LESSONS IN OWNERSHIP, REGULATION & MANAGEMENT FROM 100 YEARS OF BUS TRANSPORT IN SRI LANKA

Amal S. Kumarage, Professor of Civil Engineering, University of Moratuwa, Sri Lanka

M.D.R.P. Jayaratne
Treadbo 10
Hamilton Island, Australia

14th August 2007
Sri Lanka- Fact Sheet

• Demographics
  – Population 19 million
  – Population Density 300 persons/sq km.

• Modal Shares
  – Public Transport Share -73%
  – Bus Share -68%
  – Average Fare- 1.2 cents US/km

• Traffic
  – Passenger Kms – 62 billion kms annually
  – Passenger trips – 15.5 million trips/day

• Operators
  – State 1 company 4,500 buses
  – Private 18,000+ buses among 15,000 operators
Development of Bus Transport

- The 100 year old history of omnibus transport in Sri Lanka has seen four periods of distinctly different service provision in terms of ownership, management and regulatory structures.

- These four periods are identified as:
  - Formative Years of Unregulated Competition: 1907 to 1938
  - Period of Consolidation under Regulated Private Monopolies: 1939 to 1957
  - Period of Expansion under a Nationalized State Monopoly: 1958 to 1978
  - Period under Regulated Mixed Competition: 1979 to date
The early type of bus introduced in 1907 had no regulation and the Government enacted the Vehicle Ordinance in 1916 providing for basic regulation of registration of vehicles and drivers.

By 1925, there were around 1,400 buses in operation mostly plying on routes connecting Colombo—the Capital, to provincial centres.

In 1925, a Commission was appointed by the Government to “report on the means of transport already existing and to assist the government to formulate a policy of economic development of the island by road, rail and waterway”.

The outcome led to the creation of the first regulatory institution in the transport sector, the Department of Motor Vehicles in 1928 and the further specification of the registration and insurance of motor vehicles.
Formative Years of Unregulated Competition: 1907 to 1938 (contd.)

- The licensing authority were local authorities which saw buses only as a means of increasing revenue. Thus they issued multiple route licenses to bus owners to operate any route of their choice.

- Thus the first instance of abuse of omnibus regulations can be traced back to a government action.

- Within this environment where the Government’s only interest being revenue earning, buses ran wherever the owners wished.

- Consequently, some routes had excess buses leading to cut-throat competition whereas on other routes there were too few or no buses at all. No timetables were observed and the safety and comfort of passengers was never a priority.
Formative Years of Unregulated Competition: 1907 to 1938 (contd.)

• The conditions of bus services at this time have been described as having intense rivalry and cut-throat competition among operators, unsafe driving practices, assaults, poor vehicle conditions, long working hours for crews, unequal distribution of routes, absence of timetables, lack of passenger comfort and safety etc.

• Moreover there were no qualification for entering the industry and the many entered the business by simply hire purchasing buses which in turn led to the advent of diverse individuals to the industry.

• The Hammond Commission which was set up in 1936 to report on the transport system of the island led to the creation of a dedicated regulator, the Commissioner of Motor Transport through the Motor Car Ordinance No 45 of 1938.
<table>
<thead>
<tr>
<th>Year</th>
<th>Regulatory Intervention</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>1907</td>
<td>None</td>
<td>Private Sector initiative to commence omnibus services, but develops as owner-operator industry.</td>
</tr>
<tr>
<td>1916</td>
<td>Central Regulation of Drivers &amp; Vehicles</td>
<td></td>
</tr>
<tr>
<td>1928</td>
<td>Regulation on Insurance; Control of Revenue Licenses by Local Authorities</td>
<td>Issue of licenses indiscriminately to maximize revenue. Multiple routes given. Some routes over bussed others neglected. Intense rivalry, accidents, cut-throat fares.</td>
</tr>
<tr>
<td>1938</td>
<td>Central Regulation of Routes Licensing, fixing of fares, working hours for crews, 3rd party insurance, encouraged mergers.</td>
<td>Desired effect was not achieved.</td>
</tr>
</tbody>
</table>
Environment: 1907
Unregulated
Regulation based on increasing Revenue

Result
High investment
Owner Operators
Intense Competition
Low Fares
## Period of Consolidation under Regulated Private Monopolies: 1939 to 1957

<table>
<thead>
<tr>
<th>Year</th>
<th>Regulatory Intervention</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>1942</td>
<td>Territorial Monopolies formulated, standard bus type introduced.</td>
<td>Even though new buses had entered the fleet and the issues pertaining to fares and the rivalry between operators had eased off with these new regulations, the management of these companies did not improve the quality of omnibus operations such as overloading or conditions for workers satisfactorily. There was also a shortage of buses on certain routes. The problem was diagnosed as stemming back to the war years when operating buses became difficult and profits were low, especially since fares were regulated and could not be increased with rising costs.</td>
</tr>
<tr>
<td>1954</td>
<td>Conversion of all companies into Public Liability Companies</td>
<td>Some companies were beginning to fail and services were neglected.</td>
</tr>
</tbody>
</table>
## Period of Consolidation under Regulated Private Monopolies: 1939 to 1957

<table>
<thead>
<tr>
<th>Year</th>
<th>Regulatory Intervention</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td>After study of SoEs in India, a recommendation made to form a public-private company. This corporation was to be set up using buses of 34 companies that had failed. The share holding was to be 50% by the State, 25% by the operators who had handed over their routes and buses and 25% contribution by the general public. The Minister of Transport was to be the appointing authority for the Board of Directors.</td>
<td>However new government elected on policy of nationalization before these recommendations could be implemented.</td>
</tr>
<tr>
<td>1956</td>
<td>Recommendation made was ‘to nationalize bus services in Ceylon’ and warned that ‘too rapid a development can prove to be disastrous and recommend it to be spread over 6 to 8 years’.</td>
<td>All buses nationalized as part of a political statement on 1st January 1958.</td>
</tr>
</tbody>
</table>
• The Hammond Commission report recommended central registration, licensing, the fixing of rates and fares, limiting working hours of drivers, third party insurance and encouraged merger scheme for operators.

• Even though there was some stability in the granting of route licenses during the period 1939 to 1941, these measures did not address the core problems of the bus industry and Mr S.W. Nelson was appointed to reorganize the transport system in the entire island.

• This led to the first ever legislation specifically addressing bus transport in the form of the Omnibus Service Licensing Ordinance No 47 of 1942, creating controlled territorial monopolies as a measure to stem rivalry.

• This also instituted Route Licensing for bus operations.
The criterion adopted for fares fixing was that bus transport is ‘a public utility where service should be the guiding motive rather than profit’. However it was held that an adequate return on investment should be allowed to ensure that an efficient service is provided.

The Government also considered the affordability and per capita income of the travelling public and stated that ‘bus fares should not be allowed to increase unduly the heavy cost of living’.

They also made an observation that ‘the result of such increase may well be that total gross revenue under a higher fare may be lower than those under a low fare’.

The Government also considered load factors stressing that the average load on routes operated by a person should be reasonably high to ensure financial viability.
Period of Consolidation under Regulated Private Monopolies: 1939 to 1957 (contd.)

- In the meanwhile, the Ratnam Report completed in 1949, recommended converting all bus operations into public limited liability companies and various other measures were incorporated into the Motor Traffic Act 14 of 1951.

- Moreover, bus companies were required to form themselves into public companies before the 1st of January 1954.

- The highest growth in private omnibus operations appears to have occurred after World War II which saw a 70% increase in the bus fleet over 5 years.

- As a result, the new regulations came at a time when many companies were making good profit margins. It had been observed that some companies made substantial profit as illustrated by one operator who had shown a 100% profit.
Period of Consolidation under Regulated Private Monopolies: 1939 to 1957 (contd.)

- However, even though new buses had entered the fleet and the issues pertaining to fares and the rivalry between operators had eased off with these new regulations, the management of these companies did not improve the quality of omnibus operations such as overloading or conditions for workers satisfactorily; the Sansoni Commission was appointed in 1954, to resolve the yet unsatisfactory condition of the omnibus services.

- This time the problem was identified as a shortage of buses on certain routes. The problem was diagnosed as stemming back to the war years when operating buses became difficult and profits were low, especially since fares were regulated and could not be increased with rising costs.

- This did not allow for some operators to replenish their fleets with new buses. The problem arose in the post war years, when with the resurgence of the economy, the number of passengers increased by 100% over three years.
The Sansoni Commission recommend a state-sponsored corporation similar to what they had seen in Bangalore. The Commission concluded that ‘having studied the set-up of the Bangalore Transport Corporation and we found that a State Corporation, if worked in the right spirit, can offer an efficient transport system to the travelling public’.

The committee in its report published in February 1955, addressed the growing impact of congestion and inefficient use of road space and suggested that bus services in Colombo and its suburbs be run by a Colombo Transport Corporation formed by both Government and private capital.

This corporation was to be initially set up using buses of 34 companies that had failed to become viable. The share holding was to be 50% by the State, 25% by the operators who had handed over their routes and buses and 25% contribution by the general public. The Minister of Transport was to be the appointing authority for the Board of Directors.
Period of Consolidation under Regulated Private Monopolies: 1939 to 1957 (contd.)

- However before these recommendations could be implemented, there was a change of government and the new government which had declared a policy of nationalization proceeded to nationalize the entire bus services.

- By April 1956 there were about 80 companies operating around 1,200 routes covering 21,000 miles. The schedule bus mileage was 275,000 miles per day, operated by a licensed strength of 2,071 buses.

- A Sessional Paper published in August 1956 investigated the operational aspects of ‘the decision to nationalize bus services in Ceylon’. It did however warn that ‘too rapid a development can prove to be disastrous and recommend it to be spread over 6 to 8 years’.

- It cited the time required to build up operational and technical experience and also to find and train personnel as a reason for doing this over a period. This paper sets out the format which eventually led to the Ceylon Transport Board Act. It did however also recommend an upward revision in the fares along with the rectification of the anomalies that existed between operators.

- However, with the passing of the Ceylon Transport Board Act No. 48 of 1957 on 24th September 1957, the Central Transport Board was created and began operations with around 1,000 buses on 1st January 1958. The Government opted for a more politically oriented course of action and nationalized all bus operations across the island overnight.
Regulation and Industry Status
(1907 – 1957)

Environment 1907
Unregulated
Regulation based on increasing Revenue

Result
High investment
Owner Operators
Intense Competition
Low Fares

Environment 1938
Route Licensing
Territorial
Monopolies
Fare Control
Bus Companies

Result
Exploitation of Workers
Poor Service Quality by
Failing Companies
Others make High Profits
### Period of Expansion under a Nationalized State Monopoly: 1958 to 1978

<table>
<thead>
<tr>
<th>Year</th>
<th>Regulatory Intervention</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>1958</td>
<td>All bus operations nationalized and single State Owned Monopoly CTB created. Bus transport considered as a welfare measure.</td>
<td>Technical efficiencies gained but management gradually deteriorates due to politicisation, fares are not increased in line with costs, lack of re-investments. Overcrowding, breakdowns &amp; public dissatisfaction increase by 1970s. It was the world’s largest publicly owned bus organization operating 6,000 buses with 60,000 employees.</td>
</tr>
<tr>
<td>1978</td>
<td>New Govt elected in 1977 decentralises State Monopoly to regional monopolies.</td>
<td>State operator unable to handle competition and private sector develops without a regulatory body evolving as an industry of owner-operators buses.</td>
</tr>
<tr>
<td>1979</td>
<td>Private operators allowed providing services on selected routes. No regulation in place.</td>
<td></td>
</tr>
</tbody>
</table>
Period of Expansion under a Nationalized State Monopoly: 1958 to 1978 (Contd.)

- In its early years, the emphasis for the Ceylon Transport Board (CTB) managed as a State agency, was to develop its management and operational competence.

- The first decade of the CTB saw the resulting development of high standards of professionalism, crew training and discipline, vehicle fitness and safety. This in turn led to improvements in a number of operational features such as increased vehicle utilization; improvement of worker rights and welfare measures; increase of financial self-sufficiency etc.

- However, this operational success of a nationalized venture soon became a socio-political tool pursued by successive governments. The implicit ‘bus transport policy’ that evolved in its wake was characterized by:
  - Ensuring low fares based on the primary criterion of affordability to the passenger rather than financial viability of the operator as an agency (or institution);
  - Provision of rural accessibility, even though such services were unremunerative to operate and
  - Provision of concessionary travel to students without fully reimbursing the operator
The technical efficiency coupled with the wave of public opinion and political support following these populist measures, enabled the CTB to grow to be one of the world’s largest publicly owned bus transport organizations by 1978, operating nearly 6,000 buses per day, with nearly 60,000 employees.

However, the welfare-oriented development policies under which the bus services were operated did not increase incomes on par with the rising cost of providing quality bus services. Consequently, keeping bus fares at affordable levels was considered more important that ensuring the long-term viability of the bus services.

Moreover, the tide of public opinion was beginning to turn against the CTB, when was there were increasing vehicle breakdowns, insufficient capacity, wild cat strikes led by powerful and politically aligned trade unions and lack of general reliability in the services. Moreover, its continuity as a State organization had led to frequent political interference, apparent loss of authority and decline in initiative taking by management, trade union volatility and wastage of public resources.
Regulation and Industry Status
(1907 – 1978)

Environment 1907
Unregulated
Regulation based on increasing Revenue

Environment 1938
Route Licensing
Territorial
Monopolies
Fare Control
Bus Companies

Environment 1958
Nationalized Monopoly
Single State Operator

Result
High investment
Owner Operators
Intense Competition
Low Fares

Result
Exploitation of Workers
Poor Service Quality by Failing Companies
Others make High Profits

Result
Poor Reinvestment
Low Fares
Quality Improves then Declines
Low Labour Productivity

Result
Exploitation of Workers
Poor Service Quality by Failing Companies
Others make High Profits

Result
Poor Reinvestment
Low Fares
Quality Improves then Declines
Low Labour Productivity
### Period under Regulated Mixed Competition: 1979 to date

<table>
<thead>
<tr>
<th>Year</th>
<th>Regulatory Intervention</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983</td>
<td>Department of Private Omnibus Transport commenced to regulate the private buses. State buses continue to operate as an unregulated monopoly.</td>
<td>But new department shies away from implementation of regulations since it is held that the ministry should not be directly concerned in the implementation and the administration of its own decisions and policies</td>
</tr>
<tr>
<td>1983</td>
<td>Creation of District Operators Associations provided with wide ranging powers such as to set time tables, fix fares, supervise crews, check tickets &amp; monitor operations</td>
<td>Since these were elected bodies, without much supervision abuse of power took place and standards declines, routes became over bussed.</td>
</tr>
<tr>
<td>1990</td>
<td>District Association dissolved on corruption charges.</td>
<td>Department takes over regulating functions.</td>
</tr>
</tbody>
</table>
Period under Regulated Mixed Competition:
1979 to date (Contd.)

- In the post-liberalization era that followed the election of a new government in 1977, two alternative proposals were considered to address the problems in the CTB.
  - To expand the state monopoly by increasing the number of buses and making roadworthy the existing buses.
  - To wind up the services as a state monopoly and to permit private operators.

- Due to previous experiences with both these options, the government in 1981 appointed a committee to inquire into and report on the manner in which the private omnibus industry should be regulated.

- The report published in May 1982, sets out the recommendation to permit private bus owners to operate regular bus services on all routes parallel to the services operated by the state operator in all parts of the country. This decision was given effect to not by way of required legislative amendments but administratively.
Moreover the Committee recommended that 24 district based operator associations be formed so that any person holding a permit could become a member of the said District Association.

These associations where office bearers were to be entirely elected by the membership were given regulatory powers including the formulation of timetables, fixing fares and monitoring of fares levied, ensure roadworthiness of vehicles, appointment of time keepers, ticket checkers and to collect fees from members for the conduct of the work of the associations.

It also recommended the creation of a Department of Omnibus Transport to issue route permits in consultation with the District Associations, to lay down maximum fares and to supervise the District Associations and National Federation, including the power to remove an office bearer from office.

The recommendation was on the lines that ‘the Committee did not consider desirable that the Ministry should be directly concerned in the implementation and the administration of its own decisions and policies.’
Period under Regulated Mixed Competition:
1979 to date (Contd.)

- With the enactment of the Private Omnibuses Services Act No 44 of 1983, a Department of Private Omnibus Transport was established on 23rd December 1983. The functions of this department were basically to run a parallel service to the SLTB and to adopt the same policies as those of the SLTB in operational practices.

- The report concluded that ‘the history of omnibus transport in Sri Lanka draws the conclusion that a state sector monopoly is as detrimental to the economic and social progress of the country as a private sector monopoly’. They concluded that each operator should have a stipulated origin and destination and route of operation and that such a permit should not be transferable.
### Period under Regulated Mixed Competition:
**1979 to date**

<table>
<thead>
<tr>
<th>Year</th>
<th>Regulatory Intervention</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>Creation of National Transport Commission followed by provincial regulators under devolution or transport to provinces. Minister to issue directions to regulator. NTC Act requires for State to withdraw from bus operations</td>
<td>Regulators pre-occupied with revenue generation as opposed to sector development. Regulators become socio-political rather than economic or sector development oriented. Government continues as an operator due to public displeasure with private operators.</td>
</tr>
<tr>
<td>1994</td>
<td>State officially begins withdrawal from bus operations by giving 50% share of its depots to employees making each depot a company. Depots agglomerated into regional companies in 1996.</td>
<td>Companies unable to provide management expertise to compete with private sector. Discards standards maintained during State Monopoly operations. Management weakens Trade Unions dominate.</td>
</tr>
<tr>
<td>2005</td>
<td>State mergers the companies to make a single SOE the SLTB.</td>
<td>Operational losses have been reduced, but yet to show improvements</td>
</tr>
</tbody>
</table>
Regulation and Industry Status
(1907 – 2006)

**Environment: 1907**
Unregulated
Regulation based on increasing Revenue

**Result**
Poor Reinvestment
Low Fares
Quality Improves then Declines
Low Labour Productivity

**Environment: 1938**
Route Licensing
Territorial Monopolies
Fare Control
Bus Companies

**Result**
Exploitation of Workers
Poor Service Quality by Failing Companies
Others make High Profits

**Environment: 1958**
Nationalized Monopoly
Single State Operator

**Result**
Exploitation of Workers
Poor Service Quality by Failing Companies
Others make High Profits

**Environment: 1979**
Mixed State & Private Operators
Poor Regulation

**Result**
Owner Operators
Standards Decline
High Investment → Oversupply
Collusive Behaviour
High Load Factors

Environment (1907 – 2006)

Environment: 1907
Unregulated
Regulation based on increasing Revenue

**Result**
Poor Reinvestment
Low Fares
Quality Improves then Declines
Low Labour Productivity
Growth of Bus Fleet and Traffic

- Total Passengers (mn)
- Total Buses Operated

- Unregulated Competition
- Territorial Monopolies
- Nationalized Monopoly
- Mixed Competition
### Summary of Control of Fares (1907-2007)

<table>
<thead>
<tr>
<th>Year</th>
<th>State Control</th>
<th>Industry Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1907</td>
<td>No Controls</td>
<td>High fares</td>
</tr>
<tr>
<td>1938</td>
<td>Regulations for fare control instituted</td>
<td>Not implemented or enforced</td>
</tr>
<tr>
<td>1940</td>
<td>Government introduces minimum fares for buses in order to <em>protect the railways</em>.</td>
<td>Though government imposes minimum fares, mostly observed in the breach.</td>
</tr>
<tr>
<td>1948</td>
<td>Government considers bus transport is a public utility and service rather and that profit should not be the motivation.</td>
<td>In consultation with operators, fixed max. fare levels in order <em>to protect bus operators from each other as well as to protect the public</em>. Government policy stated, <em>bus fares should not be allowed to increase unduly the heavy cost of living</em>.</td>
</tr>
<tr>
<td>1953</td>
<td>Fare Revisions given on applications made by operators</td>
<td>Due to post war prosperity, many operators did not even request increases.</td>
</tr>
<tr>
<td>1958</td>
<td>Under nationalization Governments follow affordability based, ‘low fares’ policy.</td>
<td>Ridership increases, but reinvestment low and service conditions, load factors deteriorate.</td>
</tr>
<tr>
<td>1981</td>
<td>After re-introduction of private sector, private bus owners associations leads demand for fare increases.</td>
<td>Associations successful in obtaining favorable increases through strike action. Fare increases become irregular and ad hoc.</td>
</tr>
<tr>
<td>1990</td>
<td>NTC Act remains silent on fare regulation</td>
<td>Government continues regulation indirectly.</td>
</tr>
<tr>
<td>2002</td>
<td>A Fares Policy introduced based on a cost based-formula by which an annual revision is considered.</td>
<td>In force as at present.</td>
</tr>
</tbody>
</table>
Conclusions

- Over the last 100 years, diverse regulatory measures have helped the bus industry in Sri Lanka at different times to deliver external socioeconomic policies.

- However, most regulatory steps have been poorly formulated and have had only limited impact. They have not been sustainable for more than a decade.

- Bus Transport Policy in Sri Lanka since Independence in 1948, has followed political ideologies, such as state operations, welfare measures, equity considerations etc neglecting economic and sustainability criterion.

- Lack of key regulatory measures such as consistent fares policy, investment and ownership policy have not been addressed and solutions developed to address the problems they create have only been cosmetic.

- Regulatory measures have ‘come full circle’ and are threatening to repeat the cycle and head for the same pit falls as before.