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BUDGETING IN PUBLIC SECTOR UNDERTAKING - A CASE STUDY OF INDIAN RAILWAYS

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ABSTRACT

Indian Railways is one of the world's largest public sector organizations. Its network, traffic, organization and extent of vertical integration are gigantic. This paper undertakes a critical examination of its procurement process to understand the procedures and institutional mechanisms which have evolved over time for safeguarding institutional interests. The examines issues such as organizational structure, procurement organization, source selection methodology, procurement oversight and regulation and their impact on the economy, efficiency, transparency and accountability aspects of procurement. It is found that a unique combination of internal vigil, external oversight by independent bodies and organizational characteristics contribute to robust procurement processes.

KEYWORD: Indian Railways, public sector organizations, network, traffic.

INTRODUCTION

The Indian Railway is the world's largest government railway. The Railway functions as a vertically integrated organization providing Passenger and Freight services. It is a single system which consists of 66,030 route km of track that criss-cross the country, on which more than 22,300 number of trains ply, carrying about 23 million passengers and hauling nearly 3.02 million tonnes of freight every day, thereby contributing to the economic growth of the country and at the same time promoting national integration. As compared to road transport, the railway has a number of

intrinsic advantages as it is five to six times more energy efficient, four times more efficient in land use and significantly superior from the standpoint of environment

impact and safety. Indian Railways, therefore, rightly occupies pride of place in the growth and development of the nation. The railway service is rendered through a nationwide rail infrastructure covering track, stations, sidings, freight terminals, locomotives, coaches and wagons and a myriad of infrastructure inputs like signaling, telecom, electrical installations,



maintenance workshops etc. The output and outcomes achieved by the Railways in terms of Passengers and Freight carried results from the interwoven activities of the various infrastructure inputs comprising the Railway Infrastructure. While a direct one to one correlation in terms of inputs and outcomes

of each activity is not easy to render in a transport sector like the Railways, the Performance cum Outcome Budget attempts to give a better insight in to the multifarious activities of the railways that, when combined, generate the outcome of transportation services.

<u>Rail Infrastructure as on 31.03.2015</u>		Box – 2
Route Kms:	66,030	
o Broad Gauge	(58,825);	
o Metre Gauge	(4,908) &	
o Narrow Gauge	(2,297);	
Running Track Kms:	90,803;	
o Broad Gauge	(83,266);	
o Metre Gauge	(5,240) &	
o Narrow Gauge	(2,297);	
Electrified Route Kms:	22,224	
Rolling Stock:		
o Wagons:	2,45,350 wagon units	
o Locomotives:	10,773 nos.	
o Coaches:	63,045 nos.	

This performance cum outcome budget seeks to report on the Outcomes of the Rail services in terms of through put, financial results, addition to capacity, and outcomes for the traveling public and rail users. The Performance Budget of Railways has been prepared in pursuance of the recommendations of the Standing Committee contained in their VI Report (1993-94) on Demands for Grants (Railways), 1994-95. This document inter alia indicates the comparative performance of Indian Railways in respect of Revenue and Expenditure vis-à-vis the targets. The performance in respect of works costing Rs. 5 crore and above, including transfer of

funds from one work to other; target dates of completion of the projects are also indicated. It also gives a summary appraisal of the Railway's performance including shortfalls, if any, in respect of revenue earnings, expenditure, works performance as provided in the ongoing Five Year Plan and Annual Plan.

The Outcome Budget for Railways has been introduced from 2006-07 keeping in view the guidelines of the Government for converting financial outlays into physical outcomes. The Railway has a mechanism to measure the development outcomes of all major programmes giving importance to



converting financial outlays into physical outcomes, with quarterly measurable and monitorable targets, to improve the quality of implementation of the projects. The Outcome Budget 2016-17 tries to bring out the achievements/highlights that the Railway has tried to deliver up to 2014-15 for the benefit of the people of the country. This Railway budget document provides an insight not only to the outlays provided under various plan heads, but also the targets set vis-a-vis the progress achieved in measurable terms, a feature unique to this Ministry's budget documents. Some of the information relating to Outcome Budget is also available in other budget documents, like, Explanatory Memorandum where Traffic Plan for goods and passengers as also efficiency indices, like, Plan Targets and achievements are given.

REVIEW OF LITERATURE

The Indian Railway system, the second largest system in the world under a single management, and the fourth largest rail network with track length of over 64,600 kilometers is a public sector undertaking under the Ministry of Railways. 1 With a workforce of 1.4 million, it is the seventh largest employer in the world. Indian Railways is the lifeline of the country as it transports 25 million passengers and more than 2.8 million tonnes of bulk freight daily. 2 Railways commenced in India on 16th April 1853 when first train owned by Great Indian Peninsular Railway Company moved from Mumbai to Thana covering a distance

of 22 miles. Rail traffic in Eastern India between Howrah to Hoogly was opened to public on 15th August 1854. In South India, the first railway line was opened on 1st July 1856 between Vyasarpadi and Wallajah Road, Arcot a distance of 63 miles. In the North, 119 miles of railway line was laid from Allahabad to Kanpur on 3rd March 1859. By 1880 Railways in India had a route mileage of about 9000 miles and were run by separate railway companies. The Railway Board was constituted in 1905 with the decision making power retained with the Viceroy of India. The Acworth Committee appointed in 1920 recommended nationalization of railway companies in India. In 1925 two big railway companies, The East India Railway Company and Great Indian Peninsular Railways were taken over by the state. The nationalization of entire railway 3 system was completed in 1944. 6 Electric Traction was first introduced in Railways in India in 1925. 4 Air-conditioned coaches were introduced in 1936. By 1947 there were 42 rail systems in India with the total route length of railways as 543,760 kilometers. The Indian State Railways were added to Indian Railways in 1950.

After independence government regrouped the railways on zonal basis in order to secure economy, efficiency and uniformity in financial administration and control. The zones were further subdivided into divisions. At present there are 17 zones and 68 divisions. The Southern zone of Indian Railways was formed on 14th April 1951 with the merger of three state Railways -



Madras and South Mahratta Railway, the South Indian Railway and the Mysore State Railway.

TRANSPORTATION

India has not given due importance to the development of transport infrastructure even after six decades of independence. Sreedharan E. (2010), stresses that if India need to have a place among developed nations, it is high time India gives adequate attention to its transport systems.

GoyalAshima (2008) examines the weaknesses in India's public transport systems. It is suggested that the solutions are possible not just with ownership changes, industry structure and competition, but with individual motivation, changes in management structure and institutional design.

Public transport is said to consume less space per passenger and leads to lower congestion. Misra Siddhartha (2006) recommends that both incentive and disincentive for private transport are needed to promote their use and sustainability of public transport in India. Incentives include better quality and more comfortable public transport with higher frequency of trips, low waiting time and a unified transport system. Disincentives for private transport must include higher working and toll charges.

India is on the threshold of entering into the group of developed countries. Its power in science, engineering and technology has been recognized the world over. In transport

infrastructure the nation is far behind even after 65 years of independence. Murthy V.A. (2005, 2004), finds that transportation in urban areas is in a very poor condition without tackling high budget new projects are being implemented. The paper states that in order to resolve the existing transportation problems and to implement new transportation projects in the urban transport in the urban areas in a cost effective way, India has to rely on innovative and indigenous equipments and methods.

In view of the limitation of capacity expansion as a structural solution and the complexities of travel demand as a strategic solution, Intelligent transport systems can assure optimal use of existing transportation infrastructure in general and road capacity in particular. In the light of increasing congestion in urban areas, Intelligent Transport Systems (ITS) represents a set of tools which, can enable local governments achieve integrated transport solutions as well as to ensure better use of existing transport infrastructure. Gupta Sanjay (2005, 2004), provides an insight into the potential application areas of ITS, reviews global practices and suggests possible priority areas for Indian situation.

The main objective of demand management policy is alleviation of traffic congestion thus improving traffic flow efficiency. Other common objectives include limiting adverse environmental impacts, reducing traffic accidents and risks, providing services for the urban poor as well facilitating economic



activities of the city. According to Sharma Rajiv (2005, 2004), the role of demand management should however cover not just the negative approach of restraining transport demand but also encompass a positive and realistic managerial role of accommodating increases in transport demand through favorable changes in road user behaviour and modal split balance.

Sustainable transports can be defined as supportive system which will bear the traffic volume for long time both quantitatively and qualitatively and is a key factor for socio economic development. Qualitative and quantitative sustainabilities are interdependent and interactive due to common traffic attributes. Deshpande V.K. and DalviAshwini (2004), present an integrated approach for developing the sustainable transport which includes solutions like improved travel choices, incentives for public transport usages, non pollutant fuel usages and technological innovations.

The problem of environmental degradation caused by growing vehicular traffic has been gaining both national and international attention. Pundir B.P. (2004) strikes a note of caution against adhoc and whimsical steps for controlling emission related problems. He calls for a studied and sustainable approach which can be implemented effectively and monitored easily. He emphasizes the need to strengthen the handling and distribution facilities for alternative and non polluting fuels.

Feeder public transport system to High Capacity Transit System plays an important role in ensuring an integrated multi modal public transport operation. With the implementation of Mass Rapid Transit System (MRTS) in a metropolitan city, the existing road based public transport

PURCHASE OF TRANSPORT SERVICES

No policy or system of explicit payments exists for loss-making passenger Public Service Obligations (PSOs) in IR, but substantial internal cross-subsidy takes place for train operations within the passenger sector, as it does between individual ZRs. Also, most of the aggregate burden of infrastructure costs falls on freight customers. Therefore, the MOR (IRB) has accepted internal cross-subsidy of passenger services and an implicit tax on freight, rather than direct subsidy, to fund passenger service obligations. railway revenues covered railway operating costs and contributed about a third of capital investment. However, as of late, IR is facing difficulties balancing the budget. Passenger losses are placing an increasingly high burden on freight. Freight services in turn must compensate with high tariffs, reducing its competitiveness.

RAILWAY TRANSPORT MARKETS

IR is the world's second largest passenger railway and fourth largest freight railway after the U.S.A., China, and Russia. India's large and rapidly expanding population



provided steady but relatively slow growth in railway passenger traffic during the last decades of the twentieth century as other modes gained market share. During the last decade, accelerated economic development increased purchasing power and, in combination with politically imposed low fares, boosted railway passenger traffic growth by nearly 100 percent. India has a mix of passenger services. Over the last 30 years, as cities have expanded, suburban passenger journey length has increased from an average of about 20 kms/trip to 34 kms/trip, and average journey lengths for inter-city services increased from about 87 kms/trip to 268 kms/trip. In terms of modal share, IR is estimated to carry about 15 percent of non-urban passenger traffic. Historically, IR's passenger transport services could be categorized as poor to middling quality, suffering from long ticketing queues, slow travel times, and limited journey comfort and amenities. However, a series of investments in faster lines and customer-services initiatives have resulted in continual improvement and customer satisfaction. Followed by grain, 10.1 percent, cement, 8.9 percent, and iron ore, 5.5 percent. Rapidly growing container traffic now constitutes 13 percent of traffic task. The average freight haulage length is 620 kms, and IR carries an estimated one-third of national inland freight task. Despite what appears as significant absolute growth in passenger volumes and a freight market that is on the surface conducive of rail transport, IR's market share since the 1950s has been severely eroded by a shift to road

transport. While rail market shares of the 1950s are unlikely to be achieved, considerable potential exists to increase Indian Railways market share of freight. One of the major challenges for the freight rail market has been insufficient capacity for freight trains. Nearly two-thirds of the IR network is allocated to passenger trains, and freight trains are dispatched with no timetable and with the lowest operational priority. In addition, the fact is that investment in expansion of the rail network has not kept up with the immense growth of the Indian economy. The issue of insufficient capacity, combined with IR being slow in improving its service offerings, led to stagnated growth in both passenger and freight traffic.

GROWTH FOR INDIAN RAILWAYS

Revenue growth has been strong over the years; during FY07–17, revenues increased at a CAGR of 9.8 per cent to US\$ 25.62 billion in FY17. During April-December 2017, gross revenue of Indian Railways stood at US\$ 19.17 billion.

Revenues from the sector are estimated to reach to US\$ 44.5 billion by the end of FY20

Revenues would expand at a CAGR of 12.12 per cent during FY07– 20E

Indian Railway sector aims to boost passenger amenities.

In March 2017, Railways started a new segment of revenue generation channel



through auctioning for advertising and branding contracts on 1000 trains. The front running brands are to sign this contract for 5 years.

CONCLUSION

India has one of the largest and busiest railways in the world, but also, IR is arguably the most traditional and monolithic in its basic structure. In fact, it closely resembles the archetypal railway described in this toolkit—prior to considering the alternatives. Traffic growth has underpinned management initiatives to attain steady and significant improvements in staff productivity and equipment utilization. Nevertheless, IR was historically not notably innovative in using modern rail technology, nor in transforming to more commercial management structures, nor focused on service quality or market-responsiveness. Instead, when seeking commercial focus, it has tended to create semi-autonomous enterprises that bypass its own structures. The burst of improvements and achievements in business processes during 2004-08.

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