

Policy Paper 1.1

Corporatisation of MOT Truck and Bus Operations

Executive Summary

The initial, policy-oriented phase of the TSR concluded in April 2003 and included, inter alia, the following recommendations for the Ministry of Transport (MOT):

- *Fully commercialise operations of MOT Kamaz trucks and Millie buses; and*
- *Over time, consider privatisation of MOT Kamaz trucks and, possibly, Millie buses.*

This TSR Policy Paper presents several options for implementation and recommends the preferred approaches. These include:

- For the existing Kamaz agencies, TSR recommends that each of the three Kabul-based agencies be converted to separate government-owned but commercially structured autonomous corporations in Kabul. At an appropriate time in the future, these corporations could be privatised. It is further recommended that MOT's remaining six Kamaz agencies be spun off to the provincial governments where they are currently based, albeit with a strong endorsement that each of these should undergo a similar corporatisation / privatisation evolution at the provincial level.
- For Millie buses, TSR recommends that MOT corporatise its entire fleet as a single company but with a decentralised structure focused on relatively compact depot-centred units. (This approach could also apply to any portion of the fleet deployed outside Kabul.) Subsequently, individual depot cluster(s) could be spun off as separate corporations or private entities.

Recommendations:

It is recommended that corporatisation of the Kamaz agencies and Millie buses be undertaken as recommended above.

Actions:

To initiate the corporatisation, two committees should be established, one for the Kamaz agencies, and one for Millie bus. Donors should be approached to provide Technical Assistance in the amount of USD 1.0 million.

Policy Debate and Recommendation

Over the course of the war years through no fault of its own, MOT lost the resources to perform many of its traditional functions. Consequently, MOT professionals have, for an extended period, had only limited direct involvement in providing transport services. MOT lorries now represent less than one percent of the nation's total, and there are ten times as many private buses as Millie buses in Kabul alone. Donations already in the pipeline (e.g., buses from India and Japan) will not materially change this picture.

Fortunately, the Afghan private sector has traditionally had a very strong presence in the road transport business. It is the view of the TSR that, in principle, commercial transport services should be provided by private entrepreneurs / operators. Certainly, the numbers make it abundantly evident that the Afghan private sector is willing and able to meet the nation's transport needs (trucks, buses and taxis), at least along the major corridors.

Nevertheless, several arguments have been put forward to justify the retention by MOT of its relatively small remaining fleet of vehicles. These are:

- With respect to freight transport (Kamaz), the government should have a minimal capacity to serve at least a portion of its own needs as well as to be able to respond on short notice to emergency situations (e.g., natural disasters).
- Regarding passenger transport, the Millie buses offer some visible evidence that the government is concerned about and is providing services to the individual citizen in the street.
- Furthermore, the availability of publicly-owned MOT buses ensures there will be no market gap whereas private operators, motivated only by the profit motive, may neglect certain low density urban or rural districts to the detriment of the residents therein. (The issue of accessibility is the subject of a separate Consultation Paper.)

The TSR acknowledges the potential validity of these arguments, at least for the near term. At the same time, with respect to both Kamaz Agencies and Millie Bus, the objective must be to avoid spending scarce public resources on rebuilding or continuing enterprises which the private sector within Afghanistan has amply exhibited its ability to handle fully. Therefore, at a minimum, a commitment to authentic commercialisation (through corporatisation) is essential. Thereafter, in the unfortunate event that commercialisation should fail to stem the need for subsidies, a clear exit strategy through outright privatisation should be implemented.

Implementation Strategy and Action Plan for Corporatisation

Kamaz Agencies

In order for the existing Kamaz agencies to operate on a fully commercialised basis wherein all expenses, depreciation, etc., must be covered by their own revenues, it would be necessary that they retain and manage their own earnings. It is presumed that to achieve this degree of autonomy the agencies must be formally transformed into fully corporatised entities albeit still government-owned (similar to Ariana in the air transport sub-sector).

Structural alternatives for the newly created company(ies) include:

- 1) MOT consolidate all Kamaz agencies into a single, nationwide company; or
- 2) MOT corporatise each Kamaz agency separately; or
- 3) MOT corporatise each of the three Kabul-based Kamaz agencies into a separate commercial company (or combine all three into one) and divest the non-Kabul agencies to the various provincial governments where they are based along with an indication of strong preference that they be commercialised through corporatisation.

The first option, a single unified corporation, suffers from the fact that, even were all remaining Kamaz vehicles to be gathered into a single company, they would be too scattered to generate any significant economies of scale. (This assumes they would retain their current provincial basing, consistent with the argument they should be available for emergency response.) Indeed, such a consolidated nationwide corporation would be very difficult to manage. It is not recommended.

The second option, creation of individual corporations, presents substantial difficulties to manage the process due to the range of locations, inventories, conditions and level of available information. It is, therefore, also not recommended.

With the information currently available, the TSR recommends option #3 with creation of three separate Kamaz corporations in Kabul while the remainder are spun off to the provinces where they are currently based.

It is recommended that an ad hoc corporatisation committee be created comprised of representatives of MOT and the Ministries of Commerce, Planning, Finance and Justice to implement corporatisation and that the committee be supported by external Technical Assistance¹. The first task of the committee should be to evaluate the foregoing, and any other, options to determine which approach to implement the policy is preferred. Once

¹ The proposed organisational arrangements for managing this are set out in Consultation Paper 1.7.

this has been agreed, the committee should identify the assets to be transferred and their valuation and should draft the articles of incorporation including clear statements concerning levels of autonomy and future relationships between the corporations and the government. It should also investigate to ascertain whether there exist any conditions attached to the recent gift of Kamaz lorries from the Russian Government which in any way impact on corporatisation. (Any objection is considered unlikely since the vehicles would, through the new public corporations, remain 100 percent the property of MOT.)

Finally, the committee should instruct the intended managers to draft a five-year business plan for each of the new corporations for committee review and approval. (The committee's Technical Assistance can aid and train the managers in this endeavour.) In the plan, these managers, who are presumed to be drawn from MOT and primarily from the existing Kamaz agencies, should identify the number of current agency employees to transfer in order to staff the new corporations. It is important that no more than a commercially sized staff should be assigned to each unit to be corporatised with the rest remaining as Ministry employees, to be retrained as necessary to assume new responsibilities.

The TSR recognises that the problem of surplus employees is one of the most complex issues related to commercialisation. This especially applies to any remaining agency staff in the provinces whom it may prove difficult to transfer elsewhere within MOT. Nevertheless, it is unrealistic to expect the newly corporatised entities to prove successful if they are grossly overstaffed from the outset.

The corporatisation committee should review and comment on and eventually approve the business plan.

In terms of schedule, it is recommended that the Kabul-based Kamaz agencies be fully corporatised in no more than 18 months but ideally sooner.

Millie Bus

The recommended process for commercialising MOT's Millie Bus operations is similar to that for the Kamaz agencies. That is, corporatisation is seen as the best avenue to provide the ability to retain revenues and the autonomy in decision-making necessary to function in a truly commercial manner. It is recognised that public transport may need, in certain instances, to be viewed as a public service which may affect cost recovery pricing. (This is addressed in a separate TSR paper concerning accessibility.) Nevertheless, this situation does not apply universally to all routes. Where it exists it should be clearly identified and addressed in the new corporation's business plan.

It is understood that virtually all of the expanding Millie bus fleet is targeted to remain in Kabul. This affects the range of commercialisation options. Structural alternatives for the newly created company(ies) include:

- 1) MOT corporatise its entire expanding fleet of buses to create a single, hierarchical company; or
- 2) MOT initially corporatise its fleet as a single company but with a decentralised structure focused on relatively compact depot-centred units. (This approach could also apply to any portion of the fleet deployed outside Kabul.)

The TSR paper on accessibility has recommended that consideration be given to adoption of the second option, as subsequently individual depot cluster(s) could be spun off as separate corporations or private entities. The depot-centred approach is described in Annex 1.

Once again, an ad hoc corporatisation committee is recommended. As with the similar committee recommended for the Kamaz corporatisation, MOT, MOP, MOF and MOJ should be represented, but in the case of Millie buses it would be appropriate to add representatives of Kabul municipality also (and of any other city where Millie buses are to be located). The committee's mandate and work program would be similar to that outlined for Kamaz starting with a determination of the preferred approach. In this case, even greater focus on the business plan will be required in light of the relatively small units envisaged under the depot approach. Separate Technical Assistance should be provided².

Staffing issues should be handled as addressed above, and a schedule of completion of no more than 18 months should be targeted.

Implications for MOT of the Commercialisation Recommendation

For MOT, implications of this policy include a substantial reduction of in-house responsibilities as operational units are shifted from the public sector to autonomous commercial corporations. It is important to note that there need not necessarily be a large net loss of jobs under this proposal, although some shifts within and between departments and the newly corporatised organisations would need to occur. The personnel required for a largely planning and regulatory function at the Ministry will be less than for operations so that public sector staff numbers will be reduced, but a number of current MOT employees will find opportunities in the newly corporatised enterprises. Only a commercially sized staff, however, should be assigned to each unit, with the rest remaining as Ministry employees, to be retrained as necessary to assume new responsibilities. Certainly, it is unrealistic to expect the newly commercialised entities to prove successful if they are grossly overstaffed from the outset.

At MOT the loss of rolling stock over the years left an overloaded ratio of staff per vehicle, but this will be eased with the arrival of some 500 or more new buses. Rather than hire new staff for the new buses, transfer of some Kamaz agency personnel to the

² See the previous footnote.

Millie bus agency, prior to corporatising all the agencies, should result in more realistic personnel levels.

Relations between Government and the New Transport Corporations³

The principal objective of each of the new corporations should be as follows:

Principal objective

The principal objective of the corporation is to operate as a successful business and to this end to aim to be as efficient as privately owned freight (or passenger) transport services with which it competes. With this end in view, it should carry out the activities authorised by its Articles of Incorporation with a view to making a profit.

MOT and MOF, representing the Government as owner of all shares in all the newly corporatised companies, would obviously be represented on the Boards of Directors, but their representation should be at an arm's length, purely commercial basis. Others to be seated on the Boards of the new freight companies could be representatives of major users and other commercial interests. On the Boards of new bus companies should be representatives of commercial interests and of various user groups, including women. Also included on the Board of the Kabul bus company should be a representative of the Municipality while regional / provincial interests should be included for any Inter-provincial company.

Although user representation is recommended, it must be kept in mind that the new corporations are intended to function independently and commercially and to be self-sustaining at all times. No subsidies from the Government are to be provided.

During any transitional period and thereafter, there must be complete segregation of management, regulatory and operational functions between MOT and the newly corporatised truck and bus companies.

In addition to the foregoing, it is desirable that the powers of MOT in relation to the new corporations be precisely defined. It is appropriate that a "contract" be executed between the Government and each corporation wherein this relationship is specified. The contracts should be transparent and akin to standard documentation between a parent company and a subsidiary. It should allow for the financial and public service performance of the corporations to be monitored.

The objectives of the "contract" would be:

³ See also TSR Consultation Paper 3.3 which outlines the recommended relationship between the government and Ariana Airlines. The framework proposed therein provides a useful model for the new Kamaz and Millie Bus corporations.

- a) to provide the corporations with sufficient commercial independence to operate successful businesses;
- b) to clearly set out the relationship between the Government and the corporations;
- c) to specify the reporting arrangements between the corporations and MOT;
- d) to specify the substantive matters that require prior Government approval; and
- e) to provide the Government with emergency powers to intervene at arms length in the management of the corporations.

In keeping with the recommendations of TSR Policy Paper 1.2, price and route setting and other forms of economic regulation are not recommended.

It is, however, possible that from time to time the government will wish one of the new corporations to carry out tasks which the government regards as necessary in the public interest but which the corporation regards as not conducive to the fulfilment of its principal objective. TSR recommends that as long as it retains ownership the government should have the power to give the corporations a direction in the public interest but that any such activities which the government requires should be paid for explicitly by the government at a price to be agreed between them.

There should, therefore, be a clause in the contract along the following lines:

Where the government wishes the corporation to carry out functions or provide services which the corporation regards as not conducive to the achievement of the principal objective, the government may give a direction to this effect. The government and the corporation should enter into an agreement under which the corporation will carry out the functions or provide the services covered by the direction in return for payment by the government. Any such direction should be published in the corporation's annual report.

Technical Assistance to Facilitate the Process

Technical assistance to the committees from the donor community is recommended in terms of evaluation of options, valuation of assets, drafting articles of incorporation, and focused training in management, budgeting, accountancy and other aspects of commercial operations. There may also be a role for selective small grant / loan assistance in such areas as re-establishment of workshops and in IT and communications tools. Post-corporatisation, a relatively brief period of commercial management assistance to the new corporations may also prove appropriate.

Technical assistance should include:

Kamaz agencies

1 Freight operations manager	12 months	business planning, training and start-up
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1 Financial specialist	6 months	planning and training
1 Lawyer	3 months	articles of incorporation
<i>Millie buses</i>		
1 Public transport manager	12 months	business planning, training and start-up
1 Financial specialist	6 months	planning and training
1 Lawyer	3 months	articles of incorporation
<i>Total</i>		
Total Technical Assistance:	42 months	US\$ 1,000,000

Outline Terms of Reference are included as Annex 2.

Recommendations

It is recommended that corporatisation of the Kamaz agencies and Millie bus be undertaken as recommended above.

Actions

To initiate the corporatisation, two committees should be established, one for the Kamaz agencies, and one for Millie buses. Donors should be approached to provide Technical Assistance in the amount of USD 1.0 million.

ANNEX 1: A STRATEGY FOR MILLIE BUS

The state transport company – an abandoned concept

For the last two decades or so, the road passenger transport sector in Afghanistan has relied on the Government's Millie Bus organisation at least in theory (in reality most of the passenger transport work was always private). Together with the corresponding body for goods transport, the Kamaz truck agency, Millie Bus (literally "public bus") manifested the ambition of the public sector to fulfil the transport needs of the citizens.

This concept is not unique for Afghanistan – in particular it corresponds with Soviet style plan economy. But the Millie Bus/Kamaz combination could also have been inspired by the remnants from another empire; the former British sub-continent, where the State Road Transport Corporations of India, Bangladesh and Pakistan were formed with similar ambitions.

The Bangladesh Road Transport Corporation (BRTC) still operates trucks and buses in the country and high-capacity buses in Dhaka, but on a limited scale. In Pakistan, the Punjab Road Transport Corporation operated what was once large urban bus fleets in Lahore and Islamabad - in the 1980:s it was renamed Punjab Urban Transport Corporation (PUTC) - but has since been almost completely replaced by the private sector. Only in India, the various State Corporations still play a significant role in providing passenger transport but their role is now changing. In Karnataka, for example, urban operations in the state capital of Bangalore has been broken out of the State Corporation and are now carried out by the Bangalore Metropolitan Transport Corporation (BMTC) with over 2000 buses.

Role of Millie Bus

As observed in the first phase of the TSR: "the system which has existed for the past twenty years or so and which was based on centrally owned bus and lorry companies, has effectively collapsed".

At present, the private sector dominates almost totally the passenger transport sector in Afghanistan. In many areas this is a satisfactory order and there would be no strong case for attempts to rebuild Millie Bus if the intention was to replace those parts of the private sector that functions well.

This does not mean that there is no case for government intervention. However, one must differentiate between such interventions where government could use Millie Bus as a tool and other types of interventions which are better carried out by other means. Government intervention should, in the first place, aim at providing services that the private sector cannot or will not do. That could include for example the provision of accessibility to remote rural areas, but for such purposes Millie Bus is not a very good tool since its main

characteristics is to operate large buses in fleet operation. This is the “classical European” approach to urban public transport which is best suited for large urban areas.

Millie Bus is now receiving a large influx of new buses, about 560 units, from India, Iran and Japan. All of them are urban buses and all except 50 are intended to stay in Kabul. There is no provision in the budget for any re-entering in the long distance market, nor does there appear to be any imminent plans to that effect at the MOT.

If these assumptions are true, then Millie Bus will be an organisation that operates almost exclusively in Kabul. In that case, it could be questioned whether it should continue to be part of MOT. Urban public transport is a part of the urban system and as such mainly a local issue. If the public sector is to operate buses at all - which can be acceptable under certain circumstances – then it would seem most logical that it be placed under Kabul Municipality.

However, there is one argument for keeping Millie Bus with the MOT until it is privatised (which is the long term goal). If, which is recommended, the overall responsibility for planning and monitoring public transport is placed with a Public Transport Authority within the Municipality, then there can be an advantage to keep the operator Millie Bus at some distance with the MOT.

Under the circumstances, it is important that the new donated city buses are used as efficiently as possible. Therefore, the logical role for Millie Bus is to use its new bus fleet to set up a trunk line operation in Kabul.

The government’s expressed intention is to develop Millie Bus with a view to future privatisation. For this purpose, it is recommended that whoever owns Millie Bus take the opportunity to introduce a reformed organisation that is efficient, transparent, possible to monitor and offers a clear strategy for a privatisation when feasible. This is described below.

Step 1: A depot-based organisation

From a hierarchical to a decentralised bus company organisation

Fig 2. Recommended depot-based organisation

Such a decentralised structure, adopted by many reformed monopoly companies (for example Stockholm Transit, Sweden) means that authority and responsibility has been delegated to the depot managers. The depots function almost as independent companies. This prepares a large corporation for a future competition situation and paves the way for possible future privatisation.

The role of the depots versus the head office in the proposed structure is described below.

The Depot

The individual bus depot is a natural unit for public transport. This is where buses park at night, are cleaned and serviced and are dispatched to routes each morning. Drivers and conductors appear for work there and this is also where fare revenues are accounted for by the conductors. Thus, the depot is the natural centre for operations, preventive maintenance, personnel issues, finance and accounting.

In order to be manageable, a depot should not be too large. In fact, efficient private bus companies are often one-depot undertakings with perhaps 25-50 buses. This makes it possible for the management to maintain control of buses and staff, something which becomes increasingly difficult with increasing size. The concept of huge depots for hundreds of buses is now all but obsolete and associated with a plan economy approach. There are

According to recent information in Kabul, a project from 1990, aiming at the development of a depot for 400 buses, has been reactivated. There is also a commitment from Japan to develop a depot for donated buses which will, reportedly, have a capacity of 200 buses.

If this is true, then the strategy should be reconsidered. Instead, it is recommended to develop a number of smaller depots, ideally with 50 buses each and certainly no more than 100. These should be distributed over the area to be served, which would shorten the distance to the routes and create less dead mileage.

If, for some reason, this recommendation can not be followed, then at least big depots should be planned and designed in a way that makes them possible to be shared in a logical way for separate operating units. This could possibly be achieved by a departmentalisation of the depot area.

In the depot-based organisation, each of the depots is a profit centre. It is operated by a Depot Manager who is fully responsible for the service and financial performance provided by his depot. The Depot Manager must therefore be an entrepreneur rather than a technician.

Each depot should be able to provide preventive maintenance and daily service. However, there is no need for each of them to have full workshops and repair facilities. This function could be supplied at one or more central workshops. Similar to the depots, these should be run along commercial lines and repairs should be paid for by the depot manager in question.

The Head Office

In the recommended organisation, the main role of the Head Office is to monitor the individual depots in the same way as a large international corporation would monitor its subsidiaries. The Head Office no longer interferes in the daily activities of the depot, but defines the tasks in terms of network and service structure, appoints the responsible Depot Manager and then follows up and monitors the result.

Through a management information system, the Head Office can compare the performance of the different depots and set targets. If a depot does not live up to its performance budget, then the depot manager is responsible and can be exchanged.

In the short term, it is recommended that the planning of the route network is done by Millie Bus Head Office itself. This is a deviation from the preferred principle that the authority over public transport should be local; which in the case of Kabul would mean the Municipality. However, this is justified since there is neither institutional framework nor resources in place at the moment and since a large influx of buses is already underway.

Other cities

It is not recommended that Millie Bus involve itself in urban bus operations in other cities since this is most probably better done by local operators. However, some of the new buses are reportedly being allocated to Kandahar and Herat. If MOT should decide to establish local subsidiaries in other cities, then the organisation recommended above would be feasible also in that situation. Performance monitoring could be done in the same way and with similar criteria and benchmarks as for the individual depots in Kabul and, similarly, the option of future privatisation would be there.

Step 2: Introduction of a Public Transport Authority

A completely deregulated system is not recommended for urban public transport, especially in Kabul and other big cities.

The recommendation for Kabul is to establish a Public Transport Authority (see Consultation Paper 1.6) with the responsibility for planning and monitoring of public transport services to be provided by different operators which can be private and public.

The logical site for such an institution appears at present to be the Municipality but this may have to be studied further. In any case, it should not be with the MOT as long as Millie Bus operations are provided there. This means that competence and resources will have to be built up in a new authority. It can be foreseen that some of this can be transferred from the MOT.

Initially, the Public Transport Authority would devote itself to the private sector, aiming at achieving control of the route-based public transport in the city – that is basically the route concessions for minibuses (taxis and autorickshaws would be subject to a different type of regulation). When granting new route concessions, the Authority should be restrictive to grant new route concessions along route already operated by large Millie Buses and instead encourage small vehicles to ply in areas not suitable for large buses. However, if private operators wish to operate large buses also, they should not be restricted.

Step 3: Gradual Privatisation of Depots

When Millie Bus has been successfully transformed to a decentralized company, preconditions exist for a gradual privatisation of the company. This will be made on the depot level and can take different forms. The main thing is that if one depot with its associated buses, staff and operations, ceases to be directly part of Millie Bus, then this can be done in a way effects neither the remaining part of Millie Bus nor the overall public transport system itself.

One possibility can be a form of management buy-out where the staff of the depot is given the option to buy shares in a new corporation constituted by the depot. Another possibility can be for Millie Bus to invite investors to take over the depot through a tendering system.

It may be an option to transform the depots to independent corporations at an early stage although they may still be owned by Millie Bus. This would reduce the frequently occurring problem that employees consider themselves to be government employees with a right to remain as such.

Step 4: Introduction of a Tendering System

The gradual privatisation of Millie Bus should go hand in hand with the introduction of a tendering system for route concessions.

Summary of recommendations for Millie Bus.

- Introduce depot-based organisation with one head office and 8-10 smaller depots
 - = head office plans a trunk line network for initially some 480 buses.
 - = head office assigns packages of routes to the different depots
 - = depot managers are responsible for performance and result
 - = a separate central workshop is established
- Create a Public Transport Authority and transfer authority for route planning and concessions from Millie Bus
 - = PTA decides routes to be operated by Millie Bus and by private sector
- Gradually privatise depots one by one, creating corporations
 - = Different possibilities, e.g. management buy-out, external ownership
 - = Corporations operate on same conditions as Millie Bus depots
- Introduce tender system

ANNEX 2: OUTLINE TERMS OF REFERENCE FOR TECHNICAL ASSISTANCE

A. To assist Corporatisation Committees:

1. Assist Kamaz committee to finalise form of corporatisation
2. Assist Millie bus committee to finalise form of corporatisation
3. Assist both committees to draft Articles of Incorporation
4. Assist both committees to review prospective Business Plans
5. Assist in implementation and transition, from Government perspective

B. To assist prospective new Kamaz Corporations:

1. Assist prospective corporate entities with preparation of Business Plans
2. Provide pre-transition and on-the-job training in management and operations
3. Assist and advise corporations' management during transition period

C. To assist prospective new Millie Bus Corporation:

1. Assist prospective corporation with preparation of Business Plan
2. Provide pre-transition and on-the-job training in management and operations, particularly related to depot-based structure, if that is adopted approach
3. Assist and advise corporation during transition period