FUNDING OF PUBLIC PASSENGER TRANSPORT IN DEVELOPING COUNTRIES - A CASE OF INDIA :

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Abstract : The funding problems of land passenger transport in developing countries are different and more complicated. The paper brings out the present scenario of financial performance and funding arrangements in the Railways and the Roadways carrying passengers in a country like India which represents developing nations of the world. Since mobility of people within the country and particularly in the cities is considered as a public utility function of the governments and local bodies, the funding of capital is mainly through the General Exchequer. This is supported by internal generation of funds within and borrowing from Financial Institutions. These measures of funding being very inadequate, new methods of attracting private capital in passenger transport sector have been proposed. Since the liberalized economic policies have been recently introduced in the country, encouragement for the private capital participation in projects under BOOT has been an important issue for consideration. Taxing the direct and the indirect beneficiaries of new transport projects to be undertaken, inviting participation of general and institutional investors in the capital formation are some other measures suggested. Commercial exploitation of transport land, commercial outlook for transport organizations and freedom to fix passenger fares will also strengthen the funding operations of capital projects in land passenger transport in India.

1.0 PUBLIC LAND PASSENGER TRANSPORT IN INDIA

1.1 Public Land Passenger Transport services in India can be classified into two groups - viz. The Rail passenger transport and the Road passenger transport. Out of total Land passenger requirements of the country, 80% are met by road transport while the remaining 20% are carried by railways at present.

1.2 Indian railways have a vast network, the second largest in the world under a single Management, with 62000 route killmeters of track and employing 1.6 million workforce as on 31 – 3 - 1997. Indian railways carry one million tons of freight and 11 million passengers daily. The total distance covered by the 12000 trains on the Indian Railways every day equals three and half times the distance to moon. Indian Railway products and expertise have world market, extending their overseas operations extensively to about 20 countries in Africa, Middle East, South Asia and Latin America. Before 1947, 42 Railway Companies operated in the country. Indian Railways are now entirely owned and operated by Government of India throughout the country . Indian Railways is grouped under 15 Zones for smooth and efficient operations. The policy decisions are taken by the Railway Board comprising of the Railway Minister, Govt. officials , Railway officials and the representatives of Labour Unions. The mega cities in India like Mumbai (Bombay), Chennai (Madras) and Calcutta have a large suburban network and it also forms part of the general railway operations of the respective zone. These suburban rails account for about 60% of the total number of passengers on the railways. Very recently a seperate corporation has been formed to take care of the transportation needs of the Mumbai mega city. Mumbai surburban rail is one of the biggest system in the world carrying nearly 2 billion passengers and operating 47 billion passenger kms. annually. Mumbai suburban rail fares are, however, one of the lowest in the world and its yield per passenger kilometer fluctuates between 0.20 – 0.25 cents only.

1.3 The Road passenger transport in India is operated partly by public sector and largely by private sector comprising about 28.7 % and 71.3 % resp. of the total buses. The percentage of nationalisation in different States varies considerably , being highest (68.78%) in Maharashtra State. Public sector passenger road transport in India is operated by 71 passenger road transport undertakings owning 113370 buses having fleet strength varying between 5 buses to 17000 buses among Organisations under single management and control. The number of public bus transport undertakings having more than 1000 bus fleet as on 31-3-1997 was 20, the largest among them are the Maharashtra State Road Transport Corpn. and the A.P. State Road transport corpn. with a fleet of about 17000 passenger buses each. The organizational form for public sector bus transportation varies from State to State, the most common form being that of a Corporation form constituted under the provisions of the Road Transport Corporation Act., 1950. There are 21 such corporations. While 31 undertakings are formed under Indian Companies Act, 1956, Urban Transport is operated by 10 Local Municipal Councils. The remaining 9 Undertakings function as part of Government Departments.

2.0 INDIAN RAILWAYS

2.1 Railway plans today are financed through three main sources : (i) internal resources, (ii) market borrowings and (iii) capital from the General Exchequer. During 1996-97 the composition of such financing was 54%, 28% and 18% respectively. The capital receipts from the General Exchequer have declined from 51% in 1986-87 to 18% in 1996-97 while the level of Market Borrowings has gone up from zero to 28% over the same period. This situation is likely to lead Indian Railways in a debt-trap like most railway networks in developed world. The Japanese and the German railways had to be bailed - out of Yen 28 trillion and D.M. 67 billion of debt through State intervention recently.

2.2 As in other developing countries in the world, Indian Railways discharge social obligations by carrying essential commodities at lower rates, concessional fare for certain category of passengers mainly in the suburban areas of larger cities, operating uneconomic branch lines, security patrolling etc. The losses incurred under these heads amount to Rs. 18 billion in 1996-97, i.e. about 8% of the total earnings of Indian Railways. No subsidy in any form is provided by the Exchequer as is done in countries like U.K. , Switzerland, Germany and France where the magnitude of the subsidy ranges between 30% to 35% of the total revenue earnings of the railways.

3.0 INDIAN ROAD PASSENGER TRANSPORT:

3.1 Total number of buses, including private and public sector, in India was 0.45 million during the year 1996. Total number of buses in public sector held by the State Transport Corpns. was 0.11 million during 1996. Thus public sector buses constitute only 25% of the total buses in the country.

3.2 Total capital invested in State Transport Undertakings in India during the year works out to Rs. 81.87 billion. The total capital contribution made by State Govts. and the Central Govt. is Rs. 31.13 billion. The total loan capital from financial institutions like, Industrial Development Bank of India, the Life Insurance Corporation of India and other banks is Rs. 9. 34 billion. The public passenger road transport is funded through its internal resources, market borrowings and equity capital provided by the Central and State governments. The quantum of internal financing for all Undertakings together works out to 51% of the total capital while the market borrowings and the equity capital of the Governments stands at 11% and 38% respectively.

3.3 In respect of bus transport operations in private sector, they are conducted mainly by private individuals or smaller companies which are very scarcely distributed and perform independently. The private sector passenger road transport is thus in the most disorganized state resulting into fierce and unhealthy competition with the public sector undertakings in the country. Public passenger road transport operations are mainly common in larger cities where daily commuting is done by the residents for the purpose of work, education, marketing and recreation.

4.0 FINANCIAL PERFORMANCE OF LAND PASSENGER TRANSPORT

4.1 RAILWAYS

Indian Railways have earned Rs. 166.68 billion on account of freight revenue and Rs. 66.33 billion of passenger revenue during 1996-97. The major items of costs are the staff cost (Rs. 105.15 billion), the fuel cost (Rs.13.77 billion), stores (Rs. 85.26 billion) and Lease charges (Rs.14.69 billion). The contribution to depreciation reserve fund works out to Rs. 22.41 billion. Thus the staff cost comprises of 48% of the ordinary working expenses, while fuel, stores and lease charges occupy 6%, 39%, and 7% respectively of the ordinary working expenses during 1996-97. The generation of internal resources by the railways is seriously affected due to increased staff cost which is likely to increase further in future due to wage revisions already taken place. Similarly because of shrinking capital contribution from the Government. over a period, market borrowings have increased largely with the result that the lease charges have risen from Rs. 250 million in 1987-88 to Rs. 23.92 billion in 1998-99.

4.2 ROAD TRANSPORT

The total revenue of State Transport Corporations during 1996-97 works out to Rs. 100.88 billion, the traffic revenue being of Rs. 95.94 billion, while other revenue is of Rs. 4.94 billion .The total cost inclusive of personnel, material, taxes, interest, depreciation and others computes to Rs. 115.02 billion during the year 1996-97. All State Transport Undertakings together incurred a net loss of Rs. 14.14 billion during the year. However all State Transport Undertakings incurred Rs. 1.7 billion loss before taxes during the said year. State Transport Undertakings' overall cost recovery index is only 88%. Rural State Transport Undertakings could recover 91% of their total cost, hill region State Transport Undertakings could recover 76% of their total cost and urban State Transport Undertakings could recover only 69% of their total cost. State Transport Undertakings Operating cost consists of personnel and material cost. Overall operating cost of State Transport Undertakings took away 82% of their total revenue. The overall spending on "personnel" went upto 46% of their total revenue while in urban transport undertakings it is as high as 70%. The personnel cost index with reference to the base year 1987-88 is hiked more than two and half times over a decade. Overall spending on "material" went upto 36% of their total revenue. The total financial burden to State Transport Undertakings due to various concessions and subsidies provided to different classes in the society during 1996-97 works out to Rs. 4000 million approximately.

5.0 PRESENT ARRANGEMENTS OF FUNDING LAND PASSENGER TRANSPORT

5.1 THE RAILWAYS

The financial position of Indian Railways have been brought out in the "Status Paper " prepared by the Rail Ministry recently. It is stated that Indian Railways are today at the cross- roads. They are required to strike a balance between the dual role of a commercial enterprise and a public utility in the context of reduced capital support from the General Exchequer, declining market share and aspirations of the people for increased and improved rail services. Over a period, the capital from the General Exchequer in percentage terms has shrunk and the level of market borrowings has gone up. The average cost of market borrowings is higher and there is repayment obligation also. This has imposed an increasing burden of Lease Charges which have risen from Rs. 250 million in 1987-88 to Rs. 23920 million in 1998-99. Very shortly, the Lease Charges will tend to exceed the market borrowings level itself.

5.2 THE ROADWAYS

The passenger road transport in private sector is very scarcely distributed and very little information about their financial performance and financial requirements is available . As regards Public Passenger Road Transport in India, it is seen that the operations are conducted mainly by State Road Transport Undertakings, the performances of which are very closely observed by the Central Institute Of Road Transport, Pune, India. As provided in the performance picture by this Institute, it is observed that the total Fixed Assets of State Transport Undertakings are of the tune of Rs.61.01.billion as on 31.03.97. The fixed assets are financed through long term funds of Rs.39.34 billion while short term funds worth Rs.21.67 billions have also been used for financing fixes assets. This is not a sound financial management. The present share of Government Capital is about 38% while the Long Term Loans constitute 12% of fixed assets. The long term loans are in the nature of Debentures (2%), Industrial Development Bank of India under bills discounting scheme (35%), the plan allocation of loans by Life Insurance Corporation of India (30%) and the Commercial Bank Loans (33%).

6.0 FUNDING OPTIONS AVAILABLE FOR LAND PASSENGER TRANSPORT IN INDIA

6.1 The Land Passenger Transport in India is treated as public utility in view of its requirement of heavy initial capital investment and providing essential service to the common man. The Central and State Governments along with Local Municipal Councils should come forward to meet the funding requirements, as in a developing country, the private capital is not likely to be attracted in such infrastructure activity where the gestation period is very long.

6.2 The funds also can be generated by imposing surcharge on passengers whenever new services are opened and/ or service improvements are undertaken. In addition to surcharge to users, levies on non-users who are benefited due to improvement and expansion of transport services is also justified. Such levy can be in the form of pay roll tax, surcharge on road tax leviable on private vehicles and surcharge on property tax either generally or more specifically location related.

6.3 Commercial development of land by Railways and Roadways can also bring sizable funds for capital financing. It is estimated that around US $400 million can be generated through commercial exploitation of railway land alone.

6.4 For generation of additional resources in any of the financial options, an effective institutional framework with a general commitment to implement is needed. On similar lines integrated transport planning is equally essential to plan and execute capital intensive projects in railways as well as roadways. Development of coordinated transport plans and execution of resulting infrastructure projects is very necessary.

6.5 Private capital has to be attracted in such infrastructure projects encouraging the same in different optional schemes presently available like BOOT (Build, Own, Operate & Transfer), BOT (Build, Operate & Transfer) etc. For this purpose necessary amendments, if required, in Industrial Policy Resolution and other legislations are to be made in order to launch the project for private sector construction and operation. Railways Act may be amended to allow private enterprise to operate services on BOOT principle and further to set the passenger fares on commercial lines without seeking prior approval of the Government. Various tax and fiscal benefits are also to be extended to projects under BOOT scheme. Necessary provisions in project cost should also be made in all projects of BOOT for adjusting the risk of devaluation of Indian Rupee in respect of borrowings in foreign currency.

6.6. For funding any new project for passenger transport and also for survival of the existing transport system, the important source is the fare box revenue. The passenger fare should be allowed to be regularly adjusted according to the increase in input costs from time to time. This fare box revenue has to be supplemented by commercial exploitation of railways and road transport wherever feasible, as stated earlier.

6.7 The scope for raising debt finance though limited has to be considered. These limitations arise due to lack of good track record of profitability, non-availability of marketable assets during the construction phase and high starting risk due to uncertainty of attracting senior lenders like the World Bank, The Asian Development Bank (ADB). For raising debt finance, the selection of debt instruments with appropriate tax exemptions in the Indian context is needed. The public can be approached to purchase debt instruments, such as Deep Discount Bonds with substantial tax benefits.

6.8 Equity contribution from different sections for funding projects in railways and road passenger transports has to be tapped. This will come from the promoters, the governments, the contractors building the projects and supplying machinery etc., property developers and the private investors like the Banks and other Financial Institutions in India. Public issues for capital projects when backed by the Government can also attract good response from investors in India.

6.9 For any type of funding measures full support and co-operation from the Central and the State Government is very much essential. This support will be mainly in the form of timely clearance of the various procedures and formalities in the preparation of BOOT projects. Such projects have to be declared by the Government as of national importance and all possible concessions and attractions to be provided for.

7.0 CONCLUSION

The introduction of liberalization in 1991 has opened up the possibility of private sector participation in the construction of capital intensive projects in transport sector in India. The traditional methods of financing capital projects mainly by the General Exchequer have to be discarded and the private capital participation to be encouraged. Passenger transport by rail and road need to be coordinated in developing countries in such a way that they should supplement and complement each other. The internal resources to be generated by allowing them to adjust their passenger fares in relation to input costs from time to time, by discarding subsidies and concessions to travelling public altogether and by introducing professional management in day to day administration. New and novel methods of supporting capital requirements to be searched out and adopted. The expansion and development of transport should be need and commercial- based and not to be on political considerations. This will remove wastes and losses of scarce resources and ensure efficient management, commercial outlook and sound economic development of the country.

CURRICULAM VITAE

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- Born in 1936, postgraduate in Commerce from University of Bombay in 1960 and awarded Ph.D. in Road Transport Management in 1980 by University of Poona, India.

- Worked as Professor of Commerce and Economics in Universities, as General Manager in Machine Tool manufacturing company and subsequently as Finance Executive over 27 years in Maharashtra State Road Transport Corporation, India, the largest bus fleet operator in the world.

- Deputed to Bombay Electric Supply and Transport undertaking, Bombay, and Government of Sikkim, Gangtok, for two years for setting up finance and operations Departments of road transport.

- Contributed about 25 research papers on Transport Management and related subjects in reputed Journals, Newspapers and Periodicals in India and abroad.

- Worked as member of various Committees constituted by Govt. and semi-Govt. undertakings in India to study and report on problems concerning Transport Management. Also undertaken consultancy in financial management of State Road Transport Undertakings in India.

- Awarded membership of coveted Transport Institutions in India and abroad and invited for conducting International Training Programmes for participants of developing countries of Asia and Pacific on the subjects of transport finance and audit sponsored by the Supreme Institution of International Audit.

- After superannuation, worked as Professor of Financial Management in reputed Management Development Institution. Presently working as Management Consultant to Govt./semi Govt. institutions on problems of road passenger transport, operation, finance and general management.

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