



# **Bus Franchising in Developing Countries: Some Recent World Bank Experience**

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# "Cities on the Move"

The World Bank Urban Transport Strategy Review

## ∞ **Observed**

- the decline of traditional bus systems
- the chaotic state of more informal systems

## ∞ **Recommended**

- a more commercial approach
- a regulated market form appropriate to the circumstances

# **“Cities on the Move”**

The reform packages recommended

## **∞ Getting the right system**

- liberalized entry in small cities
- competition “for the market” in larger cities

## **∞ Getting the system right**

- strict quality control
- efficient enforcement
- restructuring public sector institutions
- restructuring the supply sector

# Privatization and franchising of urban bus services in developing countries

	Studies undertaken	Planning to adopt	Modifying existing schemes	Adopted or modified
System not specified	Russian cities			
Net cost area or system based	Bangkok Mauritius	Lahore Kuwait		Kingston Jamaica Bahrain Kuala Lumpur,
Net cost route based	Hanoi, Dhaka, Surabaya, Denpasar, Bandung,	Sao Paulo		Bishkek, Kyrgyz Uzbekistan Kazakhstan Rostov, Santiago, S. African cities
Gross cost route based			Bny Brazilian cities	Bogota, Curitiba,
Gross cost area or system based		ReRecife		Santiago
Privatization	Bahrein	Mauritius		Sri Lanka

# Difficult cases for competitive tendering

⌚ Integrated systems

⌚ The informal sector

# Elements of integration

∩ Physical integration

∩ Fares integration

∩ Both needed to avoid adverse consequences

- Harm to the poor
- Development of an illegal informal sector

# Difficult cases for competitive tendering

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∞ Integrated systems

∞ The informal sector

# Managing the informal sector

## ∞ The informal sector

- self regulation [ apartheid S.Africa]
- suppression [Recife, Sao Paulo]
- integration in competitive franchising processes
  - as a complement [Porto Alegre, Recife]
  - as a competitor (Uzbekistan)

# There are ways to do it

## ∞ **Integrated systems**

- separate infrastructure from operations
- design contracts for separate service types
- work on the structure of the industry

## ∞ **The informal sector**

- well organized suppression
- integration in competitive franchising processes



# Three sources of reform failure

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∞ **Lack of real commitment to reform**

# Lack of commitment to reform

- ∩ Jurisdictional competition
- ∩ Reserving “social” services for the public sector; [Russia]
- ∩ Restriction of subsidies to public enterprises; [Sri Lanka]
- ∩ Arbitrariness and inconsistency in regulation (Kyrgyz)
- ∩ Failure to create a secure contractual or legal basis for private sector operations; [Uzbekistan]
- ∩ Limiting competition to the provision of services by the informal sector with small vehicles only. [Recife]
- ∩ Impact of MFI pressures



# Three sources of reform failure

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- ∩ Lack of real commitment to reform
- ∩ **Protection of vested interests**

# Protection of vested interests

## ∞ Public sector operators

- exempt from regulation (Sri Lanka)
- preferred for subsidy (Russia)
- with weak metropolitan government (Bangkok)

## ∞ Preferred private operators (Kuala Lumpur)

## ∞ Informal sector interests (Rio de Janeiro)

# Three sources of reform failure

- ∩ Lack of real commitment to reform
- ∩ Protection of vested interests
- ∩ **Unrealistic expectations**

# Unrealistic expectations - six fatal fallacies

- Ω Fares can be controlled without subsidy  
(Kingston, Jamaica).
- Ω Operators will be self-monitoring  
(Santiago, Chile).
- Ω Franchising reduces the need for detailed supervision  
(Almaty, Kazakhstan).
- Ω Service standards can be set at whatever level you desire  
(Dhaka, Bangladesh).
- Ω Market pressures will generate the right industry structure  
(Sri Lanka; Santiago);
- Ω Privatization can solve the problem without regulatory reform  
(Sri Lanka, Kuwait).

# Some cautionary tales

∞ the dangers of half hearted reform

- **Bishkek, Kyrgyzstan**

∞ privatization without reform

- **Colombo, Sri Lanka**

∞ the perils of the operator as regulator

- **Bangkok, Thailand**

∞ failure to get the industry structure right

- **Santiago, Chile**

# Problems of half-hearted reform

## Bishkek, Kyrgyzstan

- ∞ Population of 1 million
- ∞ Served by state bus and trolleybus companies
- ∞ Franchising seen by Ministry of Transport as a way of harnessing private sector development
- ∞ Private sector now over 75% of market
- ∞ Safety net of social service provisions undermined

# Bishkek, Kyrgyzstan

## The defects of reformed regulation

- ∞ Bishkek PTA controlled by general manager of the bus undertaking
- ∞ PTA staff now increased to 200
- ∞ Many functions developed in PTA (despatching, medical control, etc)
- ∞ Route network frequently changed
- ∞ Allocation of routes seen as arbitrary
- ∞ PTA seeking further extension of powers

# The case of Bishkek, Kyrgyzstan

## Putting the system right

The system could be put right and private sector development encouraged by:

- ∞ A single franchising law,
- ∞ An appropriate administrative structure
- ∞ A genuinely independent supervisory board
- ∞ A clear network definition,
- ∞ A revised policy on concessionary fares and compensation
- ∞ Appropriate and transparent adjustments to fares

# The operator as regulator

## The case of Bangkok

- ∞ City of 11.4 million people
- ∞ Relatively weak metropolitan authority
- ∞ 50% of trips by public transport
- ∞ BMTA established as statutory monopolist in 1976
- ∞ BMTA carries only 20-30% of public transport trips
- ∞ Large proportion sub-franchised without tendering
- ∞ Bus fares controlled by regulatory authority

# Bangkok

## The financial problems of BMTA

- ∩ High wage employer
- ∩ Operating costs double those of private sector
- ∩ Only 67% of operation costs covered by revenue despite increasing emphasis on the more remunerative aircon services
- ∩ Annual deficit in 2001 of \$65 million
- ∩ Accumulated deficit of \$0.5 billion

# Bangkok

## Problems for the user

- ∞ Traditional bus routes very long and indirect
- ∞ High delays associated with congestion and archaic route structure
- ∞ Decline of proportion of "social" service

# Bangkok

## Lessons of experience

- ∞ **Absence of a strategic metropolitan transport authority severely damages modal co-ordination**
- ∞ **Allowing the franchised operator to choose services to sub-contract disguises the problem by allowing it to concentrate its own resources on more profitable services**
- ∞ **Absence of competitive tendering allows inefficient allocation of service responsibility among supplies**

# Privatization without regulatory reform: The history of Sri Lanka

- ∞ 1958-77 - State owned monopoly, CTB
- ∞ 1977 - CTB Regionalization to RTBs, plus private permissions on a vehicle basis through separate ministry
- ∞ 1987 - "peopleization" of RTBs to 94 companies
- ∞ 1996 - peopleized companies consolidated into 11 "cluster companies"
- ∞ 2002 - attempt to privatize cluster companies
- ∞ 2004 - move towards competitively tendered franchising

# Sri Lanka

## The 2004 situation

### ∞ 13 public sector operators

- registered fleet of over 9000 vehicles,
- declining operational fleet, (3500 in operation]
- aging fleet
- 200 kms per day.

### ∞ Fragmented private sector

- 20,000 vehicles
- 125 kms per day
- carry 75% of all passenger movements.

# Sri Lanka buses

## The 2002 policy

∞ Privatize the public companies in two tranches

- 39% of shares plus management contract
- require no reduction of service
- no change in employment levels
- no deterioration of terms of employment
- require substantial investment in new vehicles

∞ **THEN** introduce competitive tendering

# **Sri Lanka buses**

## **The present situation**

- ∩ **2002 privatization aborted**
- ∩ **New government committed not to privatize**
- ∩ **Conflict between Minister of Transport and senior officials**
- ∩ **Commission set up to improve efficiency of cluster companies**

# Sri Lanka buses

## Lessons so far

- ∞ Franchising individual buses very difficult to manage
- ∞ Politicization of the franchising process is very damaging
- ∞ Supporting the public sector separate from consideration of the reform process may generate overprovision of capacity and heavy contingent costs
- ∞ Privatizing before determining the nature of the new regulatory system will constrain the reform process.
- ∞ Unrealistic privatization terms will generate unrealistic bids

# **The case of Santiago, Chile**

## **The history of reform**

- Ω **1989 - complete deregulation**
- Ω **1991 - competitive tendering of bus franchises**
  - **route licenses for routes crossing city**
  - **subcontracting operations to individual owners**
  - **387 routes**
  - **average size of operator very small**
  - **no integration with metro**

# Santiago

## Problems of inefficient industry structure:

### ∞ Size distribution of firms

- 30% of fleet single bus operators
- 66% in fleets of less than 4 vehicles

### ∞ Subcontracting and incentive structures

- low basic wage plus part of revenue
- no secure ticketing and revenue recording

### ∞ **Therefore**

- high incentive to stay on the road
- high incentive to race



# Santiago, Chile

## The “Transantiago” proposal

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**& Bus segregation**

**& Integrated ticketing**

**& Gross cost tendering of only 15 contracts**

**& 5 groups of trunk services**

**& 10 feeder area franchises**

**& Bus emissions as a filter in selection**

# Lessons from Santiago

- ∞ Licensing individual vehicles or very small firms is difficult to monitor and enforce
- ∞ Inattention to monitoring will magnify structural weaknesses
- ∞ An improved image is more difficult to achieve where initial standards are high
- ∞ Reliance on the private sector for infrastructure investment will probably delay implementation
- ∞ Good timing is essential to reform

# Designing bus reform in developing countries

## The ten critical requirements

### Institutional

- ∞ Political commitment at all levels
- ∞ A proper legal foundation
- ∞ A strong local institutional foundation
- ∞ Appropriate industry restructuring
- ∞ An expert and trustworthy administrative agency

### Operational

- ∞ Confrontation of the vested interests
- ∞ Realistic specification of social objectives
- ∞ Consistent fares control
- ∞ Effective monitoring and enforcement
- ∞ Limitation of sub-contracting franchises