Lending for Railways: Pakistan

In the Bank’s experience, railway projects are three times more likely to fail than other transport projects. Even in this context, the Bank’s $100 million funding of three improvement projects for Pakistan Railways (PR) between 1969 and 1985 was notably unsuccessful.

PR is steeped in 100 years of tradition. Its work is constrained by bureaucratic procedures and by powerful political interests. Over the last two decades its performance has deteriorated continuously. Though the Bank-financed projects were expected to reduce rail operating costs and recapture some of the freight traffic that had shifted to road transport, PR saw its market share further decline and its operating losses grow. By FY89, it was responsible for about 6 percent of GOP’s overall budget deficit.

A recent OED audit* recommends strengthening the Bank’s supervision of the railway component of the Transport Sector Project now in progress, and making any future lending conditional on action by PR on severe overstaffing, passenger fares that are below costs, and uneconomic lines and services.

Results

The three Bank-financed projects (Railway IX, X, and XI) attempted to improve PR’s operational efficiency and capacity, economic viability, and financial results. The ERR for much of Railway IX was unsatisfactory at project completion. Those of Railway X and XI, estimated at appraisal to be 24 percent and 18 percent respectively, were both negative at project completion.

None of PR’s basic problems has been solved. Its market share has fallen considerably. Freight traffic has stagnated. PR has continued to favor uneconomic passenger services at the expense of developing potentially much more profitable freight traffic. Passenger traffic has doubled but has generated growing losses. PR has not taken advantage of new opportunities, such as the advent of containerized freight traffic.

Financial performance has deteriorated steadily; by 1989, PR was losing $400,000 a day. PR has not raised passenger fares to economically viable levels, nor has it substantially reduced uneconomic passenger services.

Underlying these results has been GOP’s reluctance to take essential but unpopular decisions and see them through. For PR, the working environment still encourages complacency and inertia and does not augur well for change.

Railway IX (1969–78)

Railway IX was designed to reduce railway transport costs through renewal of tracks and bridges, so as to increase line capacity, and to strengthen PR through technical assistance.

Operational performance remained poor. Critical financial covenants were not satisfied, largely because of uneconomic passenger fares. Institutional performance was poor, and an agreed-upon study on improvements was never carried out. Development of freight services was hampered by the priority PR gave to passenger traffic.

Railway X (1977–83)

A major goal of Railway X was to increase freight traffic. The project provided for track rehabilitation; bridges; telecommunications and signalling; passenger coaches; and technical assistance and training. To remedy the lack of detailed action plans in Railway IX a covenanted Plan of Action contained specific operational targets. Other covenants focused on financial operations and staffing reductions.

Implementation was fraught with problems. Various components were delayed, and one of the main ones—telecommunications and signalling—had to be completed under Railway XI.

Few of the Plan targets were attained. Operational performance did not improve, and in some areas deteriorated. Freight traffic declined. The number of kilometers travelled by passenger trains rose by 8 percent; those travelled by freight trains fell by 9 percent.

Continuing the trend of Railway IX, and despite the covenanted

provisions of the loan, net operating revenue and net income decreased, and so did the operating ratio.

Railway XI (1982–85)

Preparation began in 1980, while Railway X was still being implemented. The project supported diesel locomotive maintenance; implementation of a management information system; expansion of the Lahore Dry Port and implementation of a Karachi-Lahore international container service; and training for PR middle management. A covenanted Plan of Action contained specific operational targets, including staff reductions. Other covenants and undertakings focused on financial performance, including a required “substantial” increase in passenger fares.

At Board presentation, Directors expressed strong skepticism; “...it appears that many of the problems we see today are long standing and that successive Bank projects have somehow failed to bring about any significant improvement in key areas.”

There was a two-year delay at inception. GOP/PR failed to comply with key covenants and undertakings. Important parts of the project—the locomotive maintenance component and the Lahore Dry Port—were not fully implemented. The management information system was never implemented—reflecting delays in completing the telecommunications component of Railway X. The overseas training component was implemented five years later than planned, and many of the staff who participated (some of them near retirement age) were not drawn from the management levels targeted to receive the training.

Following repeated efforts to persuade GOP/PR to comply with the covenants and undertakings, the Bank declined to extend the credit’s December 1985 closing date and it canceled 50 percent of the credit.

GOP/PR performance

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usually through attrition, were acted on initially, to some extent, in Railway
X and XI, but later negated by aggregate increases.

Productivity targets, including
elimination of uneconomic passenger services and improved wagon turn-around time, were not met. In the course of each of the projects, some of the productivity indicators that were targeted to rise actually fell.

Freight vs. passenger traffic: Efforts to increase freight traffic achieved modest results, at best.

PR’s financial performance continued to deteriorate.

Bank performance

Supervision: Experience in Railway XI clearly points to a need for improved continuity, timing, focus, and reporting of project supervision. Too little was provided too late, and there was a general lack of follow-through. Supervision missions often took place behind schedule, and often focused on procurement rather than borrower compliance. These delays and lack of a comprehensive, balanced focus made it easier for the borrower to delay or avoid difficult and politically unpopular actions. Supervision reporting, too, left much to be desired.

Fares: In Railway XI, the Bank lacked resolve on passenger fares. The Issues Paper appropriately recommended a fare increase of at least 30 percent before negotiations, “as a token of GOP/PR’s commitment.” In the Decision Meeting, the Bank fully agreed. But quickly thereafter, the Bank started to retreat. In the end there was no fare increase before negotiations, and follow-up on the issue during project supervision was clearly ineffectual.

Recommendations

The Bank should make consideration of any future loans contingent on GOP/PR’s full implementation of specific, long-overdue actions. A list of actions could be prepared, agreed to and implemented while the ongoing Transport Sector Project (TSP) is being implemented. It should include:

- closing most uneconomic lines and services (GOP’s approval, in July 1991, of the closure of 1,000 km of branch lines is encouraging);
- substantially reducing overstaffing;
- raising tariffs high enough to cover variable costs; and
- establishing a system for automatic, regular adjustment of passenger fares in line with inflation.

The TSP is already addressing several important issues, including commercialization and full autonomy of PR. Here, too, indicators could be identified to measure progress toward the goals being supported.

The Bank should strengthen its supervision of the railway component of the TSP, raising the frequency of missions, following detailed terms of reference, and providing back-to-office reports. The stronger supervision effort needed will require more staff and other resources than now allocated to this project.

GOP/PR should consider privatizing the Karachi-Lahore rail container transport service, including operation of the Lahore Dry Port. Though PR has been unable to get this service off the ground, its potential and self-contained nature make it an obvious candidate for transformation into an efficient, profitable, private sector operation.