

Gujarat Inter-city Transport Regulatory Authority

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Contents

Background.....	2
Inter City Bus Regulator – Potential Driver for Reform	2
Components of Bus Transport Reforms for Gujarat	4
<i>Defining the Objective of the Policy/Reform.....</i>	<i>4</i>
<i>Route Network Planning.....</i>	<i>4</i>
<i>Fare Planning.....</i>	<i>5</i>
<i>Contracting.....</i>	<i>6</i>
<i>Financial Support through Subsidies and Taxation.....</i>	<i>8</i>
<i>Vehicle and Safety Standards.....</i>	<i>9</i>
<i>Infrastructure Development (Bus stations, bus depots and their regulation).....</i>	<i>10</i>
<i>Role of the Central Government.....</i>	<i>11</i>
<i>Role of the proposed Regulator in Providing for the Mentioned Reforms.....</i>	<i>11</i>
National Context: How does it Fit?.....	12
<i>India Transport Report: Moving India to 2032.....</i>	<i>12</i>
<i>Road Transport and Safety Bill 2014 (Draft).....</i>	<i>13</i>
<i>Public Road (Passenger) Transport Regulations in India.....</i>	<i>13</i>
<i>State Policies Affecting Competition – Passenger Road Transportation Sector.....</i>	<i>14</i>
Salient features of Gujarat Inter-city Public Transport Regulator	15
<i>Purpose & Objective.....</i>	<i>15</i>
<i>Structure.....</i>	<i>15</i>
<i>Functions.....</i>	<i>16</i>

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Background

Based on the findings of an ongoing CUTS project,¹ the organisation highlighted the need for a 'Public Transport Regulator in Gujarat'. The ensuing interactions with the Department of Transport (DoT), Gujarat revealed their willingness for considering this proposal. It was, therefore, decided in a meeting dated July 23, 2015 that CUTS should develop an 'approach paper' for this regulator – but focus on the intercity bus transport market to start the discussion with the state machinery led by the DoT. This was thought necessary, given the complex nature of urban (city) transport and the multitude of regulators and administrative authorities connected with the governance of urban (city) transport.

The aim of the paper is to, therefore, highlight the possible approaches that the DoT, Government of Gujarat could consider for the development of an inter-city public transport regulator in Gujarat (Gujarat Inter-city Transport Regulatory Authority).

One of the key impediments in engaging private sector in this (inter-city) market in Gujarat is a 1994 Gazette order of the Government of Gujarat (granting monopoly rights to GSRTC on 'stage carriage'² routes across the state). Experience suggests that effective private sector participation in this market should be preceded by development of 'rules of the game' for their engagement. This framework (inter-city public transport regulatory framework) would lay the conditions for private sector to operate side-by-side with the state-owned entity (GSRTC), and meet the growing demand for bus transport from one city in the state to the other.

Inter City Bus Regulator – Potential Driver for Reform

The rationale behind reserving the stage carriage routes for Gujarat State Road Transport Corporation (GSRTC) through the 1994 Gazette order, was the need of 'public welfare' that the government was responsible to provide. However, over the 20-plus years since this Gazette was passed due to various reasons like urbanisation, rising population, etc., the demand for inter-city bus transport has constantly increased.

In the recent past, the fleet size and passenger carrying capacity of GSRTC has also declined considerably (as is evident in Table 1). This gradual decline in GSRTC fleet has resulted in considerable supply shortage in the stage carriage segment in the face of fast expanding demand. However, it is true that every now and then GSRTC is able to get support from the state government through the procurement of new bus fleet and others. However, such reliance of government funding has reduced the efficiency of GSRTC.

¹The findings of the research have been compiled in a diagnostic report entitled 'Implications of Competition Reforms in Wheat and Bus Transport Sectors for Consumers and Producers in Select Indian states' (www.cuts-cier.org/crew/pdf/Diagnostic_Country_Report-India.pdf)

² Stage Carriage: Type of transport service contract that allows operators to pick and drop passengers on the way from one point to the other. While Contract Carriage: Type of transport service contract that allows operators to only take passengers from one point to the other. Contract Carriage operators are not allowed to pick and drop passengers on the way

Table 1: Physical Performance of GSRTC over the Decade

	Mar-03	Mar-08	Mar-13
Avg. Fleet Held (Number)	9,097.00	8,069.00	7,719.00
Avg. Fleet Operated (Number)	7,793.00	6,932.00	6,694.00
Revenue Earning Kms (Billion)	1.0126*	0.9,97	1.0349
Staff Strength (Number)	50,324.00	44,557.00	40,370.00
Fuel Efficiency (Km/litre of HSD)	5.20*	5.37	5.50
Passenger Km.s Offered (Billion)	52.13	50.38	50.82
Passenger Km.s Performed (Billion)	35.17	31.83	35.15
Passenger Carried (Billion)	1.27	0.85	0.84

Source: Transport Research Wing, Ministry of Road Transport and Highways

Note: As on March 2004

The above-mentioned gap in demand led to the proliferation of inter-city operations by private players, who also offered stage carriage services. However, these providers are not legally recognised to provide stage carriage (as per the above-mentioned Gazette), and hence have to face punitive actions if found operating as such.

There is a need to consider withdrawing the above-mentioned Gazette, and make greater scope for legally engaging the private sector operators in the stage carriage market. Effective engagement of the private sector would help ease the fiscal pressure on the state government to keep supporting GSRTC – and such support can be better targeted to meet the Universal Service Obligation (USO) principle. Such a re-organisation of the bus transport sector in the state calls for an ‘Intercity Bus Transport Regulator’ (Gujarat Inter-city Transport Regulatory Authority) empowered by a framework for inter-city bus transport, which would help bring clarity into this sector – for the benefit of both commuters and operators.

The key objective of public transport policy is to fulfil the demands of passengers. Additionally, the market type and ensuring access to the market play a big role in defining the nature of reforms that need to be introduced. In Gujarat’s context, the introduction of greater private participation and thereby enhanced competition in the intercity bus transport market would help both the state government and people.

International experiences have proved that a transport market without the presence of a monitoring/regulatory authority inconveniences the consumers³. They lead to decrease in the bargaining power of the consumers, diluting their already insignificant role in decision making. As noted by Urban Public Transport Competition Final Report by Halcrow Fox for Department for International Development, UK. May 2000, there is no optimum regulatory regime. None is perfect.

The most appropriate strategy should be selected and adjusted to contextual factors:

- geographic, demographic and socio-economic characteristics;
- public transport policy and pricing objectives;
- institutional capacity;

³ The diagnostic study undertaken in Zambia in Ghana under the CREW project captures the impact of free bus markets on the consumers and the operators. Detailed reports could be reached at: http://www.cuts-ccier.org/crew/Diagnostic_Country_Reports.htm

- industry structure; and
- types and modes of transport in the area.

In order to plan for reforms it is therefore advisable to have a dedicated group of experts and an institution to implement the process. In case of Gujarat (as in many other Indian states), the reform being suggested would require an enabling legislation and an effective institution together with sensitisation of stakeholders.

Components of Bus Transport Reforms for Gujarat

Gujarat links its intercity bus transport policy to objectives like providing access of transport to rural students to education centres, connecting citizens to health services, providing access to job hubs within the state, etc. Such (social welfare) objectives justify the presence of the incumbent operator (GSRTC) in this sector. But the issue of financial viability of such operations cannot be ignored, with GSRTC incurring heavy revenue deficit up to the order of Rs3billion in 2012-2013.⁴ The key components that could be focussed on while planning this transition are stated below.

Defining the Objective of the Policy/Reform

This is one of the most important exercises while planning any public policy reform. This helps in keeping the planning and implementation team focussed on the need and the eventual outcome of the reform. A possible objective in this case could be to evolve an efficient inter-city transport sector and benefit commuters through the introduction of competition among operators in the market. This could eventually lead to:

- legal entry of private operators in the stage carriage segment resulting in reduction of 'rent-seeking';
- managing of routes operated by GSRTC, resulting in reduction in operational cost and revenue deficit;
- providing access of better service and options to consumers; and
- establishment of a body that would lead to the monitoring of the sector for the long-term based on inclusive decision making

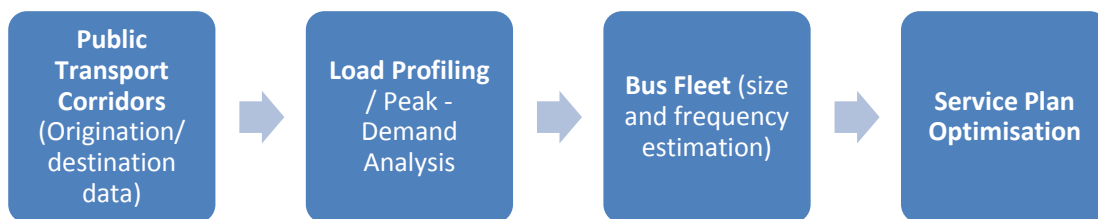
This exercise would therefore help the DoT in defining the impact that the reform measure would help them to achieve.⁵

Route Network Planning

At a more micro-level, planning for the bus transport system invariably involves route identification based on demand assessment and development of a service plan. Bus route and service planning need not be sophisticated or require large resources, but it should be progressive, systematic and realistic. For network planning, detailed passenger origin/destination data is necessary which will then be used to assess passenger demand and distribution and then to identify trunk and feeder routes. A broad schematic of route planning exercise is placed below:

⁴ Data Source: Transport Research Wing, Ministry of Road Transport and Highways

⁵ In order to understand the impact of this exercise and the detailed steps involved, refer to 'Framework for Competition reforms – A Practitioners Guidebook' (http://www.cuts-ccier.org/crew/pdf/FCR_Practitioners_Guidebook.pdf)



A way forward for route planning therefore is to undertake ‘route rationalisation’ studies that would help in taking an integrative approach towards surface transport in the state. Many states in India, including Gujarat, lack a plan for intercity transport within the state. This leads to transport service licenses being given based on the operators demand on the routes, often in an *ad hoc* manner. Such data based planning of routes would reduce possible incidences of over-availability of operators on certain routes and lead to judicious distribution of bus transport services across the state.

The good practice examples across the globe have shown that transport planning cannot be achieved in silos. It is an integrated function of various departments like Urban Planning, finance, infrastructure along with the department of transport. Apart from the fact that bus stations are required for buses, the trips itself originate from within the city. Therefore an integrated approach like a ‘Surface Transport Plan’ within the state is a necessary exercise to undertake.

Apart from delineating profitable routes, this exercise would also help in demarcating the routes that are more likely to have less demand.⁶ The concept of USO that is currently prevalent on GSRTC could then be extended to the private operators too, for covering the rural or non-profitable routes to ensure connectivity. The interaction of the CUTS project team with private operators in Gujarat has revealed that they are willing to provide services in the rural areas if the policy reform would allow them to legally provide services in the ‘stage carriage’ segment of inter-city transport.

Fare Planning

Fare regulation is an integral component of a regulated passenger transport regime, but fares are often set for political or social objectives rather than to ensure the commercial viability of the operator(s). Further, the process is neither inclusive, nor transparent.

In many instances, a degree of cross-subsidy within the network, where the passengers on high-demand corridors effectively support those in peripheral areas is common. Where fares are set too low to allow full cost recovery, the operators are exposed to major risk, and the result is usually a deterioration and reduction of services. Operators will normally find undesirable ways of subverting these in order to survive. For example, when a fare ceiling is set, operators may cut short their routes to the extent that the fare is then sufficient to cover their costs. If keeping fares low on formal bus services results in reductions in service coverage, it is often counterproductive as the

⁶ For practical assessment of route planning exercise involving load profiling, bus fleet and frequency estimation, refer ‘Bus Karo: A Guidebook on Bus Planning & Operations’ available at <http://embargindia.org/bus-karo>.

poor may no longer have a usable bus service and may be forced to use informal transport at much higher fares.⁷

In a regime of controlled competition, fare control is usually, but not always applied. Where fare controls are in place, the tender award criteria will include the highest bid made (or the lowest subsidy required) for the right to operate the specified service. Where there are no fare controls, the award criteria may be the lowest level of fares proposed for the service.

In a fully deregulated regime, there are no fare controls. In practice though, the authority may still try to manipulate fares either directly or indirectly. The latter is sometimes achieved by the support of a formal service provider, perhaps a public sector operator, who then applies a downward pressure on fares in a competitive market.

Fare Setting,⁸ involves two important considerations:

- a. *Fare structure* - Fare structure refers to the types of fares charged, the most common of which are:
 - Flat fare - same fare irrespective of distance travelled on a particular route)
 - Graduated fare - fare increases with distance travelled on a particular route, often increasing at a decreasing (telescopic) rate
 - Zonal fare - fare increases with journey distance according to fare bands and is usually independent of number of bus routes used, i.e. free transfers, and also usually independent of mode of travel selected if bus and rail are both available
- b. *Fare level* - Fare level refers to the average fare paid per passenger (or per passenger-kilometre) for the whole system. Raising or lowering this average level changes the total income of the bus system. For example, if fare income is expected to drop to 90 percent of total costs in the coming year due to general inflation, and the target is 100 percent cost recovery, the fare level will have to rise by about 15 percent (assuming no loss in passengers as a result of the higher fares) to achieve this. A bus system's role in social service provision is another important element in setting fares.⁹

Contracting

A contract is primary reference document laying down conditions that form the basis of the business agreement between the city authority and the service provider. It records the responsibilities and obligations on each party. It identifies the services, standards to be provided and the associated rewards/penalties.

The Contract will typically consist of two main sections:

- (i) The Standard Conditions of Contract common to all transport service contracts
- (ii) The Schedules applicable to the specific Contract to be signed

⁷ Urban Bus Toolkit: Tools and Options for reforming urban bus systems, the World Bank and PPIAF (<http://www.ppiaf.org/sites/ppiaf.org/files/documents/toolkits/UrbanBusToolkit/assets/home.html>)

⁸ *Ibid*

⁹ *Ibid*

In order to ensure competition in market, there are a variety of hybrid models available between the two extreme range of public monopoly and deregulation. Hybrid models have proved to be successful in cases of reforms in the bus transport sector. In most of these cases the bus operations have been contracted out by a public transport authority to private companies. The use of these models has the advantage of allowing the public transport authorities to focus entirely on system planning, management and service regulation. At the same time, commercial pressures and the profit incentive have meant that the private companies (i.e. bus operators) have managed to reduce costs and introduce efficiencies in operations.

The goal in contracting operations is to create an environment for equal sharing of risks and incentives between the regulatory authority (system planner) and the operators (system operators). Well written contracts help in balancing the interests of both these actors. The Road Transport Corporation Act of 1950 states that the SRTUs should work as per the company’s model stated out in the Companies Act. Yet the transport corporations have not been able to function as such due to various reasons mentioned in the above narrative.

In the urban setting, different types of contracts are being used in India and world-wide. They can be summarised as below:

What ‘unit of system’ ¹⁰ is contracted out	How is operator compensated for the services
<p>Area Contract Exclusive right to provide services on all bus routes in a given area of the city or urban agglomeration</p>	<p>Net Cost Operator gets the right to collect fares from the service users; does not receive compensation from the authority. Operators in turn may pay the authority a fixed sum (or royalty) on a per bus basis agreed at the time of contract signing</p>
<p>Route Contract Right to provide all services on a specified route</p>	<p>Gross Cost All revenue accrues to the transport authority who then pays an annual fixed sum to the Operator for the production of services</p>
<p>Remarks A contract may govern the operation of a single route; or it may confer an exclusive right to provide all transport services in an area of the city, subject to limited rights of access by other operators for operational convenience. The authority may ‘bundle’ single route contracts to create a de facto exclusive area franchise. Some of the key advantages of an Area Contract may only be realised if the operator has an</p>	<p>Remarks Gross and Net Cost contracting represent different allocation of revenue risk among the Transport Authority and the Operator. Net Cost contracts usually allocate some right of initiative to the operator</p>

¹⁰ Bus Karo: A Guidebook on Bus Planning & Operations, EMBARQ

incentive to increase bus patronage, i.e. the contract is on a fully commercial, or a net cost basis	
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Gujarat applies the Gross Cost Model (GCM) in its urban transport. Given its experience, the state can consider extending the experience of the GCM to the inter-city segment of bus transport as well.

Financial Support through Subsidies and Taxation

Long-term viability of any business has to be kept in mind, while planning financial models. It is advisable that as far as possible the heavy reliance of funds in terms of subsidies, etc. from the government should be avoided. However, more often than not this does not happen, due to various exogenous factors. Transport agencies/companies have a difficult task of balancing public interest and their financial viability.

Public transport bodies must consider two kinds of costs: Capital and Operational. The cost of maintenance (operating cost) depends on the type of vehicle (capital cost) and the quality of the road infrastructure (capital cost).¹¹

Capital costs for a regular bus system includes the cost of bus procurement, devices to operate and monitor buses such as GPS, automatic fare collection boxes, construction and equipment for a control centre, and so on.¹² 'Operating costs' refer to the recurring expenses that occur while running a bus service. These include, but are not limited to fuel, fleet maintenance, fleet fire and accidental insurance, tires and other bus parts, staffing and employee related costs, fleet depreciation, station and road maintenance¹³. The difference between these two costs determines the level of subsidies that can be provided.

Subsidies are acceptable to be provided in passenger transport as it is a form of public service. However, it has to be kept in mind that these subsidies and tax holidays be provided to improve the quality of services rather than to cover the inefficiencies of the transport operations of the public sector undertakings. Good practices across the globe have shown that apart from the USO directing operation of bus services in the rural areas, subsidies and tax incentives are applicable on these routes or the routes where ridership is less.

In India, there is no transparent policy on subsidies as they are by and large provided based on political will. Public transport subsidies are financially burdensome for the provider of funds (Cervero, 2011). In order to ensure the balance between social and financial responsibilities of the agency/body, they become an integral part of the planning process.

¹¹ 'Bus Karo' a guide for Urban Bus Transport by Embarq

¹² *Ibid*

¹³ *Ibid*

The following guidelines could be considered while planning the subsidies:¹⁴

- The extent of subsidy should take into consideration the source of funds for the subsidy, income from the public transport, and the welfare weightage that policymakers attribute to different income classes.
- In order to receive subsidy, it is important to maintain a certain percentage of farebox recovery for the remaining cost.
- Scientific approach to fare setting: While subsidy is a political decision, it is important to calculate the technical and public fare before deciding the subsidy. Based on this, agencies can determine the gap between the technical and public fares and apply for subsidies as required.
- Subsidies only to targeted groups: There is a need to target specific user groups that need subsidies for public transport use (Cropper and Bhattacharya 2012). User groups such as the elderly, students and the differently-abled are largely dependent on public transport (Ubbels, et al. 2001).
- While subsidies are in place, it is important to improve the level of service. This is to ensure that the public transport system is efficient and retains the section of passengers who do not claim any subsidy.

Additionally, the agency/body should adopt a practice of calculating the subsidy requirement on a yearly basis. This would help planning and monitoring them in a more efficient way. The operational data from the previous years could be very useful in undertaking such a planning.

Vehicle and Safety Standards

The selection of a vehicle for providing the desired services is subject to the topography of the areas being catered as well as the income of the passengers. In Indian states, the schemes under which the buses are procured have their own safety specifications. While the rationale of having decentralised scheme specific recommendations is understood, but there is a need for having common standards for vehicle and safety. The draft Road Transport and Safety Bill, 2015 has emphasises a lot on safety, hence the need for national standards to be operationalised. States could be given some flexibility to make minor refinements to these standards as per their requirement (provided the need for such refinements is explained in detail).

In terms of providing road safety, the regulator would need to work in close cooperation with traffic police to ensure swift and safe mobility. The necessity of training for the drivers and the road users is already well emphasised. But planning in terms of routes, trip etc., especially for remote and rural areas is essential. This helps avoiding over-crowding and reducing incidences of bus passenger fatalities. Additionally, a standard plan of maintenance for both public and private buses will also play a major role in avoiding incidents due to unsafe vehicles.

Data is an important component for planning and monitoring any public service. However, the need for data in planning and monitoring an important service like bus transport does not seem to have been given adequate importance at the national level and in various states in India. The DoT, Gujarat can take a lead in this by developing a

¹⁴ www.embarqindiahub.org/online-publications/83-public-transport-subsidies#.dpuf

centralised database for transport service in the state. The presence of technical experts and specialised institutions in Gujarat would make it possible.

Infrastructure Development (Bus stations, bus depots and their regulation)

In the current scenario, public bus depots and bus stations are solely run by states sometimes through public-private-partnership (PPP) arrangements. Also, only the buses from GSRTC are allowed to park in these depots. Such reservation of parking areas for GSRTC buses has inconvenienced both the private operators as well as the passengers. The private operators have to terminate their services at designated areas outside the cities leading the passengers to look for alternative transport to reach their desired destination. Most of the private operators now provide additional services like minibus to bring the passengers to the main city hubs or vice-versa. These additional services are transferred to the passengers in terms of increased fares.

Many states across India (including Rajasthan) are planning to open up their bus stations and depots to the private operators. Plans are also underway to manage these places on a PPP mode. These initiatives could act as starting point for the acceptance of the private operators under the regulatory reform regime of the states.

Global good practices examples (such as US, Canada, Australia) and closer home in Assam have shown that bus stations and bus depots could be areas for revenue generation. In Canada, the bus stations in rural areas are places where alternative business activities take place. For instance, these could petrol pumps, highway convenience stores or hotels. This helps in reducing the cost of infrastructure maintenance in areas where ridership is already low.

Assam State Transport Corporation (ASTC) is one of the largest State Transport Undertakings (STUs) in the north eastern part of the country, which provides bus services within Assam and to adjoining states.¹⁵ In early 2000, ASTC operated on a closed-door policy. Employee salaries were unpaid for about 14 months and ASTC accrued around Rs200 crore worth of liabilities. The efforts of the state government to salvage the corporation were going in vain. The corporation owned several fixed assets, including buildings and land banks in all small, medium and large towns throughout the state. These lands are located in highly-desirable parts of towns and cities, which were increasing their liability.

It was in 2000 that the situation reached a low point, following which a revival and revitalisation programme was approved by the Board and the State Government. Two strategies envisaged the way forward.

- (i) First, was the reduction of the bus-staff ratio from 1:27 in 1999-2000 to 1:7 by the end of March 31, 2003, to be achieved by:
 - repairing 235 shutdown buses with Government funds;
 - replacing old buses in a phased manner by purchasing 100 vehicles out of Government funds and 200 vehicles by obtaining loans from financial institutions; and
 - reducing employees by 2,000 through a Voluntary Retirement Scheme

¹⁵ Case Study adapted from Bus Karo 2.0 by Embarq India (www.embarqindiahub.org/online-publications/73-alternate-ways-finance-public-transport)

- (ii) The second strategy was the generation of additional earnings from other schemes. This was to be facilitated by the operation of private buses under the ASTC banner, commercial exploitation of land and other sources.

The PPP model adopted by ASTC was novel to India then. Private vehicle owners were allowed to operate their vehicles under ASTC brand. ASTC undertook vehicle management including scheduling aspects, and allow vehicle owners to utilise its stations, where it also provided assistance with ticket issuance. ASTC receives 10 percent of the gross income as commission, and 90 percent belongs to the owner. The programme was initiated with 559 buses in 2001-02 and grew to 1,790 buses in 2005-06. During this period, the annual earnings increased from Rs2 crore to INR 14 crore. While this optimised operations through the PPP model, it also enabled ASTC to increase its revenues.

For the infrastructure owned by ASTC, it started to develop commercial uses at these locations by building multi-level parking lots, cinemas, shops, hotels, petrol pumps, hotels, etc. These initiatives have helped the agency to generate alternative forms of revenue to cross-subsidise operations. However, there is still a gap of Rs1.35 crore in comparison to costs of operations.

Role of the Central Government

Reforms in public transport, more specifically bus transport takes place in silos. Considering the connectivity that the bus services provide across the states, it is essential to plan reforms that help in easing mobility from one state to the other. The Central and the state government therefore are equally responsible for providing an environment for a congenial policy reform.

At Central level, this may be financially, from direct subsidies or funding schemes (including JNNURM), to tax concessions/exemptions for importing bus units/parts, or assistance in seeking grants or loans from international donors. Assistance may also be through the provision of appropriate legislation, such as to promote private participation in bus operations, and credible franchising arrangements with clear government commitment.

Policies like National Urban Transport Policy (NUTP), proposed Road Transport and Safety Bill, 2015 already support such provisions.

Role of the proposed Regulator in Providing for the Mentioned Reforms

The above narrative illustrates the importance of planning for taking important policy reform decisions. National and international examples have been able to successfully explain for the need of having dedicated agencies/bodies to undertake the planning and implementation of reforms to ensure their success.

A regulator would comprise of the group of stakeholders from this sector leading to planning for a practical reform decision. Additionally in the long run it would also act as a monitoring authority ensuring the sustainability of the reform initiative.

National Context: How does it Fit?

This section is an attempt to build a legislative and theoretical basis to support the argument for a State level passenger transport regulator, largely drawing on relevant national reports and professional studies.

In the past two decades or so, almost all developed and developing countries have increasingly experimented with different forms of ownership and regulation of bus transport. Two basic considerations have driven this widespread experimentation: (a) bus services are important and (b) they are almost universally subject to a degenerative regulatory or managerial cycle that periodically endangers their availability.¹⁶

Government typically intervenes to regulate transport for reasons of equity and to lay down acceptable safety and environmental standards, as also when market forces do not produce the desired services efficiently. The public, strategic and business interests may often conflict with one another, and therefore the important purpose of regulation is to balance investment and public interest so as to achieve economically and politically sustainable outcomes.

Government intervention may be crucial in developing countries like India where there is potential for anticompetitive behaviour and other market malpractices. As mentioned elsewhere, the existing regulatory arrangements present acute problems of jurisdictional overlap between national, state and municipal levels as also on their limited focus. The recently concluded strategic document, India Transport Report: Moving India to 2032, submitted by the National Transport Development Policy Committee (NTDPC) in 2014 and the draft Road Transport Safety Bill currently under review present sufficient basis and reference for regulatory intervention for passenger transport at the State Level.

India Transport Report: Moving India to 2032

The NTDPC notes that most parts of the transport infrastructure, and all transport services are private goods with potential for market failure, in which case Regulation, rather than ownership is an important tool for achieving public policy goals. Currently, roads, railways and urban transport sectors do not have independent regulators. The first priority for India's transport regulation policy is therefore to create independent regulatory institutions where none exist and to strengthen regulatory independence where they do.

Each of the transport sectors is governed by numerous legislations. It is therefore imperative to simplify the legal structure. Unification of the legislations must be supplemented by the setting up of a statutory regulatory agency for each transport sector. Without statutory powers, the effectiveness of this regulatory agency will be lost. If a sector is under state jurisdiction, a regulatory body could also be set up at the state levels.

The level of investment required can be realised only if there exists an extensive and effective institutional framework including clear regulation on the terms of investment and PPPs, competitive access to infrastructure, and pricing of services as well as social

¹⁶ Public Road (Passenger) Transport Regulations in India, CUTS Institute for Competition and Regulation, Working Paper, 2013, S.Sriraman

regulation promoting environmental sustainability and safety. Given the growing use of PPP contracts in transport, an increasing role for the regulator will be to ensure compliance with the PPP contracts.

In addition to creating independent regulatory institutions in each transport sector, the issue of creating a mechanism for dispute settlement is also important. The state of India's regulatory institutions in transport can at best be described as rudimentary.

Road Transport and Safety Bill 2014 (Draft)

The draft bill suggests establishment of a State Road Transport Development Authority as a body corporate. The State road transport Authority shall collaborate with the National Road Transport Authority and other state transport bodies and public entities, urban local bodies and land holding agencies, so that the public transport system is planned and operated as part of an integrated transport system to meet the mobility needs of the users within the state. In doing so, it will promote competition, private participation, innovation, efficiency while safeguarding consumer interest and promoting equity.

The authority is essentially envisaged to function as an economic regulator (not safety) for schemes for transportation of passengers and their goods by transport vehicles only within the state under the state passenger transport permit for the purposes of scheduled services, restricted scheduled services, metered services, restricted metered services, chartered services or restricted chartered services.

The authority will administer determination of tariff and granting of routes. It will enter into agreement/contract/lease/licence to support the provision of passenger services. As required, it may acquire, own, build, maintain and operate public transport infrastructure and transit improvement infrastructure. It shall also undertake audits of infrastructure and assets.

The draft bill also details the composition of the authority, with the State Cabinet Minister for Transport being the Patron, and not a member. It further suggests the process for selection and removal of the Chairperson and the whole-time members.

In the following section discusses, certain past academic studies discuss issues in passenger transport regulation specific to inter-city public service, proposed areas for intervention and the possible role of state level regulator.

Public Road (Passenger) Transport Regulations in India¹⁷

There are two reasons why it may be necessary to retain some public regulation of the supply of bus transport in the inter-city bus markets. First, regulation may be desirable in some cases where an unregulated market process may result in: (i) mis-matching of schedules, (ii) increased pressure to engage in unhealthy operating practices, and (iii) perceptions relating to stability and reliability of service, with consequent reduction in vehicle utilisation.

¹⁷ CUTS Institute for Competition and Regulation (CIRC), Working Paper, 2013, S Sriraman

Further, while cost reductions resulting from unfettered competition may allow previously unprofitable services to continue, and may even lead to more frequent services being provided with certain service innovations using smaller vehicles to serve low demand, social objectives may require direct financing of some services that might otherwise be lost through competition in the market as was the case of rural bus services in Sri Lanka.

For non-urban bus services there may not be a case for major intervention by government in planning and controlling services. Leaving operators free to plan services in accordance with the needs of the passenger encourages service innovation and frees government to concentrate on the important task of setting and enforcing safety standards and of ensuring that competitive conditions prevail.

There are many ways of introducing fair competition in service provision to the inter-city passenger transport markets in India. Route franchising is a means of maintaining some public control over the level of services and prices in the public passenger transport market, while using competitive forces to secure supply at the lowest cost. This can apply to non-remunerative bus services alone (as in most of the UK) or for all services (as in London) with the supplier either carrying only the cost risk (as in some cases in the UK) or carrying both the cost and revenue risk. Competition between groups within a licensed franchise system can be promoted by ensuring that the routes for which monopoly franchises are granted overlap sufficiently to encourage competition for customers on common sections of route.

This approach is practiced to secure competition between different bus operators' associations in Latin American cities and also between operators of different kinds of public transport vehicles in the context of some African countries. This form of competition makes it possible to some degree to organise supply, and limits anti-competitive operating practices, as long as there is a competent franchising authority to prevent the emergence of a single strong cartel.

State Policies Affecting Competition – Passenger Road Transportation Sector¹⁸

The State Transport Authority should be confined to the task of regulating fares, fixing routes and schedules, setting quality standards, preparing tender specification, etc. It should not be allowed to participate in the tender process. On the other hand, it is recommended that the maintenance of the assets, staffing and quality of service should be the responsibility of the operator. This is to manage the interests of the stakeholders involved including the clear defining of the role each one of them.

In addition, the nature of competition introduced should be a controlled one that calls for regular renewal rights of operation rather than free access to the market. Sweden and Denmark are successful examples of such a regime. Their experience reveals that controlled competition could lead to more attractive services at lower costs. It achieves best results in attracting passengers to public transport (provided privately) and uses resources most efficiently (Toner, 2001).

¹⁸ NCAER 2007, 'State Policies Affecting Competition: Passenger Road Transportation Sector', Final Report. It can be accessed at: http://www.cci.gov.in/sites/default/files/2statepoliciesaffecting_20080508111218.pdf

The main functions of the state regulator should be:

- Fare policy: the fares are recommended to be regularised by the regulating authority and not the operating authority, as the operator could abuse its dominant position by charging high tariffs or may also charge predatory prices to thwart competition.
- USO: The regulating authority should be responsible for the application of the Universal Service Obligation norms in the non-commercial markets so as to prevent preclusion.
- Tax restructuring policies: Private bus operators have to pay additional taxes, while their public counterparts are not liable for the same. As a result, there is a built-in disadvantage for the private operators. Moreover, the Value Added Tax has different rates with respect to the public-private services due to which the public operators might have an edge over the private operators as the former pay lower taxes.

Therefore, to give them a level playing field, the same taxation regime should apply to both public and private operators. In addition, private operators do not have access to public bus shelters whereas public operators do. As a result, they park illegally in residential colonies. Instead, a level playing field needs to be provided here too. Equal treatment to all is certainly competition enhancing as it militates against the possibility of abuse of dominant position, thereby falling in the bracket of the Competition Act, 2002.

- Network planning: The regulator should systematically plan and develop the bus service as a network of services and routes. This is essential in the face of the necessity of integration, Firstly, of the bus services, and, secondly, of the bus service to all other modes of transport. It should be responsive to the constant changes brought about by the progress of technological innovation, land use development, social mobility and economic conditions.
- Rights: The regulator should protect the rights of the bus passengers. It should be responsive to the grievances of the passengers. It should have an efficient mechanism in place to investigate complaints made by passengers and take action against violations of rules and regulations by operators.”

Salient features of Gujarat Inter-city Public Transport Regulator

Purpose & Objective

The purpose of the inter-city transport regulator would be to develop and implement rules, regulations through administrative actions for engagement of public and private operators in provision of inter-city transport services in the state of Gujarat. The overall objectives of the regulator would be to: (i) safeguard the interest of commuters, (ii) create a level-playing field for operators; and (iii) help achieve the government's mandate to evolve an efficient inter-city transport system.

Structure

Gujarat Inter-city Transport Regulator would be set up as an independent economic regulator. An IAS officer would act as the Executive Head of the Regulator, with an Executive Committee of six-eight part-time members assisting him with advice and technical inputs on the functional areas of the regulator. These members should be part-time members and meet once every quarter. The Executive Head of this authority

should be elected for a period of five years by a Committee of the Gujarat Assembly and be accountable to it (by submitting annual narrative and financial report).

The members of the Executive Committee should consist of senior officials from:

- (i) State Department of Transport
- (ii) Representatives from Zonal Transport Offices (if applicable)
- (iii) State Department of Finance
- (iv) State Department of Urban Development
- (v) State Roads & Buildings Department
- (vi) Representatives of Operators Associations (both public and private)
- (vii) Two experts of Transport from the state or with interest/experience in the sector
- (viii) Consumer groups and/or NGOs with interest/experience in the sector

The Gujarat Inter-city Transport Regulator will collaborate with the National Authority and other state transport bodies and public entities so that the inter-city transport segment is planned and operated as part of an integrated transport system to meet the mobility needs of the users within the state.

Functions

The Gujarat Inter-city Transport Regulator will undertake the tasks of regulating fares, fixing routes and schedules, setting quality and service standards, preparing tender specification and regulation of transport infrastructure (especially meant for inter-city transport services).

The regulator would carry out the dual functions of regulating transport infrastructure and services, with some of the specific areas highlighted below:

Infrastructure	Services (Inter-city)
<ul style="list-style-type: none"> • Bus Stands and terminals • Workshops/Repair Stations • Passenger waiting area, ticketing and information systems, restrooms and other related utility services • Managing PPPs in infrastructure 	<ul style="list-style-type: none"> • Route/service plan • Fare regulation • Procurement and contract administration (PPP projects) • Service quality standards (safety)

The regulator would cooperate with specialised organisations/institutions to carry out its functions. In its initial years, the regulator would lay special emphasis on creating awareness among commuters, operators and the general public about its objective and functions. A grievance redressal mechanism would also be set in place for parties adversely affected by the activities of the regulator.