

Nudging Pakistan Railways¹

Saba Anwar

Why Reforms:

- Pakistan Railways is currently going through a massive crisis due to budgetary deficit due to Rs 44 Billion loss per annum (2020-21)
- This translates into Rs 3.66 billion loss per month, coming straight from the exchequer
- The number of pensioners in PR is 120,000 with an annual pension liability of Rs. 36 billion, which exceeds the revenue.
- Result is GOP subsidy to PR, thus making it difficult for the state to keep feeding it regularly.

The losses incurred by Pakistan Railways during the five years period (2015 - 2020) have amounted to a prodigious 144 billion PKR. The stiff competition from road transport and inability of PR to adopt a customer centric business plan because of complex bureaucratic structure, has led to an inefficient, underfinanced and overstaffed public agency running in losses since last three and a half decades. Placed in the "Retain and Restructure" category after the State Owned Enterprises (SOE) triage exercise in March 2021, the 19th century infrastructure still grapples with the challenges of 21st century after several repeated rounds of halfhearted reforms. The latest reforms of PR, recommended by Institutional Reform Cell, are based on five pillars.



¹Special thanks to Dr Nadeem ul Haq and Dr Amer Zafar Durrani for motivation, mentoring and thorough support. The discussion rests heavily on the PIDE-RE 8 webinar series on Pakistan Railways, jointly organized by Pakistan Institute of Development Economics and Reenergia, 2020-21. <https://www.youtube.com/watch?v=Aj6Y8GUm6s0&t=301s>

The losses incurred by Pakistan Railways during the five years period (2015 - 2020) have amounted to a prodigious 144 billion PKR. The stiff competition from road transport and inability of PR to adopt a customer centric business plan because of complex bureaucratic structure, has led to an inefficient, underfinanced and overstaffed public agency running in losses since last three and a half decades. Placed in the "Retain and Restructure" category after the State Owned Enterprises (SOE) triage exercise in March 2021, the 19th century infrastructure still grapples with the challenges of 21st century after several repeated rounds of halfhearted reforms. The latest reforms of PR, recommended by Institutional Reform Cell, are based on five pillars.

1. FIRST PILLAR - HUMAN RESOURCE

The first pillar is capacity building and that is the pivot to the restructuring. The following steps have been taken.

- The induction of specialists from private sector and academia in MP1 scale.
- The mandatory training of the Railways officers.

Officials have to go through a 15 days training both in the academy as well as outside academy, for example, in National University of Science and Technology,

Lahore University of Management Sciences etc.

- The upgradation of the training academy.
- The number of the employees was frozen at 62000 against the sanctioned strength of 95000. The workload analysis was conducted to rationalize the human resource base.

2 SECOND PILLAR - AUTOMATION /DIGITIZATION

Fifty percent ticketing is now electronic but PR still lacks an Enterprise Resource Planning (ERP) system which integrates all the processes from end to end. Even the flow of financial information within the enterprise reports a delay of 60 days. The government hopes to complete the first phase of ERP in about three months. The first phase of the ERP will be operational making railways completely paperless. All the data will be generated electronically and there will be the dashboards before the chief executives the secretary and the ministers in order to monitor. Customer Relationship Management (CRM) systems will be created for the customer relation including the tracking arrangements, call centers, SMS alerts etc. Railways Automated Booking and Travel Assistance (RABTA) has

been advertised. Automation is expected to address the leakages which have been the major reason behind the decline in the volume of PR freight in 2020-21.

been advertised. Automation is expected to address the leakages which have been the major reason behind the decline in the volume of PR freight in 2020-21.

3 THIRD PILLAR - FIVE INDEPENDENT CORPORATE ENTITIES

The designated functions of the five independent corporate entities will be as follows

i. Independent Regulatory Authority. The objective is to separate the regulatory function from the operations. The independent regulatory authority² like Oil and Gas Regulatory Authority, is expected to provide a level playing field to the private sector and dilute the inherent conflict of interest if ministry is also one of the operators.

ii. ML -1. A 6-billion-dollar project, will be one of the corporate entities independent of the railway ministry.

iii. A government owned Infrastructure Company. This company will enter into concession agreements with the private companies for the use of the third party access. This will also use the tracks.

iv. The freight operations company. It has been already corporatized. Foreign Training Committee (FTC) has hired an individual from the private sector to operate it as a corporate entity.

v. TRAC³ would be transformed into a passenger trained corporate entity. Five rail passenger trains have been outsourced. Out of the remaining 35, except those which are to be operated on social economic considerations (for example the lines in Baluchistan that are not commercially viable), will remain with the railway ministry or the railway board. All other commercial passenger trains would be outsourced to the private sector.

Circular Railways Companies. Once the Circular railways like Karachi circular railways and Lahore Metropolitan start working, they will have their own companies. Eventually all big cities will have their own railways corporations.

²Presently, the regulator is directly reporting to the ministry and board.

³Currently, advisory and consultancy.

4 FOURTH PILLAR - PENSION REFORMS

There are 115 000 unverified retirees of PR, who are paid 35 billion rupees annually. To verify these individuals, a biometric verification system for the pensioners has been proposed. The pension deficit has been fielded by the government of Pakistan for PR. A pay and pension commission has been formed which will have to think about not only railways but of other public enterprises as well.

5 FIFTH PILLAR - LAND DEVELOPMENT

PR has 178000 acres of land, out of which 145 000 is being used for operational purposes. The remaining 33 000 acres is the "Right of Way"⁴ entitled to PR. This land which is both underpriced as well as underpaid as the rents are concerned. Two options can be exercised to put this ancillary land in use. Around 5 to ten billion PKR can be generated annually by rewriting the concession agreements and getting rid of the encroaches. Or like Delhi Metro, transforming the railway stations of big cities like Lahore Karachi Islamabad into commercial hubs with decent shopping plazas, cafes and restaurants.

2 POTENTIAL OF PR - PRIVATE SECTOR PERSPECTIVE

These reforms, like other reforms, hinges largely on Public Private Partnership. The perspective and inclusiveness of these partners of PR is vital in the designing and implementation of reforms. Though PR has initiated the private sector engagement and has advertised for freight outsourcing, the important thing to keep in mind is that this has happened for the fourth time in last three years. The announcement of open access policy by PR and sudden halt to its own initiatives has placed USD one billion investment of private sector at stake.⁵ Despite the mistrust, there are still 12 serious parties that have bid for the freight outsourcing. This speaks high of the potential PR is killing only because of its inefficiencies.

Pakistan's GDP has gone up by 31 times and the tonnes carried by PR has declined to one third in 2017-18.

The Current Freight Potential

The PR Freight has not kept up with size of the GDP. Even the existing potential is not utilized to its full capacity because of inefficiencies, except for Sahiwal coal plant. The amount of freight carried by PR has decline from 14 million tonnes in 1965-70 to 8 million tonnes in 2017-18. With the existing fleet of 4 wheelers, 8 wheelers and high capacity freight wagons, PR still has an estimated potential of 3 billion PKR per month if used at full capacity.

Table 1: Freight Potential of PR

All Existing FIT Freight Wagons & Spare		Bigger Picture for PR Improvement		Revenue Increase Possibilities for PR	
Wagon Type	Total no.	No. of Trips /wagon/month	Total Trips PM	Total Rev PM	Total Rev PA
4 Wheeler	5,396	2	10,792	539,600,000	6,475,200,000
8 Wheeler	2,146	3	6,438	482,850,000	5,794,200,000
High Capacity	3,198	6	19,188	2,206,620,000	26,479,440,000
Total	10,740			3,229,070,000	38,748,840,000

Source: Webinar on "Institutional Arrangements for Reforming & Developing the Pakistan Railways."



⁵Track access regimes: International Practices and Pakistan Railways. PIDe Knowledge Brief 2021:47.

<https://pide.org.pk/research/track-access-regime-the-international-practices-and-pakistan-railways/>

<https://pide.org.pk/research/track-access-regime-the-international-practices-and-pakistan-railways/>

⁴A right of way is a type of easement granted or reserved over the land for transportation purposes.

3 SAME REFORMS AGAIN, AGAIN, AND AGAIN - WHAT TO DO

The reforms reflect the insistence on public sector organizations to transmogrify. Times and again same reforms are chalked out – be it the Restructuring of PR (2001), Strategic Plan (2018) or National Transport Policy of Pakistan (2018) – yet these reforms are happening on papers only, clearly failing in implementation. Why?⁶ One of the major reasons for the failure to reform is the resistance by the employees (Ford et al, 2008; Coram & Burnes; 2001). Notably, PR has been a leading employment provider despite heavy losses⁷. The employee related costs are two-third of the operating expenses. The managerial incapability, the laid back attitude, lots of complacencies of the overstaffed employees are evident yet the focus of restructuring and reforms remains on gaining new locomotives (Siddiqui, 2011). There is absolutely no concern about the leakages in diesel or un-repaired tracks, trains timings or safety measures. The ghost employees receive illegitimate salaries, the blurred definition of roles, duties and job responsibilities further aggravate the situation (Asim & Nafees, 2014). The first pillar of the latest reform rightly addresses the enhancement in the productivity of the PR human resource but this micro management needs nudgers – Actors of Change.

Restructuring of PR (2001)

In 1997, the GOP announced its strategy for the privatization of the Pakistan Railways. The strategy was to restructure the PR into three core businesses namely Passengers, Freight and Infrastructure.

In 2001, a report of the committee on Restructuring & Rightsizing of Pakistan Railways deliberated to engage and regulate private sector rail industry on rail network of Pakistan for freight business.

National Transport Policy of Pakistan (2018)

For freight, the predominant movement by road transport will increasingly be shifted to rail and pipeline, by better integration of agriculture and industry to rail stations, dry ports, and pipelines. An increased focus will be placed upon last-mile connectivity to ports, industrial zones and within urban areas.

ACTORS OF CHANGE -NUDGERS

The actors who are supposed to act out the change are **pro status quo**.

To enhance the productivity of the human resource, we need to understand how individuals think and decide. This would require going beyond the “rationality” assumption and expanding the set of tools and strategies PR can think of via behavioral economics. Automatic, social and thinking with mental models shapes the decision of all individuals⁸. The automatic thinking influences all the judgements and is intuitive, effortless, has narrow frame (Kahneman, 2003; Evans, 2008). The extensive work done by Thaler and Sunstein, 2008 discusses how the “choice architecture” can effect this type of thinking. PR can also infer a suitable option with RCT (randomized control trials).

The losses incurred by PR can be reframed so they are more obvious to all the level of employees. The losses can be interpreted in terms of the declined health and education facilities to the families of the employees. The cost of subsidies provided by the government can be highlighted in terms of the number of children outside school or poverty relief that government provides.

Social thinking means that the decisions of the individuals are also influenced by their milieu. This provides a self-driven impetus to the desirable social values and norms like trust. However, in case of destructive traits, social thinking can vanquish the individual thinking. Any destructive individual thinking can prevail as social thinking leading to chaos. PR is high in employee cooperation. The resistance to reforms could be the social thinking only. Getting insights to the individual thinking might build the momentum for change.

⁶Federal Footprint SOEs Annual Report FY 2019, Vol 1, Ministry of Finance.

⁷Federal Footprint SOEs Annual Report FY 2019, Vol 1, Ministry of Finance.

⁸Mind, Behavior and Society, WDR 2015.9Several examples were seen in Bangladesh.

Mental models allow individuals to draw inferences, make predictions, understand phenomena, decide which action to take and experience events vicariously (Johnson-Laird, 1983). Unlike automatic or social thinking, mental models abet people in analyzing their environment and then making a decision. It shapes the understanding of what is right and the possibilities in life. The PR can also run different mental models and gauge their effectiveness in terms of performance targets.

Following Rider-Elephant-Path approach, one experiment could be to design a specific program for mid-level officers from different departments of PR on how business oriented railways work. The participation of the mid-level management plays an essential role in implementing reforms (Blackman, 2022). Thus, the baseline or design of the reforms should focus on inspiring and engaging this tier of bureaucracy⁹. Their attitudes can play a pivotal role in acceptance and implementation of reforms. The group should also include partners of PR from private sector. The inclusion of private sector will help the officers to grab the perspective of private sector (as they deem PR to be profitable as shown in table 1), understand the market dynamics, the results and the recourse. As a part of learning by doing exercise, they should get an opportunity to interact with some of the best railway personnel in the world.

This program will create a reform minded community within the system. This nudger's community can then influence the organization both horizontally and vertically for catalyzing the implementation of reforms. Experiments have proved that peers in the workplace exert a strong influence on individual's performance by enforcing social norms.¹⁰ Proximity to more productive workers can lead to increase in efficiency models can be tested for PR. These mental models, with a little tweak, can provide productivity spillover in PR too.

REFERENCES

- Blackman, Deborah Ann, Fiona Buick, Michael Edward O'Donnell, and Nabil Ellahi. 2022. "Changing the Conversation to Create Organizational Change." *Journal of Change Management* 1-21.
- Johnson-Laird, P. 1983. *Mental models*. Cambridge, MA: Harvard University Press.
- Thaler, Richard, and Cass R. Sunstein. 2008. *Nudge: Improving Decisions about Health, Wealth, and Happiness*. New Haven, CT: Yale University Press.

⁹Several examples were seen in Bangladesh.

¹⁰WDR 2015. *Mind, Society, and Behavior*.

