

UNLOCKING PAKISTAN RAILWAYS DEAD CAPITAL

Azwar Muhammad Aslam

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INTRODUCTION

Pakistan Railways (PR) has significant land holdings throughout major cities in the country at the most lucrative spots. Despite having considerable potential, these land holdings suffer from gross underutilization, resulting in significant financial losses. The state-owned land in Pakistan fits the definition of 'Dead Capital' carrying sizable potential which if tapped into can provide substantial gains for the economy, providing opportunities for innovation, entrepreneurship and community. It is necessary to 'unlock' dead capital by allowing it to evolve and enable its convertibility into productive capital.

The study informs about PR landholdings in terms of various classifications and uses. It also looks into the legal structure that governs PR, more specifically, its land holdings with an aim to identify the impediments in the utilization of railway land on commercial lines. The analysis in the study is carried out through the review of acts, ordinance and S.R.O.s, complemented with the insights from relevant case law analysis including judgments of supreme court and high court of Pakistan pertaining to land enriched with insights from key stakeholders. Lastly, we present, comprehensively, the evidence on redevelopment of railways from the globe, specifically of stations, to identify the arrangements that led to their successful completion. The key lessons from the report are presented below.

RAILWAY LAND

Pakistan Railways (PR) owns 169,128 acres of land of which approximately 17 percent is employed in its various non-core operations. Despite classifying a substantial portion of land for activities such as rent, lease, etc. most of this land is dead capital. Majority of the land is in and around city centers, with significant potential for commercial activity. There is surprising lack of structured efforts towards commercialization for realization of competitive/market-based revenue streams. Because of this, most of this land if utilized, is being used either for agricultural purposes or leased at rates far below market rates or leased to other government departments taking away PR's potential to generate itself substantial income.

The classification of land use is also preserving the railway land state of dead capital, as the land under operational use category cannot be considered as available for any commercial activity. Under the operational use umbrella the land classified as official buildings also includes the land under the possession of railway employees for residential purposes i.e., quarters and bungalows etc. The share of residential land within the official buildings category is 66% only in Rawalpindi, representing huge dead capital.

Legal Constraints

The legal construct around this land, both internal (policies and practices) and external (Act, Rules and Procedures), pose the biggest hurdle among a multitude of issues facing commercialization and redevelopment of PR assets. Externally, the rigidity of the laws governing PR e.g., Acts and Rules pose a challenge towards its potential evolution with regard to commercialization and redevelopment of

railway land. The rules and laws with regard to disposal of land are cumbersome, time consuming and non-competitive, ultimately discouraging PR from commercialization of land. The implication of land acquisition act also acts as an impediment as it discourages PR to declare any of its land for commercial purposes, both for disposal or commercialization by lease etc. The acts and ordinances surrounding PR does not provide any explicit provision to guide commercialization of railway assets. Rather than properly legislating a way forward, rules are notified through statutes from time to time. These statues have created uncertainty, evident from frequent changes in stance on commercialization of PR land over the years. The dispute of title between PR and provinces/provincial departments is another issue, that hampers the utilization of land on commercial lines, and at times leading to litigation. Alongside it the legal structure as whole also makes the commercialization of land harder, as stays are granted and land remains under dispute ultimately remaining in unauthorized occupation or unproductive use.

Infractions

Internally, PR has been a victim of the unprofessional conduct of its own administrative staff indulging in procedural misconducts leading to unfavorable eventualities. In other instances, the PR's inability to protect its land from encroachment and unauthorized occupation is a glaring example of the incapacity of its operations. Upon all that, PR reinforces and protects a top-down style of management with several un-necessary administrative layers to increase sludge and discourage timely and effective decision making.

Grossly Underutilized Land

Globally, modernized railways use their lands to build a consumer-centric eco-system that becomes the key tool for economic growth. In Pakistan, however, most of the land surrounding key operational facilities such as stations and rails are either converted into residential areas - housing for railway employees - or leased out at surprisingly low rates for residential purposes. The case for Rawalpindi railway station is no different as it is surrounded by approximately 160 acres of land that is used for hosting Pakistan railways employees. Another 1150 acres of PR land across Pakistan is leased out to co-operative housing schemes for railway employees at sub-optimal rates. In Rawalpindi PR have leased 116 acres of land to co-operative housing societies at 11000 average rents, which is gross underutilization of land. This land can generate a revenue of Rs 37,480 million for PR through auction and possess the potential to host 27 high-rise residential buildings, generating an economic activity of RS 90.9 billion through construction.

Ideally, it is hard to find a reason for PR to hold and manage land that does not come under the use of its core-operations for the simple reason that PR is not an asset management company and thus lacks the vision, will and expertise to bring its use to its full potential. Even when there is a will, the decision makers do not feel confident to take the next step simply because changing regime comes with changed priorities. If PR is to be successful in achieving this feat of evolution into a commercial entity or the modern age, an overhaul of its human resource and the legal construct surrounding it is of the utmost importance.

POLICY RECOMMENDATIONS

Modern railways infrastructure has, come a long way from just carrying goods and passengers. Transport of goods and passenger still remain the core functions but have evolved even further to provide a commercial user experience by building an eco-system of amenities. This vision for the evolution of railways, places it at the heart of industrial and commercial growth of any economy.

PR infrastructure and its governing laws, after more than seven decades, have shown little change, at least in its vision and operations. This, somewhat rigid attitude has left PR unable to meet the needs of the modern economic setup, uncompetitive and a loss-making entity. There is, thus, an urgent need to re-imagine and reform Pakistan Railways for it to enable Pakistan's economy to realize its economic and geo-political potential. Below we take the liberty to discuss a few policy avenues and recommendations that are informed by the analysis in this report.

- a)** The main law that governs PR is the Railways Act 1890 doesn't provide explicit provisions to enable commercialization and redevelopment of PR land which makes it necessary to amend the law to allow for such activity.
- b)** Amendment is needed, to exclude PR land from the provision of land acquisition act, primarily to repurpose any parcel of land without any prejudice to its authority, ownership or claim. Secondly, explicit provisions need to be added to make the whole process market-based and competitive.
- c)** The mutation of railway land shall be enforced by the provinces, so that the railway land that is under the ownership of provinces in the record of rights is reverted back to PR.
- d)** PR needs to re-classify its land use, and exclude the residential land for railway employees from operational use category. Afterwards, making it available for commercial utilization and redevelopment.
- e)** PR land that is leased out to the co-operative housing societies must be re-purposed for optimal use as it is causing significant revenue losses to PR and is without any legal standings.
- f)** The time period of short and medium term leases as approved in the rules for leasing railway land shall be increased.
- g)** Delegation of function and responsibilities with appropriate level of authority is the way to improve the administrative sludge in PR, related to land utilization.
- h)** PR over the years had to suffer at the hands of the unprofessional conduct of its employees either due to lack of education, training or violation of rules. There is a need to train PR's staff on urgent basis to build up their capacity to carry out their designated functions properly.
- i)** Consistency in policies is imperative regarding PR land utilization and management and over all governance.