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Challenges and Reforms in Indian Railways: A Critical Analysis

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ABSTRACT :

Indian Railways, as one of the world's largest railway networks, plays a crucial role in the country's economic and social fabric. However, it continues to grapple with deep-seated structural and financial challenges that hinder its efficiency, safety, and long-term sustainability. The absence of an independent regulatory body, excessive bureaucratic centralization, financial losses in the passenger segment, freight inefficiencies, and heavy reliance on external borrowings collectively undermine its potential. Despite recommendations from various expert committees, meaningful reforms remain largely unimplemented. This paper critically examines these long-standing issues, evaluates existing policy frameworks, and underscores the urgent need for regulatory, financial, and operational restructuring. Additionally, it draws comparisons with international best practices to highlight potential reform pathways that could steer Indian Railways towards a more sustainable and competitive future.

Keywords: Indian Railways, railway regulation, passenger fare subsidies, freight inefficiencies, railway financing, railway modernization, operational reforms

Introduction :

Indian Railways stands as the backbone of the country's transportation infrastructure, serving as a lifeline for millions of passengers and facilitating the movement of goods across vast geographical expanses. Despite its indispensable role, the railway system has been plagued by systemic inefficiencies that have significantly hindered its progress. Issues such as the absence of an independent regulator, the lack of autonomy for railway zones, persistent financial losses in the passenger segment, inefficiencies in freight operations, and the over-reliance on borrowings for capital investment continue to burden the sector.

While multiple committees, including the Bibek Debroy Committee (2015) and the Rakesh Mohan Committee (2001), have proposed extensive reforms, Indian Railways has remained largely resistant to transformative changes. The reluctance to implement structural modifications has not only resulted in financial stress but has also compromised the quality of service and safety standards. This paper explores these challenges in detail, emphasizing the urgent need for regulatory and policy interventions to ensure the long-term sustainability of the railway network.

Lack of an Independent Regulator and Its Consequences :

One of the most significant impediments to the modernization of Indian Railways is the absence of an independent regulatory authority. Unlike other sectors such as telecommunications and electricity, where independent regulators ensure a balance between competition and consumer welfare, Indian Railways continues to function as a monolithic entity under the direct control of the Ministry of Railways. The lack of a regulator has allowed excessive political interference in fare pricing, investment decisions, and operational policies, leading to inefficiencies that discourage private participation.

The Bibek Debroy Committee strongly recommended the establishment of a Rail Development Authority (RDA) to oversee critical functions such as tariff regulation, infrastructure access for private players, and safety enforcement. Although the Union Cabinet approved the RDA in 2017, it remains non-operational, underscoring the government's inertia in pursuing meaningful regulatory reforms. The failure to implement an independent regulatory framework perpetuates a lack of transparency, making Indian Railways resistant to the principles of competitive efficiency that have benefitted other public utilities.

A direct consequence of the absence of a regulator is the skewed pricing mechanism that keeps passenger fares artificially low for political reasons while imposing disproportionately high freight rates. This cross-subsidization distorts market dynamics, driving freight operators away from rail transport and towards road-based logistics, which are comparatively costlier but more reliable. The reluctance to adopt a rationalized fare structure has thus prevented Indian Railways from achieving financial sustainability, further justifying the urgent need for regulatory intervention.

The Consequences of Centralized Governance in Indian Railways :

The excessive centralization of decision-making in Indian Railways has long been a cause for concern. The Railway Board exercises disproportionate control over crucial operational matters, leaving little room for flexibility at the zonal and divisional levels. This hierarchical structure results in inefficiencies, delayed decision-making, and misallocation of resources, particularly in matters concerning safety, infrastructure upgrades, and staffing requirements.

Empirical data on railway accidents indicates that the failure to grant greater autonomy to zonal managers exacerbates operational inefficiencies. Over the past five years, Indian Railways has recorded an average of 44 consequential accidents annually, with derailments accounting for a significant proportion. In 2022-23 alone, 36 out of 48 railway accidents were attributed to derailments, many of which could have been prevented through localized decision-making and quicker responsiveness at the zonal level.

Decentralization would allow General Managers (GMs) and Divisional Railway Managers (DRMs) to exercise greater control over financial allocations, technological upgrades, and infrastructural improvements. The current bureaucratic bottlenecks delay critical modernization initiatives, including station upgrades and track maintenance. By adopting a governance model that empowers regional divisions, Indian Railways can improve operational efficiency, minimize safety risks, and ensure a more responsive approach to passenger grievances.

Financial Imbalances in the Passenger Segment :

The financial sustainability of Indian Railways is severely undermined by the persistent losses incurred in the passenger segment. The universal subsidization of passenger fares, without differentiation based on economic status, has led to operational expenditures far exceeding revenue collections. The Rakesh Mohan Committee (2001) and the Anil Kakodkar Committee (2012) both highlighted the need to rationalize fares to reflect market realities. However, successive governments have refrained from implementing pricing reforms due to electoral considerations.

This unsustainable fare structure has resulted in overcrowded trains, poor service quality, and deteriorating infrastructure. Over-reliance on freight revenues to cross-subsidize passenger losses has further weakened Indian Railways' competitiveness in the logistics sector. A more pragmatic approach would involve selective subsidization, wherein lower-income groups continue to receive financial assistance, while wealthier passengers pay market rates. Such a framework would not only alleviate financial stress but also enable reinvestment in modernizing rolling stock, enhancing safety measures, and improving passenger experience.

Freight Inefficiencies and the Need for Logistics Modernization :

The freight operations of Indian Railways are largely dependent on bulk commodities such as coal and steel, which constitute over 60% of total freight revenue. This heavy reliance on a limited set of commodities has prevented Indian Railways from expanding into high-value freight segments such as retail goods, automobiles, and fast-moving consumer goods (FMCGs). The road transport sector continues to dominate these industries due to faster and more predictable delivery timelines, despite higher costs.

Freight inefficiencies are further exacerbated by severe congestion on railway routes, with many corridors operating at over 100% of their designed capacity. The sluggish implementation of dedicated freight corridors has only compounded these challenges, leading to average freight train speeds dropping to 36-40 kmph, significantly below the optimal 75 kmph. The National Rail Plan (2020) has proposed the construction of multi-lane tracks and integrated freight terminals, yet these reforms remain inadequately executed due to financial constraints and bureaucratic inertia. Without urgent intervention, Indian Railways will continue to lose its competitive edge in the freight segment.

Over-Reliance on Borrowings and Its Long-Term Consequences :

Indian Railways' reliance on external borrowings to finance capital investments has resulted in mounting financial liabilities. Since 2017-18, less than 5% of infrastructure expansion projects have been funded through internal revenue, with the majority of investments being financed through loans and government budgetary support. This excessive borrowing has led to an escalating interest burden, which consumed 8% of revenue receipts in the 2024-25 fiscal year.

The mismanagement of borrowed funds further exacerbates fiscal instability. A report by the Comptroller and Auditor General (CAG) highlighted an ₹834 crore loss incurred due to interest payments on loans for unexecuted projects. Additionally, irregularities in the awarding of contracts and the bypassing of qualification criteria have led to financial wastage, highlighting the need for stricter financial oversight and accountability measures.

Conclusion :

Indian Railways stands at a crossroads, facing a crisis of governance, financial instability, and operational inefficiencies. The failure to implement key reforms, such as the establishment of an independent regulator, decentralization of decision-making, rationalization of passenger fares, modernization of freight logistics, and improved financial planning, continues to stifle its growth. Drawing from international best practices, India must institute a comprehensive reform strategy to address these systemic issues. Without decisive action, Indian Railways risks further inefficiencies that could jeopardize its long-term sustainability and economic viability.

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