The Status of Transport in Sri Lanka
The transport sector in Sri Lanka has not seen the required qualitative development to provide for the competitive markets of the modern world—especially as demanded by the commercial and industrial sectors. While many issues can be raised in this regard, two that have direct bearing to this topic of this paper are (a) the growing traffic congestion and (b) the rising cost of transport compared to other inputs. Sri Lanka being one of the densely populated countries in the world is most suited for an efficient and cost-effective public transport system. In fact its cities and regions can only cope with limited amounts of private vehicles as observed\(^1\). However, the deteriorating quality of service offered by public transport as against increasing comfort of private transport has seen increasing numbers use private vehicles. These use up the limited road space in urban areas and contribute highly to congestion valued at over Rs 20 billion today. The overall cost of transport is seen to increase sharply with the deteriorating public transport and increasing traffic congestion\(^2\).

The Status of the Public Transport Services
The land transport sector in Sri Lanka is estimated to consume economic inputs of over Rs. 110 billion annually. Of this, the public transport services account for nearly Rs. 40 billion. The bus sector, which transports around 70 percent of all passengers, has inputs valued at around Rs 32 billion of which the State Owned Regional Transport Companies (RTCs) provide around 35 percent of the service. The inputs required for the present railway services are valued at around Rs 8 billion. The State Support for the bus sector is through its grants given to the Regional Transport Companies. These amounts to around Rs 2-3 billion in terms of new buses, salary short fall payments and subsidy for the operation of uneconomic rural routes. The railway on the other hand has had to be supported by the State by an amount of around Rs. 5 billion per annum. On a percentage scale the State Bus Sector is presently subsidized by around 20-25 percent. It is less than in countries say in Europe, where bus sector subsidies range between 30 (U.K.) to 80 percent (Sweden) of costs.

Who should Provide Bus Services?
In a number of cities worldwide, bus companies are funded and owned partly by public authorities and partly by private enterprises. Usually both such State and private companies operate under a contract with a government ministry. The government’s obligations are to approve timely fare increases in line with rising costs and to provide a subsidy for unremunerative services or ‘concessionairy’ fares. It is also responsible for planning studies and preparing routes and services for contracting out. On its part, the companies finance and supply the rolling stock and are required to operate a specified quantity of bus trips to meet agreed performance (quality) targets.

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**Why we need the Privately Operated Bus Services?**

1. When scope of the demand for bus transport is extensive and the State is not able (or willing) to provide adequate (a) investment or (b) management supervision or (c) both in order to offer the required quality and quantity of bus services demanded.

2. To reduce the risk of a potential (particularly sudden) discontinuity of all bus services (the dominant mode of transport in Sri Lanka) due to trade union action when bus services are operated by a State agency.

3. To bring about innovation, marketing and risk taking that is necessary to systematically improve bus services, for which the private sector is better equipped.

**Do we have a responsible and competent Private Sector?**

The entry of the private sector into the bus industry has seen mixed results over the last 25 years. On the credit side, they have made large investments (though mostly by single bus owners as opposed to corporate bodies), they have also responded to the introduction of higher quality (air-conditioned) services and new services. On the negative side, reliability of services has deteriorated, idling of buses at terminals and stops have increased, accident-risk factors have increased, productivity of crew and buses have decreased. These factors have combined to cause sharp increases in over loading of buses as fares have been fixed. Fares in real terms have not come down with increased competition, as opposed to quality of service that has deteriorated as measured by most indicators. These issues have been recently analyzed and well documented. Clearly the benefits of the private sector investment and management of services has not brought the desired result as is obvious to the bus passenger today. In addition the private sector entry has fragmented the integration of the bus network and transfers have become difficult.

The services provided by the single bus private operator has clearly demonstrated that they would only operate when and where it is profitable to do so. As such the routes and times of the day when it is not financially remunerative are not operated. The regulator is unable to enforce a timetable and this has resulted in severe wide ranging consequences in constraining the mobility of labor, distorting land use development, and abandonment of rural areas.

Generally, and for a few exceptions, it could be held that the private sector has failed to provide the quality of service that has been expected from it. Although regulated fares, and the single bus ownership have been the most quoted reasons for this state of affairs, recent study and documentation reveals that a host of regulatory lapses are in fact the primary cause of this situation.

**Can Companies Make a Difference Today?**

The last 25 years of private bus operations has seen a number of formal companies entering and leaving the industry. It has and still is composed mostly by single-bus owners and a few bus operators having up to five or six buses. The present manner in which the industry operates does not provide the economies of scale for larger operators. It is only by employing bus-crews for illegally long hours, denying them EPF, and the crews themselves resorting to breaking all the rules required for the safe and courteous carriage of passengers and making a host of illegal payments that they continue to exist.

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4 *Ibid*
and to compete with one another. Formal cooperative entities have not been able to resort to such practices and have quickly left the industry.

The RTC’s are today the only reputed corporate bus operator in the industry. Even though the NTC Act stipulates that from March 2003, onwards only companies having 50 buses or more would be granted operating permits, the formation of companies has been slow and by and large they remain as associations and cooperatives even though calling themselves companies. This situation if unchanged will not attract reputed companies in to the bus industry. And even if the RTCs are made into PPPs, it is extremely unlikely that bus operations would improve. It is therefore a pre-requisite that the presently oppressive and wasteful climate for bus operation be changed to provide a opening for high-profile companies to enter the market and to provide qualitatively improved services. This should be done mostly through strengthening the regulation.

Can Subsidies be Eliminated from Public Transport?
No country has an effective bus or rail service that is entirely free of State subsidy. Subsidy is often used quite productively, in order to influence other parameters such as urban traffic congestion, urban sprawl, rural development, mobility for the ultra poor and the social upliftment of under developed areas. There is the need therefore to determine the level of subsidy and the targeted benefits for such subsidies in a new transport regulatory framework for Sri Lanka. In this respect it is reasonable to question if the government’s subsidy given to the State sector (RTCs) has been well targeted and if the desired benefits have materialized as a result of those subsidies. Some independent studies show that most of these subsidies are considered as a part of general subsidy to the RTCs and that they do not consider them as been given for specific targeted un-remunerative services. Furthermore the non-existence of methods of subsidy computation and monitoring methods have not allowed wide scale extension of these subsidies to the private sector operators.

What is the Role of the Regulator Today?
The weakest link in the industry today is the Regulator. The National Transport Commission set up on 1991 has had most of its senior staff from the CTB. It has largely been functioning as a permit issuing office and has not grown in to the role of a regulator of the industry. It does not as yet have a mechanism or data to determine supply levels, fare levels or routing and scheduling of buses. Since the national agency has not progressed, the provincial regulators have also not developed. Thus most of the bus routes today are over-priced and consequently over supplied or they are under-priced and consequently under supplied. Moreover, even though the system of issuing annual permits has been found to be quite unsatisfactory for most routes, other methods such as franchising, tendering or contracting have not been even investigated by the NTC. Even though credit should be given to some Provincial Councils for experimenting on some of these.

Why an Effective Regulator for Bus Transport is needed?
This function may be described as a means of imposing a framework of public control over private operations.

1. To manage the supply of buses in order to ensure that the most efficient utilisation of resources is achieved. This efficiency can then be transferred to the passenger through lower fares and higher quality and to the operator through the creation of a more stable environment for growth and continuity of the industry. Inadequate supply (widely experienced towards the end period of the era of nationalised bus transport) is characterized by rampant overloading, unreliable services, aging fleet with regular breakdowns and conspicuous disregard for passenger needs. On the other hand, oversupply (as seen on most routes today) also has similar characteristics namely, the ‘restriction of supply’ leading to the accumulation of buses at terminals, ‘anti-competitive’ behavior between operators, socially unacceptable practices such
as inflated fares, lingering at halts, systematic overloading and also ‘predatory’ practices such as speeding between halts.

2. To ensure the **qualitative continuity of non-profitable services** which if left entirely to market forces would result in their neglect, especially the rural and poor communities and the ‘late-night’ and ‘early-morning’ services on even the generally profitable routes. The present freedom to withdraw from such services (without penalty) and provide only profitable services has caused major social distress, the burden of which, the State bus sector has been called upon to bear.

3. To maintain the service parameters between ‘**quality and fare**’ by studying and negotiating a fares policy, standards and operating costs of services and any levels of subsidy payable for specific services needed for providing external socioeconomic benefits.

4. To ensure that there are **no barriers to entry of bus operators** created by either the State or private sector through monopolistic behavior and other unethical practices.

5. To systematically plan and **develop the bus service as a network of services and routes**, integrated to each other and to all other modes of transport and to be responsive to the constant changes brought about by the progress of technological innovation, land use development, social mobility and economic conditions.

6. To **protect the rights of the bus passenger**, by formulating regulations and continuously improving them and by investigating complaints made by passengers and taking action against violations of rules and regulations by operators.

**The Requirements for Bus Sector Reforms in Sri Lanka.**

In order to bring about reforms in the bus sector in order to bring about an immediate and direct impact on the quality of bus transport, it is essential that the following activities be completed.

1. **Set up a Strong and Effective Regulator** who will determine the best routing of bus services according to passenger demands, identification of service quality levels and costing of such, stipulating industry norms relating to safety, training and vehicle conditions and a number of other essential features of bus regulation should be developed and used in the management of the bus industry. The private sector will not perform any of these and it is up to the State to have these in hand so that services can be procured as is required by the public.

2. **Determine the Methods of Service Procurement and Costing of Services.** Different countries employ different methods of securing the services of public and private operators for bus passenger transport. Even though according to the NTC Act, companies are to be formed by March 2003, no studies have been done or even discussions held or expertise sought, on what methods of service procurement should be employed. The continuation of the status quo is seen by many as leading to complication of problems under the company structure- a virtual ‘leaping from the frying pan to the fire’. Moreover, the costing of different types of services has to be formalized. This is a basic requirement before applying any fare revision or fare deregulation. Fares need to be set at measurable levels of quality and as such the regulator should be well aware of cost inputs and at different levels in quality of service if a service based on value for fare is to be provided.

3. **Develop Criteria for State Subsidy and basis for Allocation.** The present subsidy allocations are made only to the RTC’s. While these are considered essential to maintain
social development, economic growth and equity it is necessary to develop criterion especially quantifiable outputs on which payments can be made. It is also essential to develop transparent methods whereby the private sector companies (including the RTC’s under PPP) can offer to provide such services and qualify for subsidy payments. It is also necessary to investigate what proportion of the subsidies should be internally cross-subsidized (for instance between profitable and non-profitable routes) and what levels of fares are affordable to the society to charge actual costs.

4. **Set up a legal framework for setting up a transport sector regulator.** The NTC’s regulatory powers is limited to bus transport. The powers should be expanded to ensure ability to stipulate minimum operating and safety conditions and tariff regimes throughout the country. It should also be integrated with other modes of transport particularly, railway and urban transport. It would be necessary to ensure that an agency, which is legally empowered, and equipped with the correct staff, is in place.

**Possible Models for Developing Bus Operations**

In order to improve the quality of both the State run services and the privately operated services, it is necessary to consider which of the following models used in other countries are most appropriate for managing bus passenger services in Sri Lanka.

A. **Permit System,** (which is presently in practice in Sri Lanka) becomes unwieldy when there are many operators. It is best as a self-regulatory system, where the State sector operator is the dominant operator and a selected few services are given to private operators. The permit system began in Sri Lanka under such a condition, but has long outlived its appropriate use as a system with a large number of private sector operations cannot be effectively monitored under the Permit System. Permits are usually renewable between 1 to 3 years and not cancelled unless the conditions are found to be violated. There is no competition for permits as it is issued on demand or in order of application. It breeds corruption when there are more applicants than there are vacancies for buses on routes and hence over supply occurs.

Applications: Sri Lanka

B. **Supervised Competition through Route Associations:** In most third world countries, there are operators route associations, operator’s unions or cooperatives. In addition to providing miscellaneous services to their members, these organizations often exercise a degree of supervision and control that provides an improvement from a complete free for all (under the permit system). However, these unions should be ‘democratic’ and business oriented in order to achieve such goals. Steps should be taken to prevent a few influential operators from taking office and exploiting the system for their own advantage (e.g. Private Omnibus Associations that were disbanded in the 1990s).

*Example:* In the case of Buenos Aires, a total of 15,000 private buses are formed into around 300 route associations. The owners are responsible for operating and maintaining their vehicles, while the route associations assume responsibility for scheduling bus services. They provide their members with administrative and legal advice. Since government fixes bus fares, the unions also negotiate fare increases with the government. In most cases, the owners keep the fares collected but the union ensures equitable earnings by interchanging routes and schedules on a weekly basis.

*Suitability for Sri Lanka:* The enactment under the Amendment to the NTC Act of 1996, to form ‘Minimum Fleet Organizations’ (MFO’s) by the year 2003, is a step in this direction.
However, this system can be successful only if the regulator can correctly identify and prescribe the operating conditions and extent of services required for each route. Permits or Contracts maybe issued to each route association. The route association is then expected to manage the required scheduling of services internally. It is anticipated that the MFO’s can be sufficiently ‘professional’ to perform these functions. There are however problems in this method too. There have been doubts that just an informal grouping of operators would not be sufficient to introduce a corporate style of management. There is also the possibility that these MFO’s that would be essentially ‘route-based’, would later make claims for indefinite and continuing rights for providing services on that particular route, thus leading to a possible return to the pre-nationalized era of private buses. The response from the private sector to forming MFO’s has been very lukewarm to date and does not offer much hope for success in the future, unless other regulatory mechanisms and industrial re-structuring takes place in parallel.

Applications: Caracas, Istanbul, Manila.

C. **Route Franchising (also known as Transport Provision Contracts –TPC’s)** this method uses dynamic market forces to secure the supply of bus passenger services at a competitive price. In this method, a route or particular services on a route or even all services in a region could be tendered periodically. The quality of service is pre-defined and maximum fare collectable is stated. In this system, both the operator and regulator should do market surveys to submit and evaluate tenders. This method has an in-built mechanism to deal with unremunerative services. It does however require the regulator to study each route, its required services and the specification of standards. Most importantly, for this method to succeed, the regulator should possess the required technical and legal strength. In this system, the private and public companies may be allowed to compete with each other for these tenders.

Applications: London, Other areas of UK (unremunerative services only), Costa Rica, New Zealand.

Suitability for Sri Lanka: Sorting out the competition between the State and Private sector may remain a problem. Large routes may require the creation of large companies that will in turn create monopolies. There would be enormous pressure on the regulator to keep a particular operator in service even if he is performing well below par. Can be successful only if a strong and independent regulator is set up who will plan and manage the bus industry on professional lines.

D. **Market Partitioning**: In this approach, the industry may be partitioned in to smaller (and more manageable) segments. For example, bus services may be partitioned in to (a) Basic Services and (b) Premium (Value Added) Services. The first group consists of basic bus services at the regulated fares so that each route is ensured of a basic level of service at an affordable fare. The second category comprises those services wherein services are customized for particular market needs and priced at a premium according to the market demand. These services could extend to several class categories such as luxury air-conditioned services, services where seating could be reserved, to school services and to special services for office and factory workers.

Applications: Dakar, Hong Kong, Bangkok

In this system, competition is maintained between regulated (low fares) and the higher quality at premium fares. The basic priced system in order to remain in business has to ensure that
they provide as much quality as they can in order not to lose passengers to the premium services. On the other hand, the customized services will have to improve their services and charges reasonable fares in order to maintain a sizeable market share.

**Suitability for Sri Lanka:** This approach is considered suitable and is broadly what has been recommended in the Bus Transport Policy. This has the advantage of reserving the ‘basic bus service’ for the State bus operator/s and encouraging the private sector to enter customized and/or contracted services under the TPC’s. There are distinct quality parameters when services on a given route are offered by a single operator. It is expected that at least 30% of the market may be thus contracted.

What appears most appropriate for Sri Lanka may be to use methods B, C and D, i.e. route associations, route franchising and market partitioning simultaneously. For example, the best form of managing a complex route arrangement would be to franchise routes. Routes that require 3 to 30 buses for operations could be served by a single operator. However, routes that have over 30 buses, may be best managed by market partitioning prior to franchising. That is, value added services such as luxury or semi-luxury could be separated from the normal services and both services franchised separately. There would then be the competition between quality and cost as well. On the other hand, routes that have very low requirements say of less than 3 buses, may be operated by route associations to whom they could be franchised.