its market borrowings, there is a possibility of decline in its credit rating which may lead to an increase in market borrowings. Though this perception is debatable, the Committee recommends that the Railway Ministry may be authorised to issue a letter of comfort to IRFC for each of its bond issues in order to assure the investors that the debt service of IRFC borrowings would be ensured through repayments to be made by the Railways.

Adoption of model EPC contract and MSS

57. Railways currently undertake construction through ‘item rate’ contracts which are prone to time and cost overruns, besides a greater potential for corruption. In the case of national highways, the Cabinet has approved a model EPC contract which has since been adopted by NHAI and Border Roads Organisation. In the Railway sector too, the

dedicated freight corridors are being constructed through a lump sum/ EPC contract. The Railways should migrate to EPC mode from April 1, 2014. They may evolve and finalise a model EPC contract with the assistance of Planning Commission, if necessary.

58. The Railways should also evolve a Manual of Standards and Specifications (MSS) which should standardize the specifications based on efficiency, economy and safety.

Review of internal procedures & processes

59. During the last decade, a number of announcements have been made related to PPP projects, however, Railways have not been able to attract any significant private investment. This is due to lack of institutional capacity within the Railways to deal with such matters. The existing structure does not allow for a cohesive and timely decision making process. Timelines are not adhered to as there is no accountability to any external agency in view of the fact that the Railways have a separate budget and have their own approval procedures. It is, therefore, suggested that in order to gain from the experience and knowledge gained in other sectors, the Railways should rely on inter-ministerial processes to finalise its framework documents. This will also enable them to get speedy approvals and attract much greater investment.

Creation of a post of Member (PPP)

60. The Railway Board is structured on a

pattern that adheres to compartmentalization of the different disciplines that exist functioning within the Railways. With the introduction of alternate means of financing Railway projects, it is necessary to create a post of Member (PPP) who would work across disciplines and ensure the structuring and award of PPP projects. He would be responsible for project conceptualisation, development and processing of all PPP projects to facilitate their speedy sanction by the Government and award of concessions.

Accounting reforms and creation of institutional capacity

61. The Committee is of the view that there is an urgent need to reorient the Railway mindset towards external borrowings and raising of market debt. This requires a large scale capacity building effort. The accounting systems and procedures of the Railways also need to be

aligned to current market practices, in the absence of which the revenue/cost allocation and access charge-based projects cannot be scaled up in a significant manner. Timelines may be drawn up for a programme for creation of institutional capacity and accounting reforms.

Way Forward

62. The Committee felt that Indian Railways can generate Rs. 3,29,800 crore by way of creative financing suggested in this report in order to supplement its investment plans during the 12th Plan. This would also unlock and release committed resources of about Rs. 1,36,500 crore for other railway projects which are not amenable to such means of financing. A summary of the above is contained in Table 3 below.

Table 3: Summary of extra-budgetary resources for the 12th Plan

(Rs. cr.)

Sl. No.	Category	Extra- budgetary resources for 12th Plan	Budgetary Resources released
1.	Public Investment		
	Railway electrification	10,000	6,500
	Railway Signalling	15,000	10,000
	Construction of lines	25,000	25,000
	DFC (APL 3)	10,000	5,000
	JVs with State Governments/ PSUs	40,000	5,000
	Sub – total (1)	1,00,000	51,500
2.	Private Sector Participation		
	Redevelopment of railway stations	40,000	5,000
	New lines and gauge conversion	50,000	50,000

(Rs. cr.)

Sl. No.	Category	Extra- budgetary resources for 12th Plan	Budgetary Resources released
	DFC (Sonnagar- Dankuni)	10,000	
	DFC (new)	25,000	25,000
	Locomotives/EMUs factories	5,000	-
	Power generation	10,000	-
	Annuity projects	50,000	5,000
	Private trains	5,000	
	Logistic parks	7,000	
	PFT & Freight Schemes	2,800	
	Mumbai Elevated corridor	20,000	
	Port connectivity	5,000	
	Sub-total (2)	2,29,800	85,000
	Grand total (1+ 2)	3,29,800	1,36,500

63. The Ministry of Railways may set up a dedicated Directorate under Member (PPP) to structure, coordinate and award the aforesaid projects in consultation with the respective Directorates of the Railway Board.

64. The Committee would like to emphasise that this is a composite report and not intended as a menu for pick and choose. The recommendations contained herein can only fructify in the event that the report is implemented in its entirety and Railways begins to think and work like any other commercial organization.

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