

Cost of Monopoly in Bus Transport *Case of Gujarat*

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This Discussion Paper has been prepared as part of the project entitled ‘Competition Reforms in Key Markets for Enhancing Social & Economic Welfare in Developing Countries’ (CREW Project, www.cuts-ccier.org/crew/). The project is being implemented in four countries: Ghana, India, Philippines and Zambia, and across two common sectors: Staple Food and Bus Transport with the support from DFID (United Kingdom) and BMZ (Germany) facilitated by GIZ (Germany).

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The views expressed here are those of the authors and not that of CUTS International

Introduction

This paper builds upon the CREW Project's findings in relation to the intercity bus transport system in Gujarat, India. The existing project analysed the interstate bus transport system in Gujarat with an emphasis on areas where the introduction of competition could potentially increase performance outcomes. The goal of this paper is to understand why the existing inefficiencies exist and how to overcome political opposition to introducing reforms into the sector.

To do this, the paper uses 'political economy analysis' to identify the winners and losers under the *status quo*, i.e. the groups that can be expected to oppose/support reforms to the current system of bus transport.

From here the strategy for overcoming the opposition from the winners under the *status quo* is developed. It is found that the primary political opposition to improving on the existing *status quo* of interstate bus is likely to come from the Gujarat State Road Transport Corporation (GSRTC) labour unions. It is then argued that the best method of overcoming this opposition involves a strategy of compensation coupled with public advocacy that aims to create support for policy reform among consumers.

The paper proceeds in four sections. The first section outlines the structure of the inter-city bus transport system in Gujarat as presently exists. The second section identifies winners and losers under this *status quo* as well as outlining the net cost of inefficiencies in the existing system. The third section briefly outlines policy recommendation as developed in the larger CREW analysis and analyse existing and potential impediments to implementing this recommendation. The final section proposes a strategy for overcoming these impediments and conclude.

Bus Transport Sector in India and the Policies

The Bus Transport Sector and the Status Quo

The Evolution of Bus Transport Sector in India^{1,2,3}

The level of development and efficiency of the transportation sector of a country has a significant direct and indirect impact on its economy. At the macroeconomic level, a more efficient transportation system enables greater mobility of inputs (including manpower) and outputs, ensuring better productivity and competitiveness. At the same time, at the micro-economic level, transportation has a varied impact on producer, consumer and production cost.⁴ In parallel to the direct impacts of transportation sector, the indirect impacts of an efficient network are equally important. It opens the access to the rural and semi-urban markets, more

¹ Transport Research Wing, Ministry of Road Transport and Highways, Road Transport Yearbook 2011-12

² Sriraman, S., 2011, Competition and Regulation in India 2011, Chapter 9 – Public road (passenger) transport regulation in India, pp. 215-238

³ Working Group Report on Road Transport for the 11th Five Year Plan

⁴ Rodrigue, J. P. and Notteboom, T., The Geography of Transport System, Chapter 7 – Transportation and the economy: <http://people.hofstra.edu/geotrans/eng/ch7en/ch7menu.html>

uniform spread of economic development, more cultural exchange, assimilation and unity – all helping in its own way to build a stronger nation.

The transport sector in India includes various alternative modes like roads, railways, aviation, inland waterways and shipping, giving a wide variety of choice for conveyance of goods and ferrying people across the country. However, road transport remains the backbone of the system. While the transportation sector as a whole accounted for 6.5 percent of GDP in 2011-12, road transport alone accounted for 4.8 percent of GDP with railways at a distant second position at 1 percent of GDP.

Bus transport service in India is approximately 100 years old. A large number of buses were already plying by the 1920s, and the first motor bus route started in Mumbai in 1926 running between Afghan Church and Crawford Market charging a fare of 25 paise.⁵ The unregulated fast pace of growth in this early period, however, led to unhealthy competition. The Indian Motor Vehicles Act (MVA) 1914, the first legal and regulatory framework governing motor vehicles in India, failed to effectively deal with this burgeoning sector. This early expansion in the bus service even managed to pose a threat to the railways. All these factors led the Mitchell-Kirkness Report of 1932 to recommend restriction on the number of licenses per route, fixation of schedules & fares, and compulsory motor insurance. Later, formal control was imposed in the form of MVA 1939.

The policy favouring control over road transport continued in the post-independence period. An indication towards progressive nationalisation of the sector was given early, with enactment of the Road Transport Corporation (RTC) Act 1950, and addition of special provisions for State Road Transport Undertakings (SRTUs) in the MVA. Later, Industrial Policy Resolution of 1956 also put Road Transport in Schedule B.⁶

The enactment of the RTC Act, 1950 enabled the state governments to establish a Road Transport Corporation for the whole or any part of the state⁷ based on the avowed objectives of:

- (a) extending and improving an economical and efficient road transport service;
- (b) spreading the benefits of development of road transport to the public, trade and industry, and
- (c) ensuring better coordination among road and other modes of transport.

In parallel, the MVA had the provision empowering state governments to nationalise road transport services to be operated by SRTUs.⁸ At the discretion of the state government, such nationalisation could be undertaken for the road transport services in general across the state or any particular class of such services in relation to any area or route or any part of it.

⁵ <http://www.indiabookofrecords.in/records-gallery/science-and-technology/first-motor-bus>

⁶ Schedule B included sectors which were to be progressively state-owned and in which private participation would play only a supplementary role to state effort

⁷ Chapter II – Road Transport Corporations; Section 2 – Establishment of Road Transport Corporations in the States

⁸ Chapter VI – Special Provisions Related to State Transport Undertakings, Section 97 to 108

Reservation for the SRTU, as per the MVA, thus could be done in partial or complete exclusion of other private entities at the discretion of state government. In case of area or routes reserved for the SRTU, existing permits could be cancelled outright or modified to limit its period of validity and/or reduce number of authorised vehicle and/or curtail the number of routes. Further, even in cases where a SRTU has not applied for a permit to ply on notified area or routes, only temporary permits were allowed to be issued to private parties, and that too would expire immediately, once a permit for the said route was granted to the SRTU.

Despite multiple amendments in the interim, a new Act was required to address the changes that have occurred in transport technology, pattern of passengers and freight movement, development of road network, improved techniques in the motor vehicle management, etc. This led to the enactment of the current MVA 1988. With RTC Act still in force, the provisions for the SRTUs though were retained. In addition to these central MVA and RTC Act, there are the central and state Motor Vehicle Rules (MV Rules). The provisions of the state MV rules vary from state to state within the ambits outlined in MVA. As a result, the shape and structure of the bus transport market varies across states.⁹

The MVA also makes a strong distinction between two types of bus passenger transport segments: (i) **Stage carriage** - motor vehicles available for hire at separate fares paid by or for individual passengers either for the whole journey or for stage of the journey and (ii) **Contract carriage** - motor vehicles engaged as a whole under a contract for carrying passengers mentioned therein. The contract may be for a fixed amount or at a fixed rate or sum on (a) time basis irrespective of route or distance, or (b) point to point basis. In either of these cases, a contract carriage permit holder cannot stop during the journey to pick up or set down passengers not included in the contract. Taking advantage of the power vested with the states, some of them like Gujarat have reserved the stage carriage routes for SRTUs.

The SRTUs performed reasonably well in the first three decades post introduction, but soon started to falter due to financial constraints, increasing operational inefficiency and political interference, rising competition from the illegal/ clandestine operation of the private operators, suboptimal regulatory oversight, corruption, etc. The slowdown in the fleet expansion due to financial constraints, ballooning subsidy burden, etc. finally led the Planning Commission in 1993-94 to shift policy stance and seek investment from private sector to meet the rising demand. The change in the policy stance gets reflected in the share of private sector in the overall number of buses in the country, which increased from 55 to 92 percent in 2012. This fast pace of growth and the policy shift also led to a few policy distortions in the initial phases.¹⁰

Since the Central acts allow the states considerable choice in terms of implementation, there is wide variation in state MV Rules resulting in considerable deviation of the ground condition across the states. As an example, whereas in Maharashtra all intra-state routes are reserved for public operations since nationalisation in 1974, Madhya Pradesh has abolished the Madhya Pradesh State Road Transport Corporation (MPSRTC) in 2005. Similarly, as on 2005, the share

⁹ For an expository discussion on the variation in the rules and how they impact competition, see NCAER, 2007, State Policies Affecting Competition: Passenger Road Transportation Sector

¹⁰ For a detailed discussion, see Sriraman, S., 2000, Report on State Road Transport Undertakings in India, submitted to the 11th Finance Commission, Government of India, and World bank, 2005, Road Transport Service Efficiency Study, Mimeo, World Bank, Washington, DC

of private buses varied from only 7 percent in Maharashtra to 97 percent in Orissa and 85 percent in West Bengal. This inter-state variation has been nicely summed up in the NCAER (2007) study, which computes competition index for bus passenger transport in select seven states. Rajasthan comes out as the most competitive among the lot and Maharashtra at the bottom.¹¹

Inter City Bus Transport in Gujarat

GSRTC was formed in 1960 under the provisions of the RTC and MVA as mentioned earlier, mandated with providing inter-city bus services both within Gujarat and neighbouring states. In the initial phase, both GSRTC and private operators co-existed in the market. However, taking advantage of the provisions of MV and RTC Act, in 1994 the Government of Gujarat reserved the stage carriage segment in the inter-city routes for GSRTC. As a result, only GSRTC henceforth had the stage carriage permit to operate its inter-city service whereas all the private operators in the inter-city segment were given contract carriage permit.

This legal monopoly creates entry barrier and reduces the size of the market for private operators. Absence of competitive rivalry, assured availability of budgetary support delinked from any minimum performance requirements, absence of any comparative benchmark, etc. also leads to embedded systemic inefficiency in the SRTUs. GSRTC is a prime example of such a scenario with Rs3bn revenue deficit in 2012-13 alone. The legal monopoly thus over time adversely affects welfare of both private and public operators.

Legal monopoly status for GSRTC in stage carriage segment limits scope for direct competition. Entry barriers created in the form of reservation of stage carriage segment for GSRTC reduces the market size for the private operator. The private players holding contract carriage permit cannot openly compete with GSRTC as the availability, schedule, fare, etc. of private services cannot be pre-specified by them. For passengers, this artificially limits the horizon of service availability, more so in the face of shrinking size of GSRTC services.

Assured availability of budgetary support from government without any minimum performance requirements weakens the incentive for reigning in inefficiencies. Moreover, in absence of competitive benchmark, such inefficiencies remain unchallenged. Any cost increase leads to either higher subsidy or higher fare with limited emphasis on cost neutralisation through improving efficiency. In addition, presence of financial support for GSRTC introduces market distortion as fare charged by GSRTC acts as benchmark for private contract operators, allowing inefficiencies of GSRTC to have a systemic adverse impact.

¹¹ NCAER, 2007, *op. cit.*

Policy Recommendation to Improve Competition

Abolishing the monopoly of SRTUs: Maintaining monopoly of SRTUs, even when their scale of operation is falling, imposing a large subsidy burden on the state exchequer. For example, GSRTC (average) operational fleet size declined from 7,800 buses in March 2003 to 6,700 buses in March 2013, with corresponding decline in passenger carried from 1.27 to 0.84 billion.

However, in the current political-economic set up, the SRTUs are a reality and very few states unlike Madhya Pradesh are likely to abolish them. As a result, there needs to be some thinking on how to integrate these public operators in a reformed transport framework with greater private participation and competition. Some of the following measures can also be looked at:

- A negotiated performance based contract model may be followed with such SRTUs, tying state budgetary support to target fulfilment. A certain number of operational efficiency parameters such as ratio of on-road buses to total fleet, punctuality in services, revenue per km, cost per km, manpower deployed per bus, revenue staff, daily operational length per bus, etc. may be identified and a timeline may be prepared for the SRTUs to achieve the target set.
- Benchmarks may be decided based on the performance of the other private/public operators plying under identical/similar service environment. This can enhance operational efficiency of the public operators, preparing them for eventual free competition against private players. Better cost efficiency in operation will also reduce the subsidy burden on the state exchequer.
- The need for state level public transport regulator has also been proposed in the draft Road Transport and Safety Bill 2015, and some of the states need to show the way. The findings from the CREW project clearly make a case for such state regulators in both the states of Gujarat and Madhya Pradesh.¹²

Losers under Status Quo

Private Entrepreneurs

Continued monopoly of GSRTC, despite its inability to service the market fully is also imposing additional transaction costs on the private operators in the form of fines, bribes, and legal bills for operating stage services. According to interviews with private bus operators, they estimated that they spend roughly Rs10,000-Rs120,000 per year per bus on bribes and up to Rs50,000 per month on penalties.¹³ Given that the government has essentially reached a *status quo* in which the private operators are not blocked but instead forced to pay regular penalties and fines, these costs are largely passed onto consumers through increased bus fares.

Payment of penalties, fines and bribes is of course less certain than the payment of taxes and licensing fees. This causes inefficiency as this uncertainty limits the ability of private operators to properly plan for expenses. This may lead to scenarios in which private operators choose a

¹² India Diagnostic Country Report of CREW Project (http://www.cuts-ccier.org/crew/pdf/Diagnostic_Country_Report-India.pdf)

¹³ This information has been received through an FGD with intercity private bus operators in Gujarat during the course of CREW Project

non-optimal fleet size (either excessively large or small) because they need to account for the possibility of unexpected penalties and/or bribes.

The current *status quo* most likely favours large private operators due to the uncertainty of costs and the need to manage officials. This occurs in two ways. Firstly, bus providers need connections to officials which cause a barrier to entry in the sector and limits smaller players. Secondly, payments to officials increase the fixed costs of private operators, which mean that smaller firms will have a higher operating cost per bus route than larger firms. Thus, the *status quo* discourages the entrance of new operators into the field and therefore reduces competition. This too ultimately leads to higher costs for the consumer.

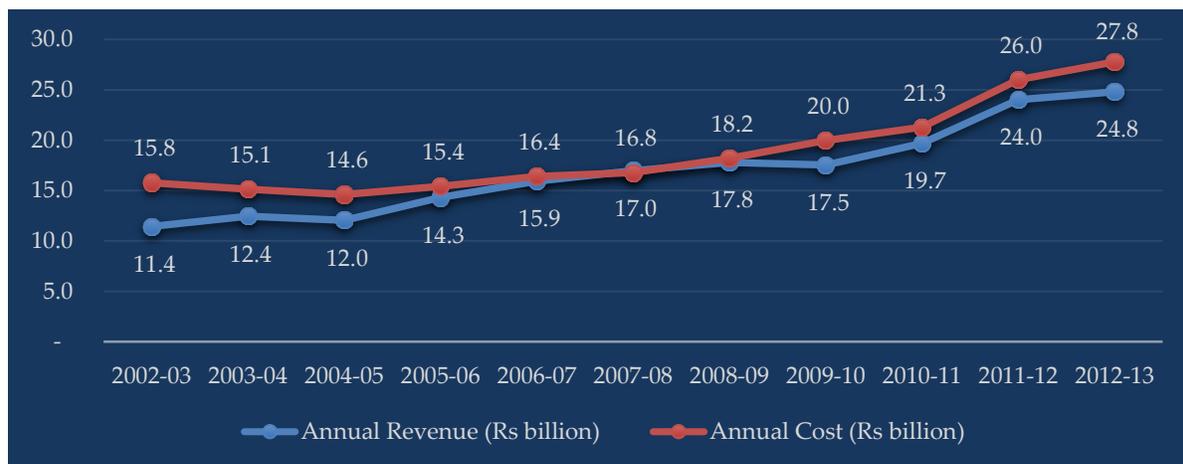
As mentioned above, the private operators in Gujarat many times operate as stage carriage and when caught doing so may lead to litigation in case of repeat offenders. The private bus operators reported that for a bus operator it is difficult to bear the litigation alone. They indicated that the cost per petition could easily reach up to Rs500,000. Therefore, these operators generally prefer to file litigation as associations to reduce the burden of costs. They further mentioned that working as associations also acts as a point of advocacy by these private operators for the government to review the 1994 Gazette Order. *Government Budget:*

The Government's budget clearly suffers under the current *status quo* of intercity bus transport in Gujarat. The loss of revenue can be broken into two categories:

- 1) Cost of subsidising the increasingly poor financial performance of GSRTC, and
- 2) Lost tax revenue from forcing private operators to act illegally.

Apart from the declining size, the inefficiency in the operational aspect of GSRTC can be seen from the consistent phenomenon of cost overshooting revenue, even though the revenue growth rate over the period has been marginally higher than the increase in costs. Thus, GSRTC requires increasingly large subsidies overtime to meet the gap between profits and costs.

Figure 1: Cost overruns revenue consistently, requiring ever increasing external support



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

Funds that are used to subsidise the failing GSRTC system of buses could be better allocated to other areas – for example building road and transport infrastructure that could benefit everyone.

In regards to lost tax revenue, the current system in which GSRTC has a legal monopoly on stage services means that when private operators provide stage service they generally do not issue legal tickets and therefore do not pay taxes. Essentially, the private operators evade taxes on stage service because they are operating the service illegally. This means that the government is losing revenue that could again be spent to benefit the state as a whole.

Furthermore, because the private operators are not including all costs (i.e. taxes) in their business model this creates further distortions in the market. They are likely to be operating inefficiently due to these distortions, for example they may be over providing service in some areas and under-providing in others or charging prices that do not reflect true costs.

The private operators reported that the benchmark for their fares is GSRTC's fare especially on popular routes such as Ahmadabad – Baroda, where the frequency of state run buses is high. This also holds relatively true for long distance intercity routes. However, this tendency of the private operators to set fare benchmarks in translated to higher fares for commuters on routes where they are more favoured by the commuters.

Bus Passengers on Busy Routes

The inefficiencies in the current system also adversely affect consumer welfare with reduced capacity of service delivery of the SRTUs (in terms of quality of buses, number of routes operated, frequency of services offered, etc.) For example, GSRTC (average) operational fleet size declined from 7,800 buses in March 2003 to 6,700 buses in March 2013, with corresponding decline in passengers carried from 1.27 billion to 0.84 billion. The decline in service delivery capacity of monopolist SRTUs in the face of rising demand for mobility also creates an ever-expanding demand-supply gap.

Table 1: Physical Performance of GSRTC over the Decade

	Mar-03	Mar-08	Mar-13
Average Fleet Held (Number)	9,097.00	8,069.00	7,719.00
Average 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 Kms Offered (Billion)	52.13	50.38	50.82
Passenger Kms 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

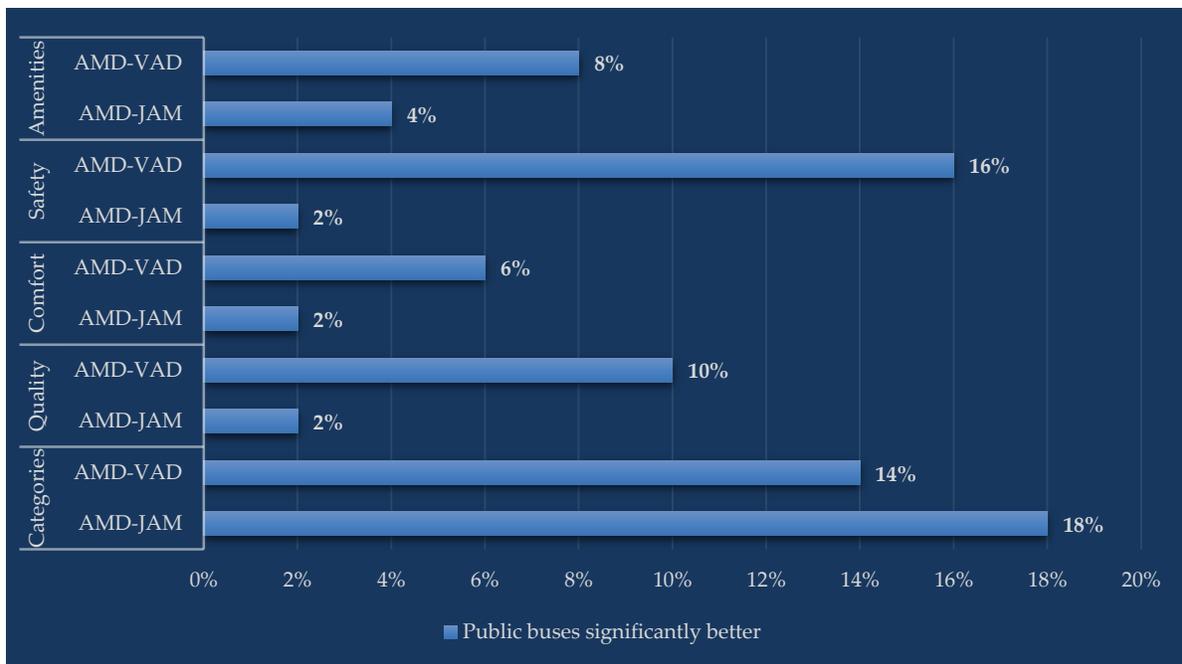
Note: As on March 2004.

This gradual decline in GSRTC fleet has resulted into a gradual build-up of excess demand in stage carriage service in the state, being fulfilled by the clandestine entry of private operators in the stage carriage market in the face of continued legislative monopoly for GSRTC.

There are plenty of cases where inefficient government services may be providing benefits to consumers of those services, i.e. government provided electricity with subsidised costs. We could imagine a case where GSRTC service fell into this category and it appears that it may in rural areas as discussed later, but in regards to the major routes that have large numbers of passengers this does not appear to be the case.

The majority of Gujarat inter-city bus passengers do not rate GSRTC service above the private (albeit illegal) operators. Only 2 to 18 percent of the respondents rated the service of the public operator across different parameters to be significantly better than private operators. Moreover, two-thirds of passengers are indifferent between private and public services even as 57 percent are aware of the illegality involved in the nature of the operation of private operators.¹⁴

Figure 2: Commuter Perception on Service Standards of Private (contract carriage) and Public (stage carriage) Operators in Gujarat¹⁵



Increase in fare and impact on household finances have also been nil to marginal for more than 3/4th of respondents. The commuters in Gujarat also do not find any significant difference in fare between private and public operators.

¹⁴ Supra Note 12

¹⁵ *Ibid*

Figure 3: Fare across Public & Private Operator in Gujarat¹⁶



Winners under Status Quo

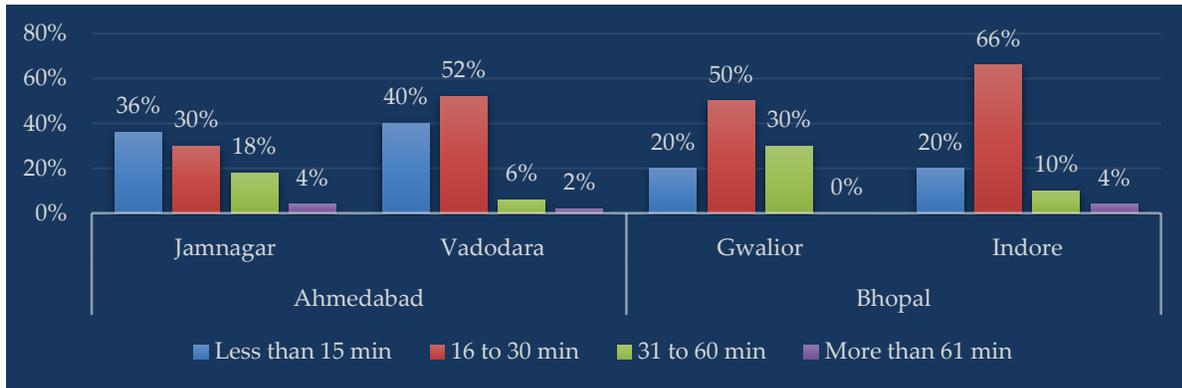
Bus Passengers on Remote Routes

In the previous section we showed that the majority of bus passengers do not benefit from the GSRTC monopoly on inter-city transport in Gujarat. However, passengers who live off of major routes benefit from the current *status quo* in which GSRTC operates buses to villages that are not profitable. In fact GSRTC claims to cover 98 percent of all Gujarati villages on their website as mandated by the Universal Service Obligation. Many if not most of these buses are not located on routes that would be profitable for private operators to ply due to insufficient numbers of passengers. In particular, GSRTC buses provide services to tribal areas and these routes are mostly loss making due to low passenger density. In 2011 almost a quarter of GSRTC routes were in tribal areas. Without GSRTC these villages would not be served.

If we compare the case of Gujarat to Madhya Pradesh where the government operator was abolished after incurring massive losses the survey shows that the share of people who have to travel more than 15 minutes by foot in order to reach the nearest inter-city bus route is far lower in Gujarat (39 percent) than in Madhya Pradesh (59 percent). Similarly, whereas 60 percent of Gujarat commuters find the access to be easy, the ratio falls significantly to 40 percent in Madhya Pradesh. The presence of an SRTU in Gujarat (GSRTC) and its involvement in creating a wide network may also have a role in this positive feedback. The frequency of buses is also better in Gujarat – 36 percent of respondents claimed a frequency lesser than 15 minutes relative to only 20 percent in Madhya Pradesh.

¹⁶ *Ibid.* 14, p 9

Figure 4: Better General Rating for Inter-city Bus Services in Gujarat¹⁷



However, while there is evidence that bus passengers from rural areas benefit from the operation of GSRTC buses, there is no reason to believe that they benefit from the *legal monopoly* of GSRTC. If the monopoly is removed, and GSRTC buses would still operate then and it is expected that the passengers living in rural areas to be unaffected. Therefore, while bus passengers on rural routes benefit from GSRTC service it is unclear that they would lose if the current system were reformed. Because of this, remote bus passengers are unlikely to block reforms of the current system assuming those reforms do not abolish GSRTC service completely.

The interactions with the Department of Transport, Gujarat indicated their willingness to explore the approaches available for undertaking this reform. This is indicative of the fact that when the monopoly of GSRTC is taken away to would be done through proper planning and in a phase-wise manner to ensure availability of bus transport in all regions of Gujarat.

Concessional Bus Passengers

As discussed earlier, the standard fare for a GSRTC bus is similar if not slightly higher than the fares of illegal private operators. However, there is substantial variation in fares paid among riders on GSRTC buses. Almost one-third of passengers on GSRTC buses are paying reduced fares because of government concessions.¹⁸

Of these concessions a large percentage are for students. GSRTC provides service to 296,000 rural female students who are given a full concession, i.e. they pay nothing for service. GSRTC provides service to another 528,000 students who receive subsidised fares operates 6,365 routes exclusively for students.¹⁹

Workers in SRTUs

GSRTC has a large and unionised workforce. As of 2010, there were 40,000 organised workers in three recognised GSRTC unions.²⁰ In that year, unions threatened to strike in order to win prompt payment of wage arrears and a dearness allowance. The strike was called off after the

¹⁷ *Ibid.*14, p 9

¹⁸ "An analysis of Perceptions of Commuters at GSRTC" Patel and Kothiya

¹⁹ "Road Transport: Connecting Lives" Presented at Vibrant Gujarat Global Summit 2015, 11-13 January 2015

²⁰ <http://archive.indianexpress.com/news/gsrctc-unions-withdraw-strike-call-after-settlement-over-arrears/673136/>

Chief Minister of the state intervened and guaranteed all union demands would be met. In February 2013 GSRTC workers across the state went on a two-day strike with other public sector unions over rising prices, end of PSU disinvestment and raising the minimum wage.²¹

The fact that the union went on strike over issues that do not directly affect GSRTC workers highlights the level of organisation and willingness to go to strike. The fact that they acted in concert with unions in other sectors such as banks and post offices suggests that GSRTC unions may be able to call in support from these sectors if their own interests are affected.

Politicians/Government Officials

Even though there is no direct evidence of the estimated benefits that the politicians and government officials gain from the monopoly, but it is evident from the interactions that the nationalisation and de-nationalisation of bus routes is a sensitive issue. The issues related to fares, commissioning of routes, demands from unions, etc. play a major role in shaping the opinions of the public. The possible reason for the lack of political initiative in this direction could be the fear of developing negative opinions and reduction in subsequent votes.

Net Cost of Status Quo

The legal monopoly of GSRTC increases private operators' fares and operational costs and reduces competition (which, again, should drive down prices and increase service).

Furthermore, the monopoly decreases the efficiency of GSRTC by limiting competitive rivalry. The annual report of GSRTC for 2012-13 shows the revenue deficit of Rs 3 billion. The monetary support therefore is provided by the state which could otherwise have been utilised for development work like infrastructure, education, etc. There is restricted entry of big private buses within the cities of Gujarat like Ahmadabad, Baroda, etc., as they are not allowed in state owned parking space within the intercity bus stations in Gujarat (also due to the monopoly status of SRTU).

Private operators, therefore, operate mini buses to collect passengers from within the city and carry them to the big buses parked outside the city limits. This has resulted in additional cost of operation for fleet cost for mini buses, cost of new licenses, labour cost, fuel cost etc. The private operators reported an additional cost of Rs500,000 month due to this, the cost of which too is passed on to the commuters.

The subsidies and inefficiencies of GSRTC that arise from its monopoly status ultimately have high costs for society at large due to the loss of Government revenues as well. The increasing Government funds spent on subsidies coupled with the lost tax revenue from private operators who provide stage service illegally mean that the Government is unable to provide efficient services in other sectors and/or must increase taxes. Again, this ultimately means that the general public suffers from the *status quo*.

²¹ <http://timesofindia.indiatimes.com/city/ahmedabad/The-trade-union-strikes-back/articleshow/18602619.cms>

Incentives for Policy Change for Various Stakeholders

Bureaucrats and Politicians

Actors within the Gujarat state government and bureaucracy are well aware of GSRTC's lagging performance and continued fiscal imbalances. Beginning in 2006-07 the state government has made some efforts to improve the performance of GSRTC. GSRTC purchased new buses including luxury buses that were meant to directly compete with the illegal private operators.²²

The state-owned company has also built a number of new bus terminals in recent years with the goal of improving bus service while also improving revenues through a PPP model in which the private operator rents out commercial areas in the terminals.²³

However, efforts to reform the inter-city bus transport system in Gujarat have failed due to differing beliefs about the appropriate policies to fix the system and because of opposition from vested interests- primarily from GSRTC labour unions. In fact, private bus operators claimed that the GSRTC union regularly complains to the RTO (Regional Transport Office) about the continued presence of private operators.

Bus Passengers

There have been few if any demands to change the *status quo* emanating from the general public. As discussed in the prior section, approximately one-third of bus passengers have some form of concession from the government which provides reduced fares. The survey results indicate that passengers are indifferent between private operators and GSRTC. Thus, the private operators provide an exit option for passengers- if they do not like GSRTC service they can use private operators. If passengers on these private operators were regularly being harassed by government officials then we may expect demands for change from passengers. However, the government has been instructed to not harass passengers who ride private operators and allow private operators to complete routes even when found to be doing so illegally.

Furthermore, most respondents in the survey agreed to the view that the presence of the public operator has had a salutary impact in reigning in the fare charged by the private operators. While this does not mean that passengers support the monopoly status of GSRTC, it does indicate support for the public operator. Therefore, it appears that any attempt to win public support for removing the monopoly status of GSRTC would need to be careful of assuring passengers that GSRTC will not be abolished in the process and there would be a continued reliable value for money service provided to them.

²² <http://deshgujarat.com/2015/02/24/gujarat-budget-govt-to-purchase-1050-new-st-buses/>
<http://timesofindia.indiatimes.com/city/ahmedabad/GSRTC-to-run-luxury-bus-services/articleshow/22150076.cms>
<http://indianexpress.com/article/india/gujarat/gujarat-state-transport-buses-get-libraries-on-board/>

²³ http://www.business-standard.com/article/companies/vadodara-s-bus-terminal-punches-above-its-weight-114021401450_1.html

Business Groups

Akhil Gujarat Tourist Vehicle Operators Federation²⁴ is the association of private operators in Gujarat, earlier known as *Akhil Gujarat Pravasi Vahan Sanchalak Mahamandal*. The organisation was founded in March, 2000 and is registered as Non Trading Corporation. It has more than 500 registered members and aims to work collectively on issues related to bus transport for private operators in Gujarat.

The association has not directly lobbied for the removal of the monopoly status of GSRTC, although, in interviews they did cite this as a major concern and one that they have brought up in discussions with the Ministry of Transport, Gujarat. Instead they have focused on more micro level changes. For example, in a case in May 2014 the association sought to disallow police from confiscating buses en-route operating as stage carriage illegally. Instead the association wanted to simply pay fines but be able to complete the given journey, which the court agreed to.

As another example, the association favors some form of training for bus drivers as opposed to the current system that mandates a level of education for drivers. According to the association, the minimum educational requirement for a bus driver to obtain a license is ‘Pass – Class 8th’, which is a fairly high requirement as drivers are largely uneducated. The requirement has led to further rent-seeking activity in that potential drivers (many of whom already have good amount of experience of driving buses) pay for fake education certificates. In many cases the bus operators pay for the fake certificate directly which again increases costs that must ultimately be passed onto the consumer.

Why has the Recommended Policy not been Implemented?

The primary opposition to any reform of GSRTC’s monopoly status will come from the GSRTC Union. As discussed earlier, the GSRTC Union is powerful as a large and organised voting block that politicians need, but more importantly as a group with the potential to strike. The union has already shown its willingness to strike in the past and over much smaller issues than the potential removal of GSRTC’s monopoly status. Furthermore, there is evidence that the GSRTC already lobbies directly to ministers and bureaucrats against the current *status quo* in which private operators are *de facto* allowed to operate after the payment of fines and penalties.

Conversely, there has been very limited pressure to reform from interests that would benefit from a change to the *status quo*. While the private operators’ association has broached the subject with Ministry of Transport, Gujarat, there has not been a sustained lobbying effort. Perhaps more importantly, there has been no pressure from consumers (i.e. bus passengers). This is not surprising given that consumers may not understand the inefficiency costs of GSRTC’s monopoly, however, any public support for reform would go a long way towards offsetting opposition from the GSRTC Unions.

There are also non-vested interest reasons to the maintenance of the *status quo*. As discussed earlier, there have been officials who have showed willingness to reform in the past. However, there is no agreement on the best method of reform and, as such, the process has remained as it

²⁴ <http://akhilgujarattouristbusoperator.org/>

is. In addition, the process of allocation of officials to other offices leads to restarting due to different opinions about how to implement reform and whether the system should be reformed at all.

How Could Opposition to the Policy Recommendation be Overcome?

From the above discussion, the two main impediments to reform the *status quo* are: Potential opposition from the GSRTC union; and lack of sustained pressure from interests that would benefit from reform. Successfully implementing reform requires overcoming both of these impediments.

In regards to opposition from the GSRTC union, some form of compensation to workers in the union could help in getting the favour of some if not all of the members from the union and help in managing their resistance. Compensation to labour is often one of the first policies implemented during major structural reform programs, and in this more limited case the same is also true: compensation to workers will almost certainly be needed to reduce opposition.

Compensation can take a number of forms, but must consider the primary concerns of workers at GSRTC. Do workers oppose reform because it threatens their job security, because it may reduce their wages or because it may require an increased workload? In all probability, opposition is based on some combination of these concerns. Compensation could take the form of guarantees that these benefits will not change for some specified period of time. If workers are not threatened by reform in the short-term they are far less likely to oppose it. Furthermore, once the initial reform takes hold, the power of unions to block further reforms will be reduced, as the effectiveness of strikes by the GSRTC workers will decline. While these guarantees would not improve the efficiency of GSRTC in the short-term, they would provide long-term benefits as the guarantees expire.

In regards to a lack of pressure from interests that would benefit from reform, public advocacy and lobbying needs to work to develop this pressure. As discussed previously, an Association of private operators already exists. Going forward, the Association needs to actively lobby for sustained reform. This may help in providing some impetus to reform and, perhaps by emphasising a specific method of reform, will be able facilitate the previous issue in which there was limited agreement on reform among bureaucrats.

However, lobbying from private interests will have a limited effect as private operators are not a voting bank and are unlikely to have sympathy with the public. Because of this, an advocacy program aimed at informing bus passengers about the benefits of reform and the costs of the *status quo* could be extremely beneficial. Any passenger support for reform could help offset opposition from the GSRTC union and make strikes and protests less successful due to reduced public sympathy. In fact, if the public understands the inefficiencies of GSRTC, then strikes may backfire and increase public support for reform.

Overall the approach calls for planning of a practical public private partnership approach that is aimed at making the Gujarat intercity bus transport market pro-competitive. The government should be acting as monitoring authority looking at the interests of both the operators and

passengers. While planning it is necessary to adopt an inclusive dialogue with key stakeholders to ensure the smooth passage of this suggestive reform. This may not only help in reducing the resistance of stakeholders with vested interests, it would also help in ensuring that private operators are not operating to maximise their profits alone.