The Future of Bangladesh Railways:
Learning from International Experience

Seminar
‘The Future of Bangladesh Railway: Learning from International Experience’
Opening Remarks
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Honorable Minister Barrister Nazmul Huda, Honorable Secretaries, Distinguished Guests, Ladies and Gentlemen: Good Morning.

It is a great pleasure to be here at this important seminar on "The Future of Bangladesh Railways: Learning from International Experience". The World Bank is delighted to organize this seminar jointly with the Bangladesh Railways to discuss and learn from international experience on how the Bangladesh Railway can be transformed into a modern railway system to support the country's transport needs. I am very pleased to see representatives from the Government, Railway management and labor representatives, the private sector and development partners here this morning.

Bangladesh’s Poverty Reduction Strategy Paper (PRSP) gives infrastructure high priority, emphasizing power and transport, to achieve the country's economic growth and poverty reduction goals. The PRSP notes that the railway system could contribute more to meet the transport needs of Bangladesh’s growing economy. The World Bank’s new Country Assistance Strategy for Bangladesh, launched in May 2006, likewise envisages increased support for infrastructure, with a focus on capacity expansion and improved infrastructure governance.

For many years, Government’s transport strategy has largely focused on the road sector – with 85% of the annual transport development budget allocated to roads. Donor support broadly mirrored this pattern of emphasis.

Railways has received very little capital investment, because most of the available Govt funding goes to underwriting its losses on operations and passenger services. With dilapidated infrastructure and rolling stock, and associated poor staff morale, it is no wonder that railways has lost share to road transport. Once considered the backbone of communication in this region, today Bangladesh Railway has a fringe role in the country’s transport system.

A rapidly growing economy – projections are for 6-7% growth annually – needs an efficient and effective transport system. Power may currently be the more binding constraint, but transport too could become a bottleneck.

The transport system also needs to be more balanced across different modes than presently with less relative emphasis on roads:

(a) First, expanding roads requires large scale land acquisition, a major constraint in Bangladesh; land acquisition often implies resettlement, another costly and difficult proposition in a land-scarce densely inhabited country like Bangladesh;

(b) Second, road safety is already a major concern in Bangladesh. Eight to ten persons die every day in road accidents, and traffic and road-related accidents are the tenth largest cause of disability and death in Bangladesh. It has been estimated that the cost of road accidents -- in terms of lost life, health &
productivity, caring for the handicapped etc. -- is 2% of GDP lost annually. Railways are much safer, and are not associated with such collateral damage.

(c) Third, road transport has major environmental 'externalities', as we, living in Dhaka, know. In Manila, a city as polluted as Dhaka, a study found that lead and other vehicle-related pollutants caused irreversible brain damage to children under age 2, causing a five point reduction in their IQ, and reducing their educational attainments and their productivity and incomes in later adult work.

Railways, by contrast, can be expanded with little land acquisition, and is more environmentally sustainable. It saves on energy and generates less pollution. In densely used corridors, railways could provide an efficient passenger transport system; on the Dhaka-Chittagong corridor, rail transports freight containers much more efficiently than trucks. Currently, Bangladesh Railways carries only 10% of the containers coming to Chittagong. Better management practices could easily increase this.

For Bangladesh Railways to better support the economy, a major modernization will be needed, calling for the coordinated effort of Government, Railways management and labour, and donor partners. Major investments will be needed, in tandem with reforms to improve BR’s organizational structure and management practices, supported by a revamped policy environment for railways.

A key step will be to implement Government's plan to transform Bangladesh railway into a corporate entity. A corporatized BR would operate like a business, while remaining fully government-owned. In successful corporatizations, the government-as-owner has an arms length, “hands-off” relationship with the corporatized entity, which can make independent operational and commercial decisions without government interference.

For example, a corporatized BR should be able to set freight tariffs on its own, enter into bilateral discussions with major shippers, and adjust and improve pay levels and incentives for employees. Because of their sensitivity for the public, Govts usually retain the right to set passenger tariffs, and often fix these tariffs below cost recovery. When Govt sets prices below cost recovery, it’s essential that Govt compensate the Railways for any resulting losses, via a transfer from the Budget.

We urge that the modernization and reform program discussed now for several years with ADB, and now, JBIC and ourselves, be expedited. This includes restructuring Bangladesh Railway into a "lines of business organization” to improve its commercial and customer focus, BR’s adoption of a modern and transparent financial management system, and better human resource planning and incentives.

Reforms often create concerns – for example whether corporatization may mean loss of jobs or other dislocations for employees and customers. While possible, the international experience does not show corporatization and labor-shedding going hand in hand. In the case of BR, retrenchment is not planned or on the horizon. On the contrary, reforms, including corporatization, are expected to create a better working environment for railway staff, create better pay, conditions and incentives for staff. An efficient, growing railway can provide better salaries and benefits – much better than a loss making railway.

ADB, JBIC and World Bank are joining hands to support the Government's to support Bangladesh Railway reform program. A multi-year, multi-donor program of up to US$ 700-800 million is possible. The program is designed to include both policy reform -based (budget support) loans, and investment ("project") support for the upgrading and expansion of the rail track, improving signaling and communication, and procurement of rolling stock. The donor-supported investment program is based on Govt’s own medium-term transport sector investment program and its provisions for Bangladesh Railway.

The institutional and governance reforms discussed earlier are crucial for any large scale investments to be effective. The history of railway investment world-wide is that improving the position of railways requires improving the institutions governing railway operations. Indeed, addressing the governance issues that
afflict Bangladesh Railways is a core element of the modernization and improvements that donors hope to support.

Railways, world-wide, have been a challenge to manage well, and in many countries have a reputation for corruption, and patronage-based personnel systems and “feather-bedding.” BR is likely no exception, and improving its governance will be key to turning around its present image, and creating an organizational environment that provides efficient and improved rail services that meet the needs of a growing economy.

This is a tall order, but well within BR’s reach. Facing far larger challenges and far more entrenched systems, the example of Indian Railways is instructive. Recently, an Indian colleague mentioned to me that he books his ticket on Indian Railways on the internet, from Washington DC. Remembering my earlier trips – the carriages always fully booked, the conductors who had to be bribed to release seats, the endless queues at the counter, and credit cards unheard of – I was incredulous, and quite skeptical.

But it turns out to be so. I checked the website myself a few days ago – IndianRailways.com. And here is the snapshot of the website for you to see how it is now at Indian Railways. Past efforts at institutional change and other appropriate modernizations have substantially changed IR’s performance and customer service. This modernization drive has also improved railways governance in some significant ways: With seat availability transparently shown on the internet, it’s hard to pretend they are all booked and require bribes to release them. There’s no queuing, and no middleman to pay on the internet; no ‘tips’ to the counter clerk. My colleague would not have considered Indian Railways a decade ago. He’s now a loyal customer, helping to grow the market share.

To re-state the obvious, modernization and reform yield better and more efficient operations, and better rail service is the basis for a growing market share. I hope the deliberations today will provide an opportunity for us all to reflect on the key issues. This seminar aims also to share relevant international experiences. The discussions and recommendations from today’s seminar will help the Bangladesh Railway to move ahead speedily in its journey towards modernization and making the railway system more efficient and user-friendly – and you can count on our support in this endeavor.

In conclusion, I would like to thank the Bangladesh Railway for working with our team to organize today’s seminar. We are delighted to support this important event, and I wish it all success.