

The Indian Railways' Revenue Problems

For Prelims: Indian Railways (IR), Capital Expenditure (capex), Gross Budgetary Support (GBS), Extra Budgetary Resources (EBS), Comptroller and Auditor General of India (CAG), Net Tonne Kilometres (NTKM), Operating Ratio.

For Mains: Significant role and contribution of Indian Railways to the economic growth and development.

Source: TH

Why in News?

The <u>Indian Railways (IR)</u> has increased its <u>capital expenditure (capex)</u> significantly since merging its rail budget with the main budget. However, its <u>operating ratio</u>, which measures expenses against revenue, hasn't improved.

What are the Present Concerns with Indian Railways?

- Debt Trap Concerns:
 - The Indian Railways (IR) is facing a growing concern related to rising debt. In the absence of surplus funds, the IR has been relying on increased funding through <u>Gross</u> <u>Budgetary Support (GBS) and Extra Budgetary Resources (EBS).</u>
 - However, this reliance on EBS comes with a significant cost. The IR's spending on repayment of principal and interest make 17% of revenue receipts, a sharp rise from less than 10% till 2015-16.
- Concerns Related to Economic Growth vis-a-vis Unproductive Investments:
 - Despite the mounting debt, the significant increase in capex is underpinned by the belief
 that investments in the railway sector have a positive ripple effect on manufacturing,
 services, government tax revenue, and employment opportunities.
 - However, it is imperative that the IR, as a vital organization, avoids following the path of financial instability seen in entities like Air India.
- The Lessening Share:
 - The Indian Railways (IR) faces a significant challenge with its share in transporting key commodities declining over the years.
 - For instance, **in 2011,** coal transportation was 602 million tonnes (MT), with the rail share at 70%, but by 2020, coal consumption increased to 978 MT, while the rail share **decreased to 60%.**
 - Similarly, the share of exim (Export-Import) containers moving to and from ports has fluctuated between 10% and 18% since 2009-10, with the 2021-22 figure at 13%.
- Concerns with Net Tonne Kilometers (NTKM):
 - There was an unprecedented decline in NTKM in 2015-16 and 2016-17 by 4% and 5% respectively.
 - In the **seven-year period ending in 2021-22**, NTKM showed an annual growth rate of 3.5%, **significantly lower** than the growth rate in road transport.

What are the Long-Term Issues in the Indian Railway System?

Challenges in Financial Performance:

- The IR **faces a significant problem** with its financial performance, particularly the stark contrast between its profitable freight segment and the loss-making passenger segment.
 - A 2023 report from the Comptroller and Auditor General of India(CAG) highlighted a
 massive loss of Rs. 68,269 crore in passenger services which had to be covered by
 profits from freight traffic.

Challenges in Freight Business:

- From April to July 2023, the annual growth in **freight volume and revenue stands at just 1% and 3%**, respectively, **whereas the Indian economy is growing at 7%**.
 - The modal share of the IR in India's freight business has drastically **decreased to approximately 27%, a significant decline from the over 80% share i**t had at the time of India's independence.

Artificial Division of Cargo:

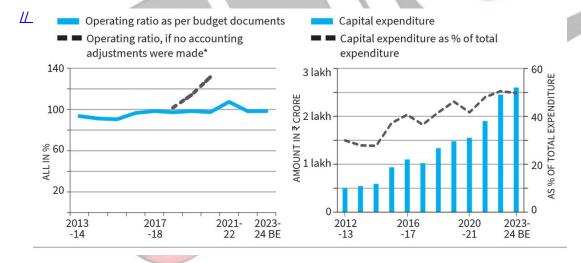
- The artificial division of cargo into goods and parcels is hindering efficiency.
 These divisions, driven by tariff rules, handling procedures, and monitoring practices, do not align with the concerns of shippers.
 - It is essential for the IR to abandon this artificial divide and categorize cargo based on its characteristics as either bulk or non-bulk, which could be referred to as value-added.

Challenges in Competing with Road Transport:

The Indian Railways also faces competition from road transport, which has been growing at
a faster rate than rail transport. This competition, combined with the fluctuating Net
Tonne Kilometres (NTKM), has made it challenging for the IR to maintain and expand its
share in freight transportation, where overhaul in railway transportation is required.

Inadequacy of Containerization:

- After 15 years of privatization, containerized domestic cargo accounts for only 1% of IR's loading and 0.3% of the country's total freight.
 - High haulage rates and the risk of market development with potential losses are contributing to this underperformance.



What are the Ways to Ease and Improve the Transport of Cargo by Indian Railways?

Need to Phase Out Parcel Trains:

- The IR is facing challenges in moving general cargo using parcel trains and special heavy parcel van (VPH) trains.
 - One of the key reasons for these challenges is the high tariff, which is often higher than truck rates.
- The VPH parcel trains are found to be counterproductive, and there is a better
 alternative in the form of covered wagons that can carry more cargo efficiently.

Need of Flexibility for Shippers:

- A significant issue for the IR is that shippers can only send a few tonnes under parcel tariff or thousands of tonnes under freight tariff, making it unsuitable for the needs of general cargo.
 - Shippers require a more flexible and suitable option that aligns with their cargo sizes, akin to **asking passengers to come with a load of passengers** before booking a berth on a passenger train.

Overcoming Challenges in Cargo Transportation:

- The declining share of the IR in bulk cargo is partly due to the high cost and capitalintensive nature of railway sidings, which discourages smaller industries from using them.
 - To address this, **common-user facilities at cargo aggregation and dispersal points are needed,** especially in mining clusters, industrial areas, and large cities.

Ensuring a Level Playing Field Between Rail and Road Transportation:

 Environmental clearance for rail loading/unloading facilities has been made mandatory but the same has not been imposed on road loading/unloading facilities. There is a need for consistent Environmental regulations.

Optimization of Tarrifs:

 To incentivize volumetric loading, tariff structures can be adjusted based on the quantity loaded. The IR should also encourage cargo aggregators and optimize payload and speed for better efficiency in the long run.

Modernization of Infrastructure:

 Urgent need for infrastructure modernization in railways, including high-speed rail, station redevelopment, track doubling, coach refurbishing, GPS tracking, and digitalization for safety, efficiency, and cost reduction.

Reduction in operational costs:

 Indian Railways has achieved an Operating Ratio of 98.14% which can be further improved by focusing on energy conservation, optimizing manpower, and enhancing procurement practices.

What are the Different Initiatives of Railways for Increasing Bulk Cargo?

- The Indian Railways (IR) has undertaken several initiatives in the bulk cargo sector, including relaxing block rake movement rules, allowing mini rakes, and introducing private freight terminals (PFTs).
- The **Gati Shakti Terminal (GCT)** policy simplifies the operation of these terminals, and private sidings are being converted into GCTs.
- Government of India has introduced two key policies: The <u>PM GatiShakti (PMGS) policy</u>, aimed at creating a seamless multi-modal transport network, and the <u>National Logistics Policy (NLP)</u>, focusing on building a national logistics portal and integrating platforms across various ministries
- Investment in railway infrastructure: The government has also introduced schemes such as <u>'Sagarmala'</u> and <u>'Bharatmala'</u> for port-led development and road development respectively which must be integrated with Indian Railways.
- Dedicated Freight Corridors: The government has also introduced schemes such as
 <u>'Dedicated Freight Corridors'</u> which should be leveraged to increase freight transportation.

UPSC Civil Services Examination, Previous Year Question (PYQ)

Q. With reference to bio-toilets used by the Indian Railways, consider the following statements: (2015)

- 1. The decomposition of human waste in the biotoilets is initiated by a fungal inoculum.
- 2. Ammonia and water vapour are the only end products in this decomposition which are released into the atmosphere.

Which of the statements given above is/are correct?

(a) 1 only

(b) 2 only(c) Both 1 and 2(d) Neither 1 nor 2

Ans: (d)

PDF Refernece URL: https://www.drishtiias.com/printpdf/the-indian-railways-revenue-problems

