A CONCESSION MODEL TO PROMOTE RURAL BUS SERVICES IN SRI LANKA

11TH CONFERENCE ON COMPETITION AND OWNERSHIP IN LAND PASSENGER TRANSPORT
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HISTORY OF RURAL TRANSPORTATION

- Bus Transport in Sri Lanka commenced in 1907. These buses operated by private individuals carried both passengers and goods.

- Even though passenger transportation within and between urban centers steadily improved, it did not extend to rural routes which were only served by bullock cart.

- In 1958, bus services were nationalized and placed under a single state organization – the CTB.

- By the end of 1970s, the per-capita bus usage, supported by a policy of transport as a welfare provision and an efficient bus transport system, was among one of the highest in the world.

- An important element in this was the mobility the state controlled bus service provided to rural areas, which contributed immensely to the relatively low urbanization in Sri Lanka. Currently 70% of population reside in rural areas.
• This was driven politically since the new mobility was sought after by the rural population in much earnest. A large number of such routes were established in the 1960s and 1970s and even though many of them were unprofitable, the CTB being a monopoly state operator was able to cross subsidise these losses with the more remunerative services.

• Though rural transportation considerably improved after the establishment of the CTB, it also experienced a rapid decline with the deterioration of the CTB mainly due to the government policy on low fares, politicisation of management and inability to continue subsidising the loss making services.

• In 1978, with the intention of overcoming these deficiencies the government invited the private sector to invest again in passenger transport.

• However this lead to both private and state sectors vying for the profitable routes and thus all loss making routes and services were neglected.

• Therefore rural bus passenger transport deteriorated completely along with other services such as school and night services.
• In 1989, the government intervened and provided a lump sum subsidy to the state operator to provide routes identified as uneconomic rural routes.

• However, more and more routes were added to this list without an increase in the subsidy thus making subsidy too small to motivate an operator.

• Since it was more viable even for the cash strapped state operator to deploy buses on more lucrative routes, these routes were maintained only with skeleton services just in order to qualify for subsidy payments.

• The services were unreliable and rural communities had to resort to private or para-transit modes of transport in order to attend to even basic travel requirements. There was no audit or regulatory function in the delivery of these services as it was a direct subsidy from the Treasury to the Operator.

• Considering these issues encountered with the rural transport sector, the NTC deployed a “Gami Saeriya” (Village Mobility) project in 2005 to address problems encountered in rural transportation in Sri Lanka.
GAMI SAERIYA PROJECT

- The government in recognition of the wider socioeconomic policy of promoting rural socioeconomic wellbeing and equity based growth has agreed in its policy statement to provide special consideration for transport needs of rural and under developed or developing areas.

- Moreover the proposed National Transport Policy sets out that bus fares will be equitable for all people. The interpretation of this statement is that rural people should not be required to pay more for basic transport services than other citizens elsewhere in the country.

- Such a policy however has implementation problems and becomes unviable since providing bus services in areas which are so sparsely populated that filling a bus for most trips of the day is unlikely. However, not providing such services leads to stagnation of socioeconomic development of such rural areas and migration of people to cities.
• Based on this policy, the National Transport Commission has initiated a compensation scheme for subsiding unremunerated rural bus transport services under a project called “Gami Saeriya”.

• Such compensatory payments are paid on actual delivery of services as stipulated through a contract with the NTC and monitored by a committee of leading citizens of the community to which such services are provided.

• Both the State and private operators are offered such contracts for a period of three years.

• It is expected that communities together with the operator will promote and develop the service sufficiently in order to ensure continuity of services after this period by achieving financial viability without the compensatory payment.

• There are over 200 such concessions that have been awarded and operating successfully to date.
## Gampaha Region - Welisara Depot

### Typical Bus Schedule

**Route No 900/2 - Ragama - Wattala**

<table>
<thead>
<tr>
<th>Route No</th>
<th>Length</th>
<th>Depot</th>
<th>Ragama</th>
<th>Horape</th>
<th>Heenkenda</th>
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- **Interval:** 12.2-13.5
- **Fuel:** 19.4
- **Operation Date:** 1/8/2009
Selection of services

- Community groups, transport sector officials and elected representatives, make requests for new service or for inclusion of existing services, under the Gami Saeriya program.

- The National Transport Commission thereafter conducts a preliminary inquiry to determine if such a route has a demand that justifies a subsidy. The request is denied if near full load factors are found or if households in the community are too few to justify a bus service.

- Moreover, if even a single operating bus exists (without subsidy) on that route, then too the route is rejected at the preliminary level of assessment.

- Another pre-requisite is that the length of the unremunerated route which should be greater than 5 km and more than 50% of the total route length be in a rural area.

- Moreover there should be an adequate demand for at least 3 trips (morning, mid-day, evening) per day for a bus having a minimum seating capacity of over 25 seats. At present the Gami Saeriya program funds only single bus operations.
Selection of Operator

- The NTC adopts (a) competitive bidding and (b) fixed price agreements for the award of negative concessions.

Competitive Bidding

- Competitive Bidding is carried out when it is likely that there will be a high demand for these negative concessions.

- Early attempts to award negative concessions by competitive bidding led to several failures as many operators in an endeavour to obtain a route made very low bids and pulled out of service within a short period.

- Since most bidders are single bus owners, they lack the financial knowledge to make accurate assessments or ability to carry out a sound due diligence study. Hence the failure rate is high.

- Once an operator fails, it becomes much more difficult to attract another operator. This leads to disruption of the service and loss of public confidence in the regulator.
Fixed Rate Agreements

- More success has been achieved with fixed rate agreements, where the NTC determines a concession rate based on a standard bus operating cost formula. Here a standard 25% cost per km is granted as a subsidy.

- This is based on the general observation that most such routes are unable to have load factors of greater than 75% of allowed capacity.

- A maximum of 150 km per bus per day is set and at the current bus operating cost of Rs 70 per km (US 0.65 cents per km) this works out to a subsidy of around Rs 2,635 per bus per day (USD 25).

- Under this scheme option of operating a route is offered first to the CTB and if the right of first refusal is received, the provincial regulator is requested to nominate a suitable operator from the locality.

- If there is competition then it is listed for bidding. Routes based on fixed rates have shown a much higher rate of success as they are offered a reasonable price which allows whoever who takes the contract to succeed. The bus fare charged is the same as for other remunerative routes set by the NTC.
SERVICE DELIVERY

• In either case, the operator has to maintain a set of operating standards in order to qualify for the payment. This includes:
  – Completing at least 90% of the trips scheduled for the month. Zero payments when below 90% and prorated above 90%.
  – Obtaining a certification of operation from the service monitoring committee, which are audited independently by regulator.
  – School children are carried at half rate.
  – The concession is granted for a three year period, during which he is expected to develop rider-ship and make the route financially viable.
  – Furthermore an operator who successfully operates a route and makes it viable within three years will be awarded a further concession for another route in the same area.
COMMUNITY SERVICE MONITORING COMMITTEE (CSMC)

- Once the operator is selected, the NTC appoints a Community Service Monitoring Committee (CSMC) to report the quality of services provided under the Gami Saeriya program.

- The monthly subsidy payment to an operator is processed only on receipt of a report from the CSMC recommending the service and assessment of service provided for the month.

- This monitoring mechanism is found to be a key component in the success of this scheme.

- Since members of the CSMC are usually leading citizens of such communities and have been found not to provide false information as they are liable to be questioned by the other members of the community if services fail.

- In this respect the names and contact details of the members of the CSMC are displayed inside the bus along side the timetable and fare chart and hence all users know whom to complaint to.
(a) Making current socio-economic activities more efficient

- It is observed that once a reliable Gami Saeriya bus service is established, the rural population gradually shifts from their expensive modes of transport to this service with the intention of reducing their transport cost. Basically this leads to an increase in the passenger km carried and revenue in the short-run. Improvements due in the service of short run can be assessed using these parameters.
• The four standings numbered and shown in the figure as O1, O2, O3 and O4 are in the order of service strength.

  – O1- Service has improved up to point of assessment and still is in an improving trend.

  – O2- Service has not improved thus far but currently (just before the assessment i.e. in the short run) indicates an improving trend.

  – O3 - Service has improved thus far but there has been no further improvement in the short run.

  – O4- Service improved thus far, but there is currently a declining trend.
(b) Creating new socio-economic opportunities

• Once the service is operational for a certain period, it induces development resulting from the lower transport costs. This in turn increases the value of rural properties such as lands and buildings in the long run. Travel demand of working and schooling population is among the best representatives of socio-economic enhancements of the region.

• The following Key Performance Indicators (KPI)s along with their short and long term trends are used for assessing the respective socio-economic development due to the Gami Saeriya transport service.
  – Number of persons working outside community
  – Schooling population
  – Average Ridership of community
  – Land value

• The nature of the demand can be assessed by plotting the value of each item on a monthly basis.
• Once a transport service is deployed for a rural area, the transport based socio-economic parameters are also expected to improve.

• The standing S1, S2, S3, and S4 in terms of achievement of pre-defined socio-economic outcomes can be represented as follows:

  • S1- Socio-economic improvements have been observed thus far and it is still found to be improving further.

  • S2- There have been no socio-economic improvement thus far but currently there is an improving trend

  • S3 – There have been socio-economic improvements thus far but there has been no further improvement observed in recent times

  • S4- Socio-economic improvements were observed so-far but it is now in a declining trend
Five Case Studies (from services over 2 years)

• **Route 1: Mirigama- Giriulla**: On this route 5km out of its total length of 15 km is an underserved rural area. Though agriculture is the main livelihood of this area, there are considerable amount of workers who commute daily to town centres. The private operator who has the concession for this route deploys a 30-seater bus providing 5 round trips per day.

• **Route 2: Horowpathana-Ihala Diulwewa**: This service covers a distance of 28 km with 14 km of uneconomical route length at the tail end of the route. Nearly 1500 families reside in these areas and the majority of them are engaged in full time agriculture as their main form of livelihood. The private operator provides 4 round trips per day.

• **Route 3: Puttalam-Saliyawewa**: This service implemented in 2007 is 55.1 km of which 27.7 km portion is considered to be an uneconomical section or route. A lower population density is observed in these villages where agriculture is the major livelihood. The service has 3 round trips and is operated by a private operator selected through competitive bidding process.

• **Route 4: Kebithigollewa-Kapugollewa**: This route covers 26 km of which the last 11 km is considered to be uneconomical. Nearly 2000 families live in this area and the majority of them are engaged in agriculture. This service has 4 round trips per day & is operating since 2006.

• **Route 5: Dambulla-Alakolawewa**: This is operated by the CTB nearing 3 years in its first concessionary period. Total distance of the route is 23.9 km and nearly half of the length is considered to be uneconomical. A lower population density is observable in these villages where agriculture is the major form of livelihood. SLTB operates 4 round trips per day on this route.
Table 1: Standings of Service Viability

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<thead>
<tr>
<th>Route</th>
<th>Short-run</th>
<th>Long-run</th>
<th>Standing</th>
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<tr>
<td>Route 1</td>
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<td>Improved</td>
<td>O1</td>
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<tr>
<td>Route 2</td>
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<td>O2</td>
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<tr>
<td>Route 4</td>
<td>Improved</td>
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<td>S1</td>
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<tr>
<td>Route 2</td>
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<tr>
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<td>Service Viability</td>
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Based on the results in Table 3, Route 3 which is the longest route is considered as being unsuccessful service since it does not demonstrate either a financial viability or an economic benefit. On the other hand Route 1 which is the shortest route has the best results.
Present Status & Future Plans

- Presently around 300 services in operation

- Around 240 estimated to be in O1S1 category

- Govt funding provided to increase to 800 service by end of 2010

- Good response from communities

- State operator reluctant to have minimum level of service criterion for payment.

- Able to separate loss making routes for State operator.

- Around 50% expected to be able to develop route for financial viability.
Conclusions

- Early provision of rural services
- However excessive cross subsidies bring down operator’s financial viability
- Private sector invited without adequate provision for services that are not commercially viable but are socially important
- Lump sum subsidy without service audit did not deliver
- Change in Govt policy towards equity based growth opens opportunity for new service provision
- Gami Saeriya project based on actual outputs, both quantity and quality.
- GS project provides escape from perennial subsidy traps. Annual assessments can be used to identify non-performance routes early.
- Estimated total GS route requirement is around 1,000. Funding required is Rs 1 bn (USD 10 million). This is equal to approximately 2% of total bus revenues.
- Long term funding considered from (a) Regional development or (b) Transport Cross subsidy by increasing by 2% fare levels on all routes.