Poor Governance in State-Owned Enterprises: A Case Study of Pakistan Railways

NATIONAL INITIATIVE
AGAINST ORGANIZED CRIME
PAKISTAN

Mohammad Farooq Aziz

POOR GOVERNANCE IN STATE-OWNED ENTERPRISES: A CASE STUDY OF PAKISTAN RAILWAYS

by Mohammad Farooq Aziz

"This paper was researched and written by Mohammad Farooq Aziz, Former General Manager Manufacturing and Services Pakistan Railways. It is issued with the support of NIOC Secretariat.

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Governance, Management and Administration

These words are often used interchangeably. Demarcating a clear distinction among them is not always easy. The terms are used in the following context in this paper.

Governance: Governance is the 'what' — the strategic planning and leadership of an organization—carried out by the appointed governing board. This is about strategic planning and the overall strategy and direction of the organization and ensuring that this is reviewed on a regular basis. But governance is not managing.

Governance is about determining the mission, a direction in which to move; policy and strategy; appointing and overseeing management; managing governance processes; providing insight, wisdom and judgment; monitoring performance of the organization; and strategically identifying and managing risk.

Governance of Private Sector Organizations

In a private sector entity:

- The owners are members of the governing board. Every member has a stake in the organization.
- Resources are provided by the governing board.
- The governing board hires the management.
- The board frames policies and guidelines within which the management is required to operate.

Governance of Public Sector Organizations

In a public sector organization:

- The governing board members do not have any stake in the organization.
- The board members are highly specialized professionals. Each member is assigned specified functions.
- The government provides a budget.
- The board allocates the budget to the various disciplines, sectors and sections of the organization in line with the direction in which the board wants the organization to move.
- The board frames policies and guidelines for the functioning of the management.
- The board provides the necessary oversight for evaluating the efficacy of its policies and the working of the organization.

Management: Management is the 'how' — the delivery of the strategic plans and the work of the organization. The management of an organization is overseeing its day-to-day running. Management also plays a crucial role in the leadership of the organization through supporting staff to understand and implement the strategic vision. This leadership role is different from that of the governing board.

Management is about developing and delivering policy and strategy; setting and overseeing annual operational business plans; appointing managers and staff; supporting governance processes; implementing board decisions; measuring performance; delivering services and activities; and managing strategic and operational risk.

Administration: Administration is the process or activity of running a business, organization, etc. It involves the performance of tasks and services as delineated by the management.

State-Owned Enterprises (SOEs): Definitions & Aims

Public enterprises are autonomous or semi-autonomous corporations and companies which are established, owned and controlled by the state and engaged in industrial and commercial activities. The basic aim of a state

enterprise is to provide goods and services to the public at a reasonable rate. Although profit earning is not excluded, their primary objective is social service.

Typical Sectors

The typical sectors where SOEs operate include telecommunications, electric power, fossil fuels, railways, airlines, iron ore, media, postal services, banks, and water and sanitation services. Many large industrial corporations in the world were also nationalized or created as government corporations, including British Steel Corporation, Statoil and Irish Sugar, among many others.

Economic Backbone of the Developing World

State-owned enterprises are the backbone of many countries, especially in the developing world and, if used properly, can help spur economic growth. There are SOE success stories around the world, including in countries such as China, Norway and India.

History

Public enterprise as a form of business organization has gained importance only in recent times. In the 20th century, governments in various countries started participating in industrial and commercial activities. Earlier, the role of the government was limited only to the maintenance of law and order. The policy of laissez faire was practiced in most countries. The development of industries was left to the judgment of private entrepreneurs.

The Industrial Revolution helped all-round growth of industries. Private entrepreneurs started working only for profit as their motive. The exploitation of consumers and workers by private entrepreneurs became the order of the day. The Russian Revolution led to a new economic and political system in the world. State governments started realizing their social responsibility towards people.

In eastern and western Europe, there was massive nationalization throughout the 20th century, especially after World War II. In eastern Europe, governments

dominated by Communists adopted the Soviet model. Governments in western Europe, both left and right of center, saw state intervention as necessary to rebuild economies shattered by the war.

The outcome of all these factors was the active participation of governments in industrial and commercial enterprises. At present, governments of almost all countries in the world are participating in economic activities in one way or another.

The private sector is hesitant to develop those industries that demand heavy investment and long gestation period. State enterprise is considered necessary to reduce economic inequality and prevent concentration of wealth in a few hands.

Basic and Strategic Industries Reserved by the Government

The government normally reserves for itself basic and other strategic industries. A complementary role is assigned to both private and public sectors. Public sector enterprises are engaged in manufacturing, trading as well as service activities.

Forms of Public Enterprises

The forms of public enterprises are:

1. Departmental organization
2. Board management
3. Statutory or public corporation
4. Government company

The largest of the SOEs in Pakistan are the PIA, WAPDA, Railways and Pakistan Steel Mills. All these enterprises are managed by boards. Therefore, only the governing board form of enterprise management will be dilated on here.

Board Management

Board of Directors: The board of directors is one of the most important parts of an organization, comprising trusted individuals who may or may not have profits or shares in the organization. This team provides insights and guidance to the organization to help it reach its objectives and goals. Members rely on their skills and expertise from their combined years of corporate experience.

In nonprofit organizations, boards of directors develop policies that fit into the mission statement and values decided upon by the nonprofits. In the for-profit sector, the broad policies and objectives of the corporation are decided upon by the board of directors in cooperation with the chief executive and the company's employees.

Organizational Governance: The board formulates the rules of governance for the organization and establishes procedures for oversight of its policies and practices. When questions of policy arise at the highest levels, the board may be involved in determining their relevance and deciding on a final outcome.

Strategic Direction: Board members set a corporation's strategic direction by establishing policies and goals to guide the chief executive and other leadership.

Continuity: The board of directors provides continuity for the corporation in the development of the services and products provided.

Accountability: The board of directors is accountable for the quality of the product or service supplied by the corporation. The board is also responsible for the expenditure of corporation funds.

Resources: The board is responsible for ensuring the finances available to a corporation are adequate to cover its expenses.

Finances: The board of directors carries certain fiscal responsibilities including overseeing and accepting budgets provided by the Government. The board is also responsible for financial policies regarding contracts between the

corporation and the public. A board of directors legally represents the interests of a corporation's stakeholders. Those stakeholders include stockholders of a publicly held corporation, donors to a nonprofit corporation, and/or the communities served by either. As their representatives, the board members have the responsibility of establishing, guiding and assessing the overall direction of the corporation.

Responsibility to Stakeholders: Corporate stakeholders hold board members accountable for products or services and regular financial reporting. In some cases, board members can be held financially and legally responsible for decisions made by the corporation.

BoD Tasks and Indicators of Good Practice

Establish vision, mission and values

- Determine the company's vision and mission to guide and set the pace for its current operations and future development.
- Determine the values to be promoted throughout the company.
- Determine and review company goals.
- Determine company policies.

Set strategy and structure

- Review and evaluate present and future opportunities, threats and risks in the external environment; and current and future strengths, weaknesses and risks relating to the company.
- Determine strategic options, select those to be pursued, and decide the means to implement and support them.
- Determine the business strategies and plans that underpin the corporate strategy.
- Ensure that the company's organizational structure and capability are appropriate for implementing the chosen strategies.

- Determine the company's appetite for risk and engaging in the process of backing a robust risk management program focused on the company's business and the area(s) of its activities.

Delegate to management

- Delegate authority to the management, and monitor and evaluate the implementation of policies, strategies and business plans.
- Determine the monitoring criteria to be used by the board.
- Ensure effectiveness of internal controls.
- Communicate with senior management.

Exercise accountability to shareholders and stakeholders

- Ensure that communications both to and from shareholders and relevant stakeholders are effective.
- Understand and take into account the interests of shareholders and relevant stakeholders.

Competencies for Board Members

To state the obvious, governing boards are only as good as the people who serve on them. Having a competent board is absolutely critical for the success of the entities. Board members must have relevant competencies, including:

- Knowledge of the business.
- Appreciation of the technologies involved in the business.
- The abilities, skill and experience to determine the company's vision and mission, and to guide and set the pace for its current operations and future development.
- The ability to devote time for planning, policy formulation and observing the effects of the policy.

Government Officials on Board of Directors

Government officials who are asked to manage public undertakings generally lack business acumen. They are selected and trained generally for a purpose quite different from running industries and services. They are used to working under a rigid system of set rules. They look for precedents for every decision they have to make and believe in maintaining the status quo. This causes delay in decision-making and stifles development, which is harmful for business enterprises.

Governing Boards of Pakistan's Largest SOEs

As stated earlier, the largest of the state-owned enterprises in Pakistan include the PIA, Pakistan Railways and Pakistan Steel Mills. All these enterprises are managed by governing boards. Understanding the composition of these boards is vital in grasping how these enterprises operate.

Pakistan Railways Board of Directors

Beginning with the subject of the case study at hand, the Railway Board comprises ex-officio and private members. The ex-officio members are:

- Secretary Ministry of Railways, who is also the chairman of the board
- Secretary Communications Division
- Secretary Finance Division
- Secretary Planning, Development and Reform Division
- General manager operations (CEO)
- General manager manufacturing and services
- Member finance, Railway Division

The private members are:

- Syed Mohammad Talib Rizvi, group chief executive officer, United International Group
- Syed Ijaz Hassan, retired member of Federal Board of Revenue
- Mohammad Amir Khan, chief engineer (retired) Open Line

Since the year 1990, the secretary/chairman Pakistan Railways has always been a government official from the Civil Services of Pakistan, except for about a five-year period when an army general was appointed to this post. These bureaucrats have no knowledge of railways or of transport economics.

Like the secretary/chairman, the federal secretaries too do not have any knowledge of the business of railways. Being too preoccupied with their own ministries/divisions, they hardly get time to attend the board meetings. Most often they send one of their underlings in their place.

The two general managers of the railways engaged in the day-to-day operations cannot be expected to find time for thinking, contemplating and observing to be able to indulge in strategic planning and policy making.

The member finance is the only member who enjoys the availability of decision support systems related to his sphere of activity to enable him to serve as an executive board member.

The rationale for having these three private members on the board is difficult to comprehend, as none are involved in a business that can make them stakeholders in the functioning of the railways.

This board is essentially a rubber stamp that meets once every two or three months to approve without proper consideration perfunctorily prepared working papers. There is no element of strategic planning or policy formulation and technical oversight. Perhaps the only document generated by the board that may be branded as "strategic" planning is a working paper seeking the board's approval in the 11thboard meeting held during the last quarter of the year 2020 for enhancing their own emoluments by 50 percent.

The existence of such aboard is irrelevant to the functioning of the railways.

Pakistan International Airlines Board of Directors

Full-time occupations of the PIA board members, obtained from the airline's website, follow:

- Secretary Economic Affairs
- CEO Bank Alfalah
- Secretary Finance Division
- Senior partner of a law firm
- Retired federal secretary
- Professor of a university
- Secretary Aviation Division
- An elected member (the only member on the board with relevant experience of a sector of the airline industry)
- Retired director of PIA
- CEO English Biscuits
- CEO PIA

Like the Railway Board, the members of the PIA Board of Directors cannot be expected to find time from their full-time occupations to attend to the additional functions of the board. In any case, except for a couple of members, the rest do not have the relevant qualifications and/or the experience necessary for performing their functions on the PIA board.

Like the Railway Board, the existence of the PIA governing board is apparently irrelevant to the functioning of the airline.

Pakistan Steel Mills (PSM) Board of Directors

As per the PSM website, the full-time occupations of its board members follow:

- CEO Oil Purification Systems (OPS), a company based in USA
- CEO PSM
- Additional secretary-II, Ministry of Industries & Production
- Director general Privatization Commission
- Joint secretary Finance Division
- CEO Tecno Pack Telecom (Pvt) Ltd
- CEO Loads Ltd
- CEO AMK Engineering (Pvt) Ltd

- Managing director in a family business

As with the PIA and Pakistan Railways, the existence of this board is irrelevant to the functioning of the PSM. None of the members can be expected to spare adequate time for effectively performing their functions on the governing board. Here too, none of the members have the relevant experience or qualifications.

Concepts of SOE Governance in Pakistan

The governance system for the state-owned enterprises in Pakistan is a novelty in itself.

The governing board is the tier of an organization that is supposed to observe, think, plan, evolve strategy, formulate policy, gauge the effect and efficacy of the policy, and provide technical oversight. In Pakistan, these boards are staffed with members whose qualifications and experience are irrelevant to the business of the enterprise. The absence of knowledge of the business of the enterprises in these governing boards is so remarkably absolute as to render the existence of the boards irrelevant to the functioning of the respective enterprises.

The SOEs in Pakistan are like floundering, rudderless ships on account of lack of governance.

Pakistan Steel Mills has already gone belly up. The PIA and Pakistan Railways are on life support through massive financial inputs, without any signs of economic benefits in sight.

With the existing set up, Pakistan Railways will never be able to provide the necessary economic returns to offset the massive financial inputs for the upgrade of the railway's rehabilitation of Mainline 1 (ML-1). As the input resources are in the form of loans, this will lead to a massive increase of financial burden on the common man if things can continue as they are.

Wrap Up

Global Phenomenon: SOEs are a global phenomenon. Through them, the government can venture into commercial activities. When put to good use and managed well, SOEs can help spur economic growth and development. Unfortunately, in several countries, the reputation of SOEs can take a hit on account of corrupt dealings.

Stories of Success: There are countless success stories of state-owned enterprises that led to economic growth and development all over the world. In our neighborhood, India has built a world-class railways. Iran is not far behind. China has outclassed even India.

White Elephant: In Pakistan, however, almost every large SOEs is perceived as being a bit of a white elephant. The present state of affairs of Pakistan Steel Mills, the PIA and the railways offers just some of the examples of these white elephants. It is important to review the management systems responsible for this sorry state of affairs.

The State of State-Owned Enterprises

The governing boards, including the heads of the organizations, being ill-equipped professionally and lacking relevant experience, are in no position to give the enterprise a direction, formulate policy and provide oversight. The enterprises thus flounder as rudderless ships, finally ending belly up like Pakistan Steel Mills or existing as white elephants like the railways and the PIA, perpetually causing tremendous drain on the public exchequer with no hope of a turnaround in sight.

The Way Forward

- Mammoth state-owned organizations such as Pakistan Steel, Pakistan Railways, the PIA and WAPDA are too complex in terms of business and technology. These cannot be governed through part-time governing boards staffed with member slacking relevant experience and knowledge. The same is true for the heads of the enterprises who usually

are in-service or retired government officers, having no knowledge of the business of the enterprise or any appreciation of the technical skills necessary for running of the enterprise. Appointing such people have a regressive effect on the enterprise as — uninformed of the precedent and unmoved by example —they strive for the status quo, effectively slamming brakes on any development in the enterprise. These boards must be immediately replaced with professional full-time boards.

- Professionally staffed governing boards with adequate decision support staff must be appointed immediately. Majority members of the boards must be professionals of competence and seniority, chosen from the professional cadres of the enterprise. If required, a significantly small proportion of non-executive members from businesses in the market having a stake in the business of the enterprise may be nominated. This setup is very much in line with the governing boards of the commercial banks operating in Pakistan. The State Bank of Pakistan very effectively regulates the appointment of members to the governing boards of the banks.
- Separate rules for each enterprise need to be framed for appointing members to the governing boards, taking into consideration the peculiar requirements of the respective businesses.
- In order to determine the structure of the governing boards and establish the channel of appointments to the boards, examples of success in similar enterprises in other countries must be studied to get a head start.

The Indian Railway Board

Before partition, the Indian Railways was governed by a full-time professional board. After partition, the Indian Railways continued with the same setup and became a world-class railway. Till the year 1990, Pakistan Railways too had a professional board, which was then replaced by a non-professional, part-time and strictly non-executive board. The case study that follows shows the development of Pakistan Railways till 1990 and the deterioration that has been unleashed since the novel Pakistani management style was imposed.

A Case Study of The Pakistan Railways

Rise, Decline, Reasons and the Way Forward

The Rise

Like Pakistan International Airlines (PIA), Pakistan Railways too had its period of meteoric rise, before falling into a dismal abyss that is seemingly impossible to climb out of.

The First Challenge

Up until a couple of decades after independence, Pakistan Railways was the main mode of transport keeping the country connected. It had inherited coal-fired steam locomotives, wooden passenger carriages and four-wheeled freight wagons. Before the partition of the Indian subcontinent, the coal for these locomotives came from mines located in areas that formed part of the post-1947 India. Immediately upon independence, the government of India stopped the supply of coal. The coal available with Pakistan Railways at the time was sufficient for three months of operations only. Importing coal to overcome the emergency was not an option, as the infrastructure for handling coal was not available at the Karachi port. But for the fervor of staying independent, Pakistan Railways would have closed down within the first three months of inception. Importing furnace oil in place of coal for the locomotives was a feasible option. Therefore arrangements for its import were made and

more than 700 locomotives were converted from coal to oil within the three months. Against all odds, Pakistan Railways kept operating without a hitch.

Diesel Electric Locomotives: A policy was developed for replacing the steam locomotives with the far more cost effective and efficient diesel electric locomotives. By 1950, the initial batch of Pakistan Railways' diesel locomotives had started operating.

Wagon Manufacturing: By the year 1955, facilities at Lahore's Mughalpura Workshops had been augmented and manufacture of freight wagons started. From then on, the import of wagons was banned, and all requirements of freight wagons were met through local manufacture. Freight wagons were also exported to Sri Lanka and Bangladesh.

Carriage Manufacturing: Passenger carriages were first manufactured in Pakistan in the Mughalpura Workshops in 1967. Based on the success, the government sanctioned the establishment of the Pakistan Railways Carriage Factory Islamabad. This factory was set up with technical assistance from the German multinational Linke Hoffmann Busch. Capital investment on the factory was recovered within 12 years. The carriages manufactured here met all of Pakistan Railways requirements. Passenger carriages were also exported to Bangladesh.

Electric Traction: In 1969, the track between Lahore and Khanewal was electrified, and electric locomotives started operating on that section. The section connecting Lahore's main railway station with two other stations in the city — Mughalpura and Lahore Cantonment stations — was also electrified for testing locally developed overhead equipment. The trials were successful, and Pakistan Railways was now ready to expand electric traction throughout its network, mostly using locally developed components. Electric traction carried the advantage of reducing operating and maintenance costs by 75% compared to diesel electric locomotives. The initial cost of installing the electric traction infrastructure was recovered within the first 11 years of its operation. Investment in diesel electric locomotives takes much, much longer recovery

time because of the relatively expensive and frequent maintenance. This is the main reason why railways the world over has opted for electric traction.

The Heydays

In those days, efficiency, safety and reliability were Pakistan Railways' hallmarks, combined with an urge to be self-reliant. Record freight movement was achieved, levels that had not been attained before or since. The passenger train services were highly regarded for safety, comfort and punctuality. During the 1965 and 1971 wars with India, Pakistan Railways outdid itself by providing logistic support and technical assistance to the armed forces. During the 1973 floods, Pakistan Railways was the only means of transport left operating and handled all the international relief supplies arriving in the country after the natural disaster.

Riyadh-Dhahran Railway Line: In the early 1980s, the construction of the railway track between Riyadh and Dhahran in Saudi Arabia was sub-contracted to Pakistan Railways. The nearly 400-kilometer track was completed in time and up to international standard.

Organized for Success

The Railways: This success was possible mainly because of the way Pakistan Railways was organized. It consisted of two distinct organizations, the Railways and the Railway Board. The Railways was responsible for managing the day-to-day train operations, maintenance and commercial functions. The Railway Board undertook the governance functions, involving strategic planning, policy-making and technical oversight.

The Railways organization for day-to-day affairs was inherited from the British. Every post, from the general manager to the junior level supervisors, had a specified job function that clarified why the post was required, a job analysis, job specifications indicating the qualifications and experience of the person required to man the post, a duty list and a schedule of powers. SOPs were clear and unambiguous and recorded in the respective codes and manuals. The

detail, clarity and conciseness in these documents were remarkable. In a multi-disciplinary and multi-faceted organization like the Railways, every employee knew what was expected of him or her and the documents defined the boundaries, outlined the procedure and the manner in which their functions were required to be carried out. As the Railways developed and expanded, the same pattern continued to be implemented.

The Railway Board: At the time of partition of India, the Indian Railways was managed by the Indian Railways Board. The board enjoyed all powers of the central government. The board members were qualified and experienced railway men. Unencumbered by the day-to-day affairs of the Railways, the members were expected to set the direction for the organization. They were there for strategic planning, policy formulation and technical oversight of the respective departments. Technical directorates with appropriately qualified and experienced officers provided the essential decision support systems for in-depth study and research, where required.

After independence, India retained the system and has continued with it to this day. In Pakistan, however, the Railway Board was abolished after independence, the railway finance merged with the general budget and a secretariat Railway Division was established in the Ministry of Communications.

The Indian Railways Board at the time of independence had developed through a long evolutionary process, starting with a primitive setup in the 1870s. The change at the time of independence took Pakistan Railways back to the same primitive setup. Senior railway men implored the government to review its decision. The Railway Technical Mission of the World Bank, which visited Pakistan in 1956, also commented on the unsuitability of the arrangements and expressed the necessity to establish a semi-autonomous body to control the railways. Finally, in 1959, the Railway Board along the lines of its Indian namesake was established. It was this governance setup that, through its planning and policy formulation, enabled Pakistan Railways to develop and modernize.

Attempt at Corporatization and Improved Governance

An extraordinary gazette notification, dated November 15, 1990, (S.R.O # 208 KE/90), was issued, containing revised functions and responsibilities of the Railway Board. This document envisioned a corporatized railway management system. The Railway Board enjoyed all the powers and functions of the federal government, with a few exceptions. The duties and functions of the board and each of its members were described in detail. These included strategic planning, policy formulation, and technical oversight of the respective departments of Pakistan Railways under each member. This document was indeed the need of the hour as the railways had grown in the number of and functions by that time and a review of the organization was necessary to further propel it in its pursuit of efficiency, modernization and self-sustainability.

Beginning of the Decline: Lack of Governance

The Railway Board chairmen and members, except for the member finance, had always been senior railway officers experienced in managing the organization's affairs. The member finance, an Accounts Cadre officer, represented the Ministry of Finance.

In 1990, officers from the Civil Service of Pakistan started getting posted as chairmen of the Railway Board. These officers had no relevant qualification or experience of railways. They lacked knowledge of transportation systems and even transport economics. These officers were experienced in general secretarial administration and had no concept of managing a large, multi-disciplinary and technology intensive, highly specialized, operating organization like Pakistan Railways. The 1990s witnessed drastic changes in the management structure, changes that by the year 1999 almost brought the railway operations to a halt.

The extraordinary notification of November 1990 was never implemented. The working of the full-time professional Railway Board started being impeded. The

professional members of the Railway Board started being considered an impediment to the chairman/secretary's absolute control of the railways.

Winding up of the Professional Railway Board

In 1996, the full-time professional Railway Board was dissolved along with the entire system of technical directorates, which had provided the essential decision support systems. All strategic planning processes including in-depth studies and research were conducted by these directorates under the guidance of the concerned members of the board. Policy formulation and establishing feedback systems for gauging the effectiveness of the policy were also a part of their functions.

The rationale put forward for dissolving the Railway Board was that Pakistan Railways was going to be privatized and the strategic planning and policy formulation functions would become the responsibility of the private owners consequent to the privatization.

Restructuring

Under the privatization scheme, the three companies set up comprised a passenger transportation company, a freight transportation company and an infrastructure management company. It was planned that the freight and passenger companies would be sold off to private owners and the infrastructure company would remain with the government.

Effects of Restructuring

The passenger and freight companies had come into existence without a revision of the overall organizational structure. With the infrastructure facilities being common across the companies, the line operatives found multiple bosses issuing conflicting orders. Bottlenecks in operations started appearing on a mega scale. There was no system for feedback and control or for providing oversight to the restructuring process. With the Railway Board not there anymore, the railways was just left to flounder.

The railways found a lifeline when army deposed the prime minister and came to power in 1999. Army got the railways back to the original system of operations but did not resurrect the Railway Board. The army would, likely, have resurrected the Railway Board had they been advised to do so by the senior railway officers. But such advice did not materialize, apparently due to petty self-serving reasons.

Privatization of Railways around the World

In the 1970s and 1980s, several state-owned railways the world over were working on privatization. The Japanese National Railways in 1985 had completed a 10-year study before starting to frame a policy for privatization in 1987. British Rail took 20 years, starting in the 1970s, before privatizing railways between 1994 and 1997.

In Pakistan, starting in 1996, the government did not even take as many weeks to complete the restructuring for a selloff. No in-depth study was carried out, no case studies, no realization that restructuring would require review of all the organizational functions down the line, such as revision of duty lists and job functions, review of channels for information flows, etc. The exercise was nothing more than taking the rudiments of an organizational structure from somewhere and force fitting them on the railways.

The privatization of British Railways received a setback when Rail track, the company for infrastructure repair, maintenance and investment was wound up after a series of financial difficulties. The functions of the company were taken over by State owned Network Rail. In the case of Pakistan Railways, the restructuring process had no monitoring body, no feedback or corrective mechanisms. So, the mess continued until the army stepped in and changed the operational system back to its original form.

In the case of Pakistan Railways not having learnt lessons from its previous experience of 22 years ago, another privatization exercise along similar lines is reported to be in the offing now.

Lack of Governance: Impact of Winding up Railway Board

Winding up of the professional Railway Board meant ending and liquidating all systems of institutionalized strategic planning, policy-making and technical and operational oversight. Without governance, Pakistan Railways was left floundering and has remained as such for the last 30 years.

Railway Board of Part-Time Members

The Railway Board as it stands today was formed with part-time members in 1996. These members lack the requisite qualifications, experience or any stake in the railways. With the specialized technical directorates no longer in existence, there is no source of formalized study and advice on matters of strategic importance and policy.

The system of governance by qualified professionals was replaced with a system of ritual rubber stamping of perfunctorily prepared working papers by a part-time board whose members not only did not have the relevant qualifications or experience, but even the time to perform the functions of a governing board. The existence of such a board is irrelevant to the functioning of Pakistan Railways. Meetings of the board are more like some old boys' club get-together for refreshments and off-the-cuff gossip and to rubber-stamp the proposals put forward by the Railways.

Statutory bodies organized along similar lines and headed by individuals who are totally ignorant of the business of the organization are tailor-made to ensure self-destruction of any state organization.

With no sense of direction or technical oversight, the strategic decisions taken by Pakistan Railways since then 1990 have involved massive expenditure with little return and invariably sunk the railways still deeper in the mess.

End of Freight Wagon Manufacturing

Till the year 2000, the requirement of Pakistan Railways' freight wagons was met through in-house manufacture and, as a matter of policy, only the

technology was imported, where required. In contravention of this policy, 1,370 new freight wagons were imported from China in 2005-06. The program involved transfer of technology for local manufacture of 100 wagons. The rest were to be imported in a mix of completely built units (CBUs) and as completely knocked down (CKD) wagons to be assembled in Pakistan. The most important element of the project was upgrading the available in-house technology. Substantial resources were spent, and two specialized workshops were established, with a third one receiving massive facilities and technical upgrades.

Since the first import in 2005-6, over 2,400 freight wagons have been imported as CBUs or CKDs but not a single wagon has been manufactured locally. In CKD condition, the material is received cut and formed to size, ready to be welded or screwed on. The manufacturing facilities have remained idle since, except for the fabrication facilities. The import of another 800 wagons is being planned. All of these will be either CBUs or CKDs.

Assimilating advances in technology comes with considerable cost and effort. Retaining already acquired technology requires sustained study and practice. The last wagon manufactured by Pakistan Railways was over 12 years ago. The staff trained in wagon manufacturing in Pakistan have mostly retired. In the absence of new manufacturing, there has been no chance to train new entrants. The very workshops that used to fulfill all the requirements of the railways and exported wagons are no longer capable of manufacturing freight wagons.

End of Passenger Carriage Manufacturing

The fate of the Islamabad Carriage Factory has been no different. Since the 2005-06 import of carriages from China, each time carriages were required for Pakistan Railway, orders were placed with the Chinese manufacturers for supply of either CBUs or CKD carriages, which were later assembled at the Carriage Factory. In addition, a substantial amount has been paid to the manufacturer for the transfer of technology for local manufacturing of

carriages. It defies logic why, once technology transfer has taken place, carriages should not be manufactured locally after simply acquiring raw material. It is worth wondering what is the wisdom in the railways making a purchase every time it needs a new carriage and never making use of the technology already bought for designing and manufacturing carriages locally.

End of Electric Traction

Electric traction, or the use of electric locomotives, is now the most economical means of train operations, with around 75% savings compared to the use of diesel electric locomotives. That is why electrification of railways is being undertaken the world over. Indian Railways has been achieving targets of electrifying over 1,000 kilometers of track every year. Most European and Japanese railway lines are electrified. Eighty percent of Chinese railway tracks have electric traction.

Pakistan Railways started operating electric locomotives – between Lahore and Khanewal – in 1969. As stated earlier, the entire investment in building the infrastructure, creating repair and maintenance facilities and buying electric locomotives was recovered within 11 years. After 1990, no financial resources were made available for the system's continued upkeep and operations. Eventually, in 2009, after over 40 years of service, the system ground to a halt through sheer neglect and apathy. The then management was not cognizant of the benefits of the system and never made efforts to keep it going. No longer part of the strategic decision-making authority, if at all any such authority existed after 1996, the railway men could only watch the system slowly wither away. They dismantled the remaining components of the infrastructure for use in case better sense prevailed in the times to come. While every nation is trying to electrify its railways, Pakistan perhaps has the distinction of being the only country to do away with whatever electrification it had.

End of Locomotive Manufacturing

Pakistan Locomotive Factory in Risalpur had started the manufacture of locomotives by 1990. By 2005, it had manufactured more than 150 locomotives. These included Japanese, General Electric and Chinese locomotives.

In 2013-14, despite the idle indigenous manufacturing facilities, 63 locomotives were purchased as completely built units from a Chinese manufacturer. The Locomotive Department of the Railways expressed muted reservations over the engine on the locomotives. It was a high-speed engine, expensive and difficult to maintain and not fit for railway operations. Cognizant of the reservations, the then minister of railways assembled 34 mechanical engineers in a room and asked them to articulate their objections, if any. The engineers acquiesced. The minister walked off with a paper marking the attendance of those present as a proof of the backing of the engineers for the purchase. In the absence of the strategic planning and policy-making body, acquisition of expensive and technically complex strategic assets that require in-depth study and research, was now being managed through 'royal darbars'.

This purchase was clearly vendor driven, made easy by the absence of institutionalized strategic planning and policymaking. Fifty engineers were sent to China for training in maintenance of these locomotives. However, instead of utilizing these engineers, a three-year maintenance supervision contract was awarded to the manufacturer. This was the first time for Pakistan Railways that normal maintenance function had been contracted out and was a death blow to all aspirations of self-reliance and self-sustainability. The cost of maintaining these locomotives is several times higher than the average budget allocation available per locomotives for the rest of the fleet.

Purchase of GE-4000 Locomotives

In the year 2017-18, 55 GE-4000 horsepower locomotives were purchased as completely built units. These are expensive, top-of-the-line locomotives. However, since their arrival, anywhere from 30 to 45 locomotives remain idle at

Karachi each day because of lack of freight traffic. Institutionalized integrated planning would have prevented such waste of scarce national resources.

Considered to be the most economical means of long-haul freight transport, the railway facilities remain grossly underutilized while massive, long-haul freight movement takes place by road in Pakistan. The appalling state of the railways and the pathetic state of governance is apparent.

Absence of Governance in Railways

The governance of an enterprise means providing a sense of direction, strategic planning, policy formulation, evaluating the effects of the policy and providing oversight of the functioning of the enterprise. Governance does not involve meddling in the day-to-day affairs or administration.

The present overall organization of Pakistan Railways consists of three distinct sub-organizations:

1) The Railways, which is concerned with the operations, maintenance and manufacture. This entity is organized for dealing with the day-to-day affairs and is in no way organized or equipped for strategic planning and policy-making.

2) The Railway Board is a part-time board having seven ex-officio members and three private members. The secretary/chairman railways is the chairman of the board. Three of the ex-officio members, being secretaries of their own ministries, are largely uninterested in the railway affairs and have other pressing official claims on their time. More often than not, they send underlings to attend the board's meetings on their behalf. Two other ex-officio members are the two general managers from the Railways and the seventh is the member finance of the Railways. Of the three private members, one is the CEO of a private concern, another is a retired officer of the Federal Board of Revenue and the third is a retired chief engineer of the Railways.

Six of the members, including the secretary/chairman railways, have no knowledge of transport systems or railway economics and no experience of railway working. They even have no idea why railways should exist with road transport available. They cannot be expected to contribute to strategic planning or policy-making in any capacity. The burden of the day-to-day affairs on the two general managers does not allow them "to shape policy, to watch, to think, to plan".

The rationale for appointing the three private members is not understood as none of them is involved in businesses having a stake in the operation of the railways.

The frequency of the Board meetings is generally once every 2/3 months, depending on when some rubber stamping is required. Without relevant knowledge, pertinent skills and experience and with no decision support systems in place, the Railway Board can only be expected to cursorily discuss and rubber stamp perfunctorily prepared working papers. Recognizing the diligent and hard work put in by the Board members, the agenda for the 11th Railway Board meeting held during the last quarter of the year 2020 includes raising the remuneration of the Board members by 50%.

The existence of such a Railway Board is irrelevant to the functioning of the Railways.

3) The Ministry of Railways is a secretarial organization. Of all the directorates in the ministry, the three whose nomenclature can be construed to have a significant impact on the Railways working are:

    i) Operations: Collects information on daily train operations as received from operations branch of the Railways. The work involved is not much more than paper pushing.

ii) Planning: Secretarial functions are performed on reports on railway projects, mostly Public Sector Development Programme projects.

iii) Technical: In terms of work, it is the most heavily loaded of all directorates. The head of the directorate can be a mechanical or civil engineer of the Railways. All the correspondence, reports, technical proposals and purchase cases coming from the Railways are his responsibility. The job also includes reviewing and commenting on technical proposals and reports from departments having distinct and varied specializations, most often different from the specialization of the directorate head. The predicament of the directorate head is analogous to a moderately experienced dental surgeon, assisted by a couple of junior medics, assigned to review and comment on highly specialized medical reports emanating from senior specialists of cardiology, ophthalmology, gastroenterology and other specializations.

This puts on full display the irrationality and the pathetically erroneous concepts of technical specialization prevalent in the administrative systems of our state. Also apparent is the absolute lack and appreciation of the governance function.

Impediments to Governance in Railways

In a parliamentary democracy, a minister is not expected to be a specialist on the business of his ministry. The minister is, therefore, provided specialists having skills relevant to the business. These specialists help convert his vision into broad policy directives.

In Pakistan, no such help is provided and there is no concept or expectation of the minister having a vision. Invariably, the minister starts usurping the powers of the executives, interfering in the day-to-day affairs of the business.

A freshly appointed chairman of the PIA once remarked, "I am new to the airline business, but I am trying to catch on". Railways has been having such "new" chairmen for between one- and two-year assignments for over 30 years now.

These chairmen, having no knowledge of the business of railways, are at sea in matters of strategy and policy formulation and do not realize the importance of the governance functions. Just like the minister, they start encroaching upon the powers of the executive and impeding the day-to-day work.

The way it is organized, and the capacity of its members, makes the very existence of the Railway Board irrelevant to the functioning of the Railways.

The ministry is organized for secretarial functions and is not technically equipped or staffed for integrated planning and policy functions.

Therefore, in the overall hierarchy of the railway organization, at the governance level — which should offer a sense of direction and provide policy formulation and oversight to the railways — there is an absolute lack of knowledge, competence or appreciation of the job involved.

In the conventional sense, there is no concept or capability of governance in the existing setup of the railways.

Other state organizations are also subjected to such a structure of lack of governance. It was because of lack of proper governance that Pakistan Steel stopped working about five years ago. Railways and PIA are on their last legs, but for the massive injections of ill-planned resources to keep these organizations afloat.

Results of Good Governance in Neighboring Countries

In India, China and Iran, technical and management competence carries a high premium. The governance tiers are organized and staffed with very competent individuals of relevant qualifications and experience. Indian Railways is a success story. Chinese Railways is even more successful. Till the 1980s, railway

men from Pakistan used to go to Iran for assisting their railways. By the year 2005, Iran started offering to sell freight wagons and locomotive components, including traction motors, to Pakistan. The Iranians reached this level despite suffering under debilitating economic sanctions.

Impact of Poor Governance on Railway Systems

Thirty years of such mismanagement – with no direction, no policy and blatant interference in the working of the executives – has shattered the Railways as an organization. Job specifications and job descriptions are no longer available. Duty lists have become a rarity and so have schedules of powers. Manuals and codes containing SOPs have mostly disappeared. Even the codes and manuals that are available per chance are long outdated. Most of the officers who have reached middle management levels may never have seen their duty lists or schedule of powers or the manuals and codes containing the SOPs.

In the absence of direction, planning, or policy formulation and oversight and with the elusive SOPs, the officers are constantly putting out fires.

Pakistan Railways today has more powerful and modern locomotives and higher-capacity modern wagons than they had by the year 1989. Yet the freight being hauled is less than half of what was hauled in the 1970s and '80s.

ML-1 and Chinese Assistance

China has always been ready to assist Pakistan Railways develop. It is the lack of governance in the existing system that has prevented the railways from making effective use of the assistance.

Rehabilitation of Main Line-1 (ML-1) is an important project for Pakistan Railways. The ML-1 upgrade, being undertaken with Chinese assistance, will enhance the capacity of the railways manifold. However, the assistance is in the form of a loan that will have to be paid back. The railways earns from freight services. Passenger services are normally subsidized from freight earnings. Presently, not even half of Pakistan Railways' freight hauling capacity is being utilized. It is not logical to assume that this very organization will be

able to market and utilize the manifold enhancement in hauling capacity made available after the rehabilitation of ML-1.

The Kenyan Example

Chinese companies have constructed a railway line in Kenya, financed with a $4.5 billion loan from Chinese banks. Not being able to operate it themselves, the Kenyans have asked the Chinese to operate the railways for them. It is proving very costly for Kenya to continue operating the line. The Kenyan parliament's Transport Committee says that huge operating losses and the banks' debt are straining taxpayers. The Kenyan scenario is bound to repeat itself in Pakistan unless the governance issues are resolved.

The Way Forward

1) National Integrated Transport Planning

   The transport sector plays a vital role in the economy of a country. The two predominant modes of transport in Pakistan are road transport and the railways. Each mode has relative advantages and disadvantages. The transport requirements of the country must first be assessed. Then a National Transport Policy needs to be formulated for meeting these requirements, being mindful of the relative advantages of each mode of transport. The modes of transport should complement each other for achieving the targets. Allocation of resources to these modes should be according to the policy requirements.

2) Immediate Reorganization of Railway Board

   Pakistan Railways is reeling due to incompetent governance. It is in no condition to fully market and utilize even its existing capacity. The railways is also in no condition to plan and prepare for meeting the requirements of a rehabilitated ML-1. The World Bank has also cautioned that the success of the project is linked to governance reforms. Indian Railways is a success story. That model must be

adopted immediately. Pakistan Railways needs a full-time professional Railway Board along the lines of the Indian Railway Board. An extraordinary notification issued in November 1990, but never implemented, provides exactly such a solution. The organization envisioned therein is an augmented form of the management that the railways had prior to the 1990s. This step will go a long way in reform of the railways governance.

3) Institutionalizing Railways Operations

Thirty years of a peculiar style of management that places people deficient in the requisite knowledge of the business at the top, and that too on policy-making positions, has smashed all forms of institutionalized working in the railways.

It is neither reasonable nor rational for the railways to continue with the status quo and expect to make the ML-1 project a success.

Urgent steps are needed to dig up or in some cases reframe new job requirements and duty lists, as well as compile, consolidate and update SOPs. This a mammoth job and can be completed in time only if exceptional steps are taken. Some handpicked officers must be relieved of their usual work and formed into teams, each team for a specific department or sphere of activity. The working and effectiveness of these teams must be under constant scrutiny to ensure the desired results are achieved. This appears to be the only way towards the railways regaining some semblance of a formal organizational structure.

4) Efforts towards Self-Reliance

Great premium should be placed on achieving self-reliance. The government must ban the import of rolling stock where technology for local manufacturing exists. Where required, only the necessary technology upgrades may be acquired. It is more economical to buy

raw material and manufacture locally than to import completely built or CKD wagons and carriages. Manufacture of the rolling stock locally also encourages growth of supporting manufacture activities in the private sector.

5) Restructuring and Privatizing Railways

Many railways the world over have been privatized to varying extent. All took years of study and planning before the initiation of restructuring and privatization. The debates continues on whether the privatization of any of these railways was a success or failure.

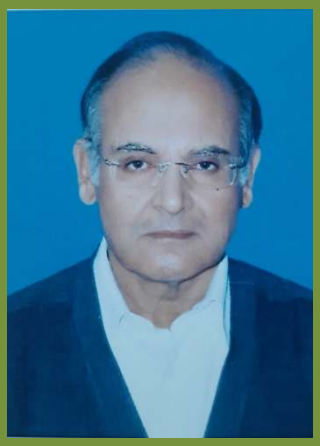
This shows the complexity and intricacy of the railway system. Serious in-depth study is warranted in case restructuring and privatization is contemplated. Pakistan's policy-makers have always exhibited a remarkably woeful lack of competence and capacity for organizing institutions and long-term planning. It would be prudent if the privatization experience of other railways is studied before contemplating to restructure and privatize Pakistan Railways.

Rehabilitation of ML-1 alone will not be enough to rescue Pakistan Railways. The national economy will have to reach much higher levels before private investors can be expected to consider investing in locomotives and rolling stock. With British Rail as an example, the government will have to retain the ownership of the infrastructure for reasons of safety. However, functions that do not require much investment can be identified and separated for privatization. This process can continue gradually till the national economy reaches the levels where the government can step back and perform regulatory functions only.

Regardless of the state of the national economy, no private investor will ever be interested in a ragtag and organizationally shattered railways. The government will have to restore Pakistan Railways to sound footing before private investors can be expected to start

showing interest. In view of the success of the organization and the management style of Indian Railways, that template needs to be studied and examples followed to revive Pakistan Railways.

As with the Indian Railways, the Railway Board must be a full-time executive board. The chairman of the railways must be from the railways and designated as an ex-officio federal secretary. The Railway Board must have professional railway men with the technical directorates and decision support systems should be reactivated. Only then will it be possible to plan for, guide and resurrect Pakistan Railways.



Mr. Farooq Aziz is a practicing professional Engineer since 1971 having more than 49 years of extensive experience in the engineering field. Currently, he is serving as an advisor and railway expert with TUMAS-Turkish Railways Consultancy firm. He has developed and successfully implemented many projects towards the advancement of Pakistan Railways. Mr. Farooq's special area of interest and competency is in corporate governance which is a key for the success of any organization. He completed his bachelor's degree in Mechanical engineering from UET, Lahore. After that, he earned his master's in Industrial Engineering and Management from Asian Institute of Technology, Bangkok-Thailand. After his master's degree, Mr. Aziz served as a Lecturer in the Department of Industrial Engineering at King Abdul Aziz University. Due to lack of practicing experience, he stepped away from lectureship after one year and joined Saudi Arabian Airline as Senior Engineer and served for more than five years prior to TUMAS.

Mr. Farooq is a senior member of American Institute of Industrial Engineers, a member of Pakistan Engineering Council and a member of Pakistan Institute of Engineers.

About NIOC

National Initiative against Organized Crime (NIOC) is the first-ever initiative against Organized Crime in Pakistan, which was launched in November 2019. It is led by a group of committed professionals and experts with law enforcement, media and other public service backgrounds. Through developing an empirical evidence-base and conducting hands-on consultations, NIOC aims to build community resilience and influence public policy to combat organized crime including terror financing, drug trafficking, human trafficking and cybercrime. With a complex governance structure having multiple layers of stakeholders, the criminal justice system and law enforcement apparatus require better coordination and capacity building. NIOC tries to identify the gaps and suggest improvements in the Criminal Justice System (CJS).

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