

## Mega projects of Bangladesh Railway: Is it ready for the job?

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By *Dr. Ahsan H. Mansur*

Since the early 1800s, the railway sector enjoyed a monopoly as a freight carrier and, for the longest period, it was considered the most efficient mode of transportation in Bangladesh. Even today, in terms of unit cost, both railways and waterways are considered to be the most efficient and viable forms of transportation.

However, with the emergence of road transport, lack of government attention and inefficient management, the railway system started losing its importance and market share. Although passenger traffic has increased over time, the yearly growth has decelerated.

Due to insufficient infrastructure, poor condition of the physical assets and asset management, and low service quality vis-à-vis competing transportation modes, the relative importance of railways has been going down over the years.

Against this background, the government's recent focus on the railway sector is most welcome. Underscoring the importance of railway communication, the government has attached topmost priority to railway amongst all the surface mode of transports in Vision-2021. Twenty eight new projects have been approved in the past two years and many are under active consideration for the improvement of the railway system amounting more than \$20 billion in total new investment in the sector.


Taking a longer-term perspective, in 2013, the Railway Sector Master Plan up to 2030 was approved with a view to implementing 235 projects in four phases at an estimated cost of Tk. 2339.44 billion. Some of the important projects included in the Master Plan are:

construction and reconstruction of rail lines for Dohazari-Cox's Bazar-Gundum; Kalukhali-Bhatiapara-Gopalganj-Tungipara; Pachuria-Faridpur-Bhannga; Ishwardi-Pabna-Dhalarchar; and Khulna-Mongla new rail lines.

Recently the "Padma Bridge rail link" project with a cost of Tk. 349.88 billion (\$4.47 billion) was approved at a meeting of the Executive Committee of the National Economic Council (ECNEC). Work is also going on for making Dhaka-Chittagong and Jaidevpur-Jamuna Bridge double track and dual gauge with a view to increasing frequency of trains and volume of passenger and freight traffic.

With the approval of the multi-billion dollar mega projects and numerous other medium-sized projects, the administrative, technical and service delivery capacities of the railway authority is coming under greater scrutiny. Given the high level of interest expressed by bilateral and multilateral development partners like China, India, and Asian Development Bank (ADB) it is becoming increasingly clear that financing the mega projects may not be a major problem for the government.

However, question remains whether the Bangladesh Railway (BR) as an organisation has the capacity to manage such a massive investment in an efficient and transparent manner and whether proper appraisals have been made to ensure financial viability of these projects.

While the huge investment in the railway sector is welcome, we must think of whether these investments will pay off in terms of return on investment and whether the inefficient BR has the implementation and management capacity for implementing the massive projects and generating operating surpluses to pay for the cost of investment. Serious considerations should be given to determine the costs and benefits that would result from these projects. 

BR is having serious trouble covering the operating expenses, not to mention the capital expenses. Is it really a practical idea to invest in railway projects when BR has been running operating losses over many decades (Table 1)? If BR is having trouble to even cover the cost of fuel and manpower, when will it ever cover the financing cost of the more than \$20 billion new investment on the railways? We must seek satisfactory answers to these questions before investing such huge amounts in BR.

Another striking feature of BR's performance is that it is rapidly losing its market share in freight traffic. Most modern railway systems make profit out of freight traffic because it is generally considered cheaper and safer options for transferring bulk transport of agricultural, mineral and import/export containers.

Despite the very rapid growth in the volume of freight traffic in Bangladesh due to a rapid expansion of both domestic and foreign trade, BR has systematically failed to maintain its share in this fast growing and potentially profitable segment. BR appears to have forgotten that the British Administration laid down a very extensive railway network all over South Asia, and more importantly in the undivided Bengal, primarily to carry goods and raw materials. Due to BR's lack of focus on freight traffic, the volume of traffic in ton-kilometer in fiscal year (FY) 2014-15 was significantly below the levels recorded in preceding years (Table 2).

✘ Despite the dismal picture presented above in terms of financial performance and ability to compete with the private sector, BR still is a very popular mode of transport in the country. Intercity trains operated by BR are very popular, especially in the east zone. The occupancy of intercity trains in the Dhaka-Chittagong corridor is usually much more than 100% of capacity and train services are almost always sold out.

However, the high demand for intercity service in the Dhaka-Chittagong corridor cannot be met fully because of insufficient line capacity. Purchase of railway tickets has recently been made electronic relieving customers from waiting in long lines especially during Eid holidays. But, the efficiency of the system still remains questionable as unavailability of tickets and customer harassment at the counters have become common occurrences.

Lack of quality service delivery, corruption in railway operations, in particular theft of fuel from engines, overpriced parts and maintenance costs, extensive corruption in ticket sales, and inefficient and corrupt management (as reflected through the recent hiring scandal) are the main factors behind the large and widening operating deficit of BR.

It is important that the planned investment in mega projects would enable the railway sector to compete effectively with other forms of transportation. People now prefer road transport over railways because of lack of service quality and the inefficiency observed in the railway sector. The mindset of the railway administration needs to change, if BR is to effectively

compete with the private sector in a multi-modal transport system. BR needs to become a quality service provider in competitive terms and only then can the investment bring in the required return.

One major concern that often gets sidelined is the ownership structure of BR. It is still a 100% government owned entity with budgetary support for both train operations and infrastructure investment coming from the government. As such, BR has virtually no incentive to be financially self-supporting like private companies.

Private sector's role in road transport, inland water transport, and ocean shipping has grown rapidly over the last several decades; private sector is now the dominant player in these sectors. A similar stance is essential in the railway sector as well through restructuring of BR operations, administration and ownership structure.

Global experience has shown that unbundling of a major natural monopoly generally leads to increased competition, efficiency gains, and benefits for the consumers and business community. This unbundling can potentially take many forms, while maintaining a significant public sector role in the unbundled railway system. For example, BR can maintain, build and operate the railway tracks, while private sector can participate and compete with BR in providing passenger and freight train services (operating rolling stocks). Such restructuring will significantly improve efficiency and service quality, and help establish better connectivity for the railway system to survive as a viable mode of transportation.

Another major concern for BR is the absence of marketing and promotional activities. Most of the customers (business and households) are unaware of their promotional activities, and the business houses need to run after the BR officials for shipping containers and goods through railways while private road transport companies provide door-to-door service and frequently visit business houses for shipping orders. A high level of marketing activity reaching out to the business community and households is essential for any successful organization; thus, considerable emphasis should be given to this aspect.

We agree that most of the important projects would need to be implemented, as a part of Bangladesh's holistic multi-modal transport strategy to meet the rapidly growing transportation needs of the economy. However, without a fundamental restructuring of the

BR and the associated changes in its business culture, business practices and the mindset of the railway administration, the investments will not yield the desired outcomes.

Running operating losses year after year is not acceptable and not compatible with the investment plan. The on-going loss might not have been an issue in the past but now that the government is trying to invest tens of billions of dollars of resources in this sector, it is important that a respectable rate of return is guaranteed. At least a significant part of the capital budget has to be recovered, in addition to the full recovery of operational costs.

Higher rate of return is not only an issue for viability of the railway system, but also an indicator of administrative efficiency and better customer service delivery.