

Indian Railways: A comprehensive study on Social Service obligation

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ARTICLE DETAILS

Article History

Published Online: 07 August 2018

Keywords

Indian Railways (IR), Passenger Service and Social Service obligation

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ABSTRACT

Social services aim to create more effective organizations, build stronger communities, and promote equality and opportunity. But too far compensating can lead to incur huge losses; same has been opted by Indian Railways. These costs impinge upon the viability of Indian Railways system. The present paper assesses the unembellished condition of providing social service obligation by the Indian Railways despite of huge losses. The paper also highlights the critical valuation of core elements of social services.

1. Introduction

Indian Railways (IR) is India's national railway system operated by the Ministry of Railways. It manages the fourth-largest railway network in the world by size, with 121,407 kilometers (75,439 mi) of total track over a 67,368-kilometre (41,861 mi) route. Indian Railways carries out various activities in the larger national interest which are not driven strictly by commercial principles. Most of these activities are essentially uneconomic in nature and IR is either not able to recover the costs (capital investments/operating costs) it incurs to deliver such services to provide affordable transport facilities to poorer sections of society and to facilitate the movement of essential commodities at below normal costs. Such activities / services could broadly be defined as "Social Service Obligations" for Indian Railways. Net Social Service Obligation borne by IR in 2015-16 is assessed at 27,026.61 cr excluding staff welfare cost (5,099.35 cr) and law and order cost (3,833.63 cr).

The rapid growth of India's population has put enormous strains on all transport systems. Burgeoning travel demand far exceeds the limited supply of transport infrastructure and services (Pucher et al., 2004). Further, the passenger traffic in India is likely to grow at more than 8% per year and freight traffic at more than 5% per year during the period 1990–2021 (Ramanathan & Parikh, 1999).

The four main elements of Social Service Obligation in IR are losses relating to (a) Essential Commodities carried below cost; Passenger and Other Coaching services; Operation of Uneconomic Branch Lines & New Lines opened for Traffic during the last 15 years.

Indian Railways continues to incur losses every year by performing a variety of un-remunerative service. A gap is thus created between the minimum revenue income generated through these service and their huge costs (Gohain, 2018).

The core business of the Indian Railways (to transport passengers and freight) is completely in line with the objectives and actions of green transport (Ali & Fazili, 2017). It was revealed that expectations of passengers were more than their

perceptions. The negative gaps indicated that the service quality level was unsatisfactory (Ali, 2018).

Indian Railways must maintain the Social Service Obligation in order to sustain the social aspect of sustainable development (Ali & Mir, 2018).

2. Objectives of the Study

To study the uneconomic operations of Indian Railways in order to facilitate the social service obligation.

To evaluate the net losses incurred through social service obligation by Indian Railways.

3. Research Methodology

The study involves the use of Secondary sources of data. The main source of data are Reports of Indian Railways, Planning Commission data, online data base, journals, articles, newspapers, etc.

4. Assessment of Overall Statistics of Social Service Obligations

- a) **Losses on transportation of Essential Commodities carried below cost:** As part of the Railways' Social Service Obligation, certain essential commodities of mass consumption like fruits and vegetables, sugarcane, paper, charcoal, bamboos, cotton raw pressed etc. are carried below cost of operation in order to contain their market prices. The total losses on the movement of these commodities in 2015-16 amounted to 41.20 crore.
- b) **Losses on Passenger and Other Coaching services:** Analysis of the profitability of Coaching Services in 2015-16 has revealed an overall loss of 35918.39 crore to which net suburban losses in Chennai, Kolkata, Mumbai and Secunderabad provided with EMU and Non-EMU services contributed 5200.28 crore.
- c) **Uneconomic Branch Lines:** A review of the financial results of existing 101 uneconomic branch lines for

the year 2015-16 shows that, on an original investment on these lines of the order of 4091 crore, loss during the year 2015-16 amounted to 1895 crore.

- d) **New lines opened for traffic during the last 15 years:** Periodic reviews have revealed that of the 18 lines examined in 2015-16, as part of Social Service Obligations of the Railways for development of backward areas, all lines are showing either negative or un-remunerative returns. Several high-level committees have recommended the closure of these unviable lines in the past to reduce the losses to

railways every year. However, state governments are reluctant to close these lines (Singh, 2015).

Assessment of overall estimates of social service obligations can thus be undertaken by computing net losses in the passenger business. For each financial year, IR reports its financial performance in terms of breakup of earnings for its principal businesses and expenditure. IR maintains Statistical Statement no. 15 that helps to allocate costs on passenger and goods businesses separately. Using such allocation ratios, the revenues and expenditure attributable to passenger business is computed for assessing the net loss. The table 1 indicates the assessments of net loss incurred by IR for its passenger business.

Table 1: Overall Assessment of Net Loss / Social Service Obligations

Assessment of Indian Railways Passenger Business Loss (All Figures in Cr)					
S. No.	Particulars	2011-12	2012-13	2013-14	2014-15
A	Earnings				
A1	Passenger	28246	31323	36532	42190
A2	Other Coaching	2717	3054	3679	3998
A3	Sundry and Misc. Earnings	3643	4261	5721	5093
A3.1	Share of Goods*	1625	1878	2471	2020
A3.2	Share of Passenger*	2018	2383	3250	3073
B	Total Earnings	0.45	0.44	0.43	0.4
B1	Passenger and Coaching (A1+A2+A3.2)	32981	36760	43461	49261
C	Expenditure				
C1	OWE (including Pension Fund)	92270	104898	122985	135556
C1.1	Share of Goods**	40857	46837	54482	60417
C1.2	Share of Passenger and Coaching**	51413	58061	68503	75139
C2	Appropriation to DRF	6520	6850	7900	7775
C2.1	Share of Goods***	3148	3272	3682	3339
C2.2	Share of Passenger and Coaching#	3372	3578	4218	4436
C3	Appropriation to Dividend (excluding subsidy)	3622	3063	4638	5149
C3.1	Share of Goods#	1867	1558	2296	2459
C3.2	Share of Passenger and Coaching#	1754	1505	2342	2690
D	Total Expenditure	102412	114811	135523	148480
D1	Passenger and Coaching (C1.2+C2.2+C3.2)	56540	63144	75062	82264
E	Net Loss for Passenger Business				
E1	Passenger and Coaching (B1-D1)	-23559	-26384	-31601	-33004
E2	Passenger Loss as a % of Passenger Revenue (E1/B1)	0.71	0.72	0.73	0.67

Source: Railway Board, Ministry of Railways

*Allocation of sundry earnings between Coaching & Goods Services as per instructions laid down at Page 121 of MSI-Volume-II (2003 edition) (Part-II, Appendix-III of Annual Statistical Statement (ASS) No. 15);

**The apportion of ratio between Goods & Coaching are 44.28:55.72, 44.65:55.35, 44.30:55.70 & 44.57:55.43 for the years 2011-12, 2012-13, 2013-14 & 2014-15 respectively;

***The apportion of ratio between Goods & Coaching are 48.28:51.72, 47.77:52.23, 46.61:53.39 & 42.95:57.05 for the years 2011-12, 2012-13, 2013-14 & 2014-15 respectively;

#The apportion of ratio between Goods & Coaching are 51.56:48.44, 50.86:49.14, 49.51:50.49 & 47.76:52.24 for the years 2011-12, 2012-13, 2013-14 & 2014-15 respectively;

At an overall level for the period 2011-12 to 2014-15, IR has consistently incurred loss in its passenger and coaching business, which it attributes to the social obligations it undertakes. In financial year 2014-15, the loss that IR incurred in its passenger and coaching business amounted to INR 33,000 crores, which was around 67% of the total passenger revenues for that year. This indicates that on an average for every 1 Rupee earned in passenger business, it ends up losing 67 paise (i.e., it expends Rs. 1.67 as costs)

It indicates that the Net Social Service Obligation borne by IR in 2014-15 is assessed at 25,346.94 crores excluding staff welfare costs (INR 4797.50 crores) and law and order cost (INR 3415.43 crores) (IR Year Book 2014-15). However, the Table 1 computes the overall costs of social service obligation as INR 33,000 crores at the business level. Accordingly, it is

assumed, for representative assessments, that the exclusions (staff welfare and law order) are subsumed in the overall business costs.

5. Conclusion

Broadly, Indian Railways incurs the overall losses on its passenger service business to the social service orientation of its passenger business. The present study encompassing the social service obligation concludes that Indian Railways charges fares across classes which are well below its costs given its social responsibility as the national transporter of people. Further, Indian Railways also foregoes revenues due to various concessions. Hence, at an overall level, the losses of social obligations by Indian Railways considers them as a reasonably reflecting the financial impact.

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