



PUBLIC TRANSPORT GOVERNANCE IN ROAD PUBLIC TRANSPORT FRANCHISING IN THE PHILIPPINES: PERSISTENT CHALLENGES AND STRATEGIC OPPORTUNITIES

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METRO MANILA

- Main urban agglomeration and economic center
- Accounting for a disproportionate size of the Philippine GDP (37%) despite occupying less than 1% of the country's total land area
- Problem of increasing congestion
 - JICA (2014) estimates that Metro Manila traffic costs about PhP 2.4 billion in losses per day and will likely increase to PhP 6 billion a day without intervention
- EDSA
 - Annual social cost of congestion (forgone wages of passengers and bus operating costs) is about PhP 5.5 billion (Domingo et al, 2015)

METRO MANILA PUBLIC TRANSPORT

- Around 3,170 registered bus units are operated by around 228 bus companies
- Major issues
 - Serious excess of seat capacity
 - Decrease in daily round-trips
 - Severe traffic congestion along main thoroughfares especially during peak periods

DECREASING PUBLIC TRANSPORT SHARE

- Absence of an effective quality management framework has contributed to the poor quality of public transport services and the rapid growth of individual motorized traffic
- The public transport share in Metro Manila was 78% in 1996 but this has decreased to 70.5% in 2012 which translates to almost 1% decrease annually.

NEED TO IMPROVE PUBLIC TRANSPORT

- Experiences from developed countries show that to compete against private transport, public transport must continuously improve its quality and enhance the service it offers to regain passengers
- How do we address Metro Manila's public transport system?

BUS INDUSTRY STRUCTURE

The bus sector was liberalized in 1992 to encourage competition in the market and this was expected to effectively address the burgeoning demand for public transport arising from population growth and in-migration from the countryside. The liberalization of the bus sector has resulted in the proliferation of bus operators and high volume of bus units plying the major thoroughfares of Metro Manila. (Llanto and Gerochi, 2017)

Number of Operators and Buses, Manila Bus Routes

Route	Number of Operators	Number of Buses	Average No. of Bus/ Operator
Manila EDSA Route	266	3,711	14
Manila Non-EDSA Route	128	1,632	13
Manila-Provincial North Bound	371	3,684	10
Manila-Provincial South-Bound	357	3,568	10
Total	1,122	12,595	11
Alabang-Fairview	21	341	16
Baclaran-Navotas	17	171	10

Domingo et al (2015)

BUS INDUSTRY STRUCTURE

- The large number of small bus transport operators is likely to indicate substantial competition in the bus market. It was expected that competition for passengers on the road would result in more efficient transport services.
- In reality, however, the current bus market structure, characterized by easy entry of hundreds of small operators and oversupply of buses, has led to a rather chaotic situation along EDSA.

Market Structure of the Bus Transport Sector, Selected Routes

Route	Characteristics	Distance (round-trip)	HHI	1/HHI	Number of Operators	Level of Competition
Alabang-Fairview	Busiest, highest number of operators, one of the longest routes, through EDSA and major residential and commercial areas	87.42 km	0.087	11.5	21	Substantial
Baclaran - Novaliches	One of the busiest routes, highest average number of passengers	64.6 km	0.070	14.3	17	Substantial

BUS INDUSTRY STRUCTURE

- Over time, bus transport services along EDSA and adjoining roads have deteriorated, leading to a very fragmented and disorganized bus market characterized by an excessive number of vehicles run by numerous operators owning small and inefficient fleets, an average of 13 vehicles per operator
- The situation is exacerbated by the poor driving behavior of bus drivers that is mainly motivated by the compensation arrangement between them and their respective operators.
- Because of a monitoring problem, the operators base the compensation of the bus driver and the bus conductor as a percentage of bus ticket sales. This provides the driver and the bus conductor with the incentive to do whatever it takes to pick up as many passengers as possible and as time or road space would allow. The unintended effect is widespread poor driving behavior which has become a public safety hazard and a cause of traffic congestion

PUBLIC TRANSPORT GOVERNANCE

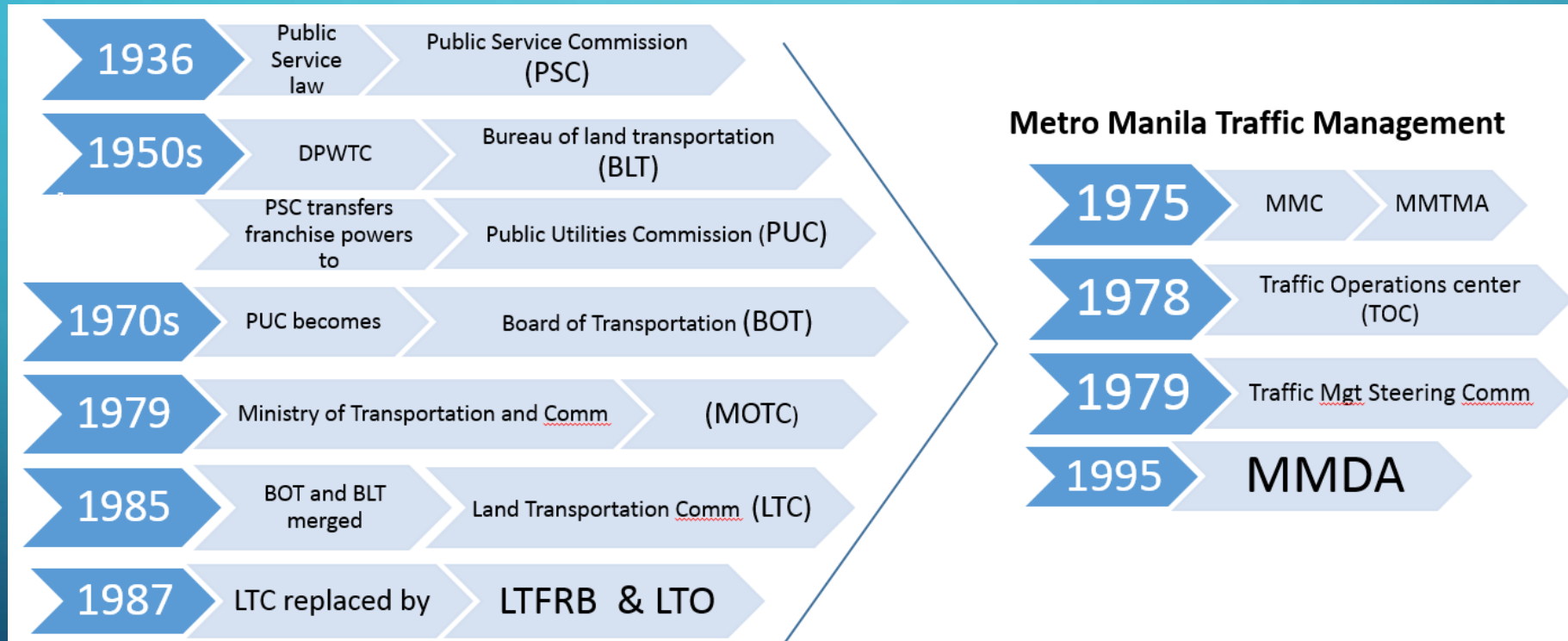
- Basically a government responsibility, regulation of carrier operations consists of four (4) basic components. These are: (a) policy setting; (b) plan formulation; (c) plan implementation; and (d) regulation and supervision. The tasks involved in these components are mandated to specific government agencies by laws which created them.
- There are three (3) types of regulations involving carrier service operations: 1) Economic Regulation; 2) Safety Regulation; and 3) Traffic Regulation.

TYPES OF REGULATIONS

- 1) **Economic Regulation.** This refers to the control of the level of supply of carriers in terms of the number of units to be operated, control of who will be granted the authority to operate a service, prescription on the route or area of operation of a service and control on the fare to be charged by a service operator. These functions collectively form the framework of franchising of public carrier services and fare setting.
- 2) **Safety Regulation.** This refers to the control on which carrier units should be authorized to operate and which individuals shall be licensed to handle the movement of a carrier. This pertains to carrier registration and crew licensing regulation.
- 3) **Traffic Regulation.** This refers to the control on the movement of carriers along the travelway. In the road transport sector, this is called traffic management and enforcement.

Agency	Laws creating the Agency	Function
Department of Transportation (DOTr)	Executive Order Nos. 125 and 125-A as amended by EO No. 226	Serves as the primary policy, planning, programming, coordinating, implementing and administrative government agency on the promotion, development and regulation of a dependable and coordinated network of transportation and communications systems, as well as in the fast, safe, efficient and reliable transportation and communications services
Land Transportation and Franchising Regulatory Board (LTFRB)	Executive Order No. 202	An attached agency of DOTr to promulgate, administer, enforce, and monitor compliance of policies, laws, and regulations of public land transportation services except tricycles and non-motorized vehicles.
Land Transportation Office (LTO)	Executive Order Nos. 125 and 125-A as amended by EO No. 226	An attached agency of DOTr enforcing RA 4136 (Land Transportation and Traffic Code) and primarily responsible for the (i) inspection and registration of motor vehicles; (ii) issuance of licenses and permits; (iii) enforcement of land transportation rules and regulations; (iv) adjudication of traffic cases; and (v) collection of revenues for the government
Philippine National Police (PNP)	Republic Act 6975	An attached agency of the Department of Interior and Local Government (DILG) tasked with the enforcement of traffic rules and regulations along national highways, through its Traffic Management Group (TMG)
Department of Labor and Employment (DOLE)	Republic Act 4121	Monitors the compliance of bus operators with Department Order No. 118-12, Series of 2012 (The Rules and Regulations Governing the Employment and Working Conditions of Drivers and Conductors in the Public Utility Bus Transport Industry) and provides technical assistance on how to comply to the said DO
National Economic and Development Authority (NEDA)	Presidential Decree No. 107	Responsible for the coordination of policies in the transport sector (roads, maritime, air, etc.) in the Philippine Development Plan
Metropolitan Manila Development Authority (MMDA)	Republic Act 7924	Perform planning, monitoring, coordinating and implementing functions where appropriate, and in the process, exercise regulatory and supervisory authority over the delivery of metro-wide services within Metro Manila
Local Government Units (LGUs)	Local Government Code of 1991 or Republic Act 7160	Responsible for construction and maintenance of streets, traffic management and transport regulation within the city or municipality and franchising of tricycles

TRANSPORT REGULATORY BODIES



Domingo et al (2015)

PUBLIC TRANSPORT REGULATORY MEASURES

- Entry and Exit and Fare Regulation

- Market entry and exit in bus services in Metro Manila was formally liberalized in 1992. At least two bus companies are allowed to operate on an identified bus route.
- A new operator may apply for franchise with the Land Transportation Franchising and Regulatory Board (LTFRB) to operate on a new or existing route. The franchise applicant has to provide proof that conditions for entry are satisfied.
- The LTFRB uses a Route Measured Capacity (RMC) test as a screening process to determine the merits of granting franchises shows the conditions for granting bus franchises.
- A bus operator who has been given a franchise or Certificate of Public Convenience (CPC) may provide bus transport services to the public during a five-year period. The CPC can be renewed up to 3 years.
- The LTFRB regulates the fares of non-air-conditioned buses. For air-conditioned buses, requests to increase fares are subjected to a public hearing by the LTFRB.

PUBLIC TRANSPORT REGULATORY MEASURES

- Public Necessity Concept

- Prospective operators or companies for the provision of road public transport services are required to submit several documents to support their applications. Applicants or interested investors/ operators either individuals, companies or corporations proposing to operate public road transport services are required to prove that they are 1) Filipino citizen or Filipino dominated corporation, 2) financially capable to operate public transport services and 3) that there is public necessity.
- "Public Necessity" is to be proven during open court hearing for the franchise application by the Land Transportation Franchising and Regulatory Board (LTFRB) of the DOTC. This is in pursuance to and should be consistent to the pertinent provisions of the Public Service Act (Commonwealth Act No.146).

PUBLIC TRANSPORT REGULATORY MEASURES

- Route Measured Capacity (RMC) Concept

- The RMC concept designed by the Road Transport Planning Division (RTPD) represents the "public necessity" requirements in the franchising procedure, it represents the number of services required in a given route therefore "in Bus or PUJ units", while in other countries it is represented as preferred "headway", it attempts to represent the demand in terms of unit(s) requirement.
- RMC is an attempt to define the "seats required" of a given route. "Seat requirement" is a public transport analyses jargon widely adopted in the transport planning world. It represents the levels of service of a passenger service taking into consideration the trips generated and/or attracted by a certain route structure and proposing a certain level of operation while ensuring the viability of operation. All these analyses and inputs submit to market acceptability principles.

ROUTE MEASURED CAPACITY (RMC)

- Legal Basis

- Memorandum Order No. 202 signed by Philippines President Corazon C. Aquino on November 24, 1988 under Section 1 stated: "public transportation in Metropolitan Manila shall be subject to among others the economic and practical needs of the area as defined by the Route Measured Capacity of the route".
- Department Order No. 92-587 "Defining the Policy Framework on the Regulation of Transport Service" under paragraph eight says "the route measured capacity test or other similar tests of demand for vehicle/vessel fleet on any route shall be used only as a guide in weighing the merits of each franchise application and not as limit to the merits offered" and under paragraph nine "where there are limitations in facilities such as congested road space in urban areas, or at airports and ports, the use of demand management measures in conformity with market principles may be considered. Therefore, the RMC's were not fully implemented by LTFRB as it submits to the principle that RMC is a "guide."

ROUTE MEASURED CAPACITY (RMC)

- Technical Basis

- RMC refers to the desired level of service in number of bus units, jeepney units, or their combination and equivalent to "frequency" requirement in public transport analyses. In transport modelling, using transport models such as STRADA, it is the end result of several iterations of passenger demand, volume capacity ratio and vehicle operation characteristics proposed for the route.
- The public transport (PT) network analyses will result to the earlier mentioned "frequency" and the unit is expressed in terms of "in vehicle units per hour". In the case of the Philippines, since the authority issued to operate a public transport service is through franchising, per Commonwealth Act 146 it is granted on a per unit basis. Therefore, the "frequency" resulting from the PT network analyses has to be further analyzed and should be expressed in terms of "in vehicle units" either as bus units, jeepney units or their combinations. This conversion process adopts the RMC concept.

CHALLENGES IN PUBLIC TRANSPORT MANAGEMENT

- Metro Manila Bus Consolidation in the 1970s
 - Guariño et al. (2001) indicated that the experience of having bus consortia in the 1970s did not work due to (i) the inadequate fare structure to cover increasing costs, (ii) stiff competition with jeepneys, (d) maintenance costs charged by the government-accredited contractors that have impacted the finances of of the bus operators, (iii) the absence of comprehensive operating guidelines in the implementation of the consortia, and (iv) bus operators' tendency to operate the buses themselves despite the presence of a consortia.

MARKET FAILURES

- Absence of curb rights
 - Street or road curbs and bus stops are public property . Since no one has property rights or exclusive use to these areas, buses and other forms of transport service feel free to compete for passengers on the curb.
 - This means entry to the passenger market is relatively unrestricted, which encourages bus drivers plying the same route to race each other to the bus stops to pick up passengers, reflecting weak incentives for bus operators to provide reliable and scheduled services .
 - The “boundary” system of compensating bus drivers and conductors exacerbates the free-for-all, winner-take-all attitude behavior in bus stops along EDSA.

MARKET FAILURES

- Waiting or search costs
 - Passengers incur waiting or search costs if they want to “shop around” for the lowest priced or the highest quality buses (Gomez-Lobo 2007).
 - Because passengers cannot differentiate whether the next bus will offer a lower fare or high quality service, and also because they want to reach their intended destination soonest, passengers would tend to board the first bus to arrive.
 - Since passengers value time more than these variables, demand for buses is relatively inelastic. This blunts incentives for any price competition or to improve quality of services. As a result, bus markets are characterized by high bus fares and proliferation of poorly maintained or ageing bus fleets.
 - This outcome is reinforced by regulatory capture, particularly in developing countries where institutions are weak.

MARKET FAILURES

- Principal-agent problem

- The poor and aggressive driving behavior – long dwell times along the curb to load passengers, racing to bus stops, obstructing other buses from loading potential passengers to maximize revenues, and outright disregard of the rules – that contributes to road congestion and compromising road safety, is rooted in the compensation arrangement between the operator (principal) and driver (agent).
- Because the principal cannot monitor the work effort of bus drivers and contractors, it seems logical to base the driver's daily compensation on the number of passengers transported and the corresponding volume of ticket sales. To get as much daily compensation, the driver has the incentive to pick up as many passengers as possible with little regard for road safety and road congestion.
- The driver's incentives are aligned with the operators' goal (i.e. the number of passengers of
- carried) but the problem is the negative externalities brought about by boorish driver behavior. Bus conductors are tasked to collect fares from passengers on behalf of operators and here, there is a great possibility of fraudulent reporting of actual revenues.

MARKET FAILURES

- Information Asymmetry

- Bus operators know the true cost of providing the service more than regulators and they can easily the quantity (for example, number of vehicles deployed to the streets on any given day) and the quality (for example, bus availability or frequency, dwell time along bus stops) of services.
- The bus service could be at or below the socially optimum level depending on the effort of bus operators and the regulator faces, therefore. a classic information asymmetry situation. The information problem can be seen in fare setting and in route franchising in the Philippines.
- Another phenomenon showing the problem of information asymmetry and the seeming inadequacy of the regulatory institutions to deal with it is the “kabit” practice among transport providers, whether they are bus, taxi or jeepney operators. The “kabit” practice is about a bus operator allowing another operator to use his government issued franchise for a fee. Ostensibly the franchised bus operator operates a fleet of buses he owns but in reality a few of these buses are owned by a second or even a third operator secretly paying him a fee.

REGULATORY ISSUES AND RESPONSES

Issues	Regulatory Response	Outcomes
Oversupply of buses	<ul style="list-style-type: none">• Nationwide moratorium on issuance of new franchises in 2003 (LTFRB)• Bus Rationalization Program 2007 (LTFRB)• Steeper penalties for illegal or 'colorum' vehicles (Joint LTO-LTFRB Memo 2014-01)• Route Measured Capacity (RMC) applied to new franchise applications (LTFRB)	<ul style="list-style-type: none">• Loose monitoring and enforcement of moratorium• Strong pressure/ lobbying from bus operators led to continued entry in the bus market• RMC considered ineffective for overlapping routes (JICA 2007)

REGULATORY ISSUES AND RESPONSES

Issues	Regulatory Response	Outcomes
Frequency of service	<ul style="list-style-type: none">• Modified Unified Vehicular Volume Reduction Program or UVVRP (implemented by MMDA) or commonly known as the number coding scheme.• Organized Bus Route or OBR (implemented by MMDA) scheme to control frequency along EDSA by imposing a common dispatching service. “Q” cards used to manually manage headways. Five control points and eight checkpoints were set up through which the flow of buses along the routes that ultimately overlap along EDSA can be monitored and regulated the flow of buses. Later upgraded by using radio frequency identification (RFID) technology.• A segregation system that also checks for outstanding traffic currently conducted at 4 points in Alabang (Muntinlupa), Baclaran (Pasay), Fairview (Quezon City) and Navotas. Drivers with outstanding cases are not allowed to drive until cases are resolved.	<ul style="list-style-type: none">• Extending the UVVRP to public• transportation sends wrong signal in terms of favoring private transport over public transport• Manual OBR unsuccessful mainly due to flawed dispatching and slow processing of violations• BMDS dispatching not consistently implemented; checks for driver violations are currently being conducted only at Fairview and Navotas.

REGULATORY ISSUES AND RESPONSES

Issues	Regulatory Response	Outcomes
Compensation contract between operator and driver (e.g. “Boundary System” wherein driver’s take home pay depends on the fare collection after an agreed fixed amount or boundary is paid to the operator for the use of the bus)	<ul style="list-style-type: none">• Part-fixed, part-performance based compensation directive (LTFRB 2012-001)	<ul style="list-style-type: none">• Difficult to monitor compliance due to numerous operators.• Operator revenues are anchored on number of tickets sold thus there is little incentive to change the status quo

LIMITATIONS OF THE RMC MEASURE

- Route analysis done by DOTr uses passenger demand resulting from surveys conducted. There is lack in effort or capacity to verify and validate these surveys;
- Variables inputted in the RMC formula are provided by investors or prospective operators creating an inherent bias;
- The integrity of using RMC highly depends on the integrity of the user and the inputs;
- The RMC was treated by LTFRB more as a guide in franchising; and
- A moratorium on the issuance of RMC for existing routes was declared by DOTr since August 2010. Hence, RMC is used only to validate the number of public transport vehicles on existing routes.

Source: Manresa et al (2015)

LIMITATIONS OF THE RMC MEASURE

- The gaps in the RMC as a policy process is also compounded by institutional weaknesses of the regulating agency (e.g. LTFRB) mandated to oversee public land transportation. These infirmities are as follows:
- A small unit in DOTr (the RTPD) in charge to compute RMC for the whole country;
- Congestion of applications/transactions in LTFRB;
- Lack of database that would provide for easier facilitation of transactions in LTFRB and DOTr;
- Limited number of personnel in LTFRB and DOTr;
- Unavailability of signatories in LTFRB, mainly because they are also doing other tasks in relation to their functions; and
- Too many required documents by LTFRB, the veracity and authenticity of which cannot be determined by the personnel.

Source: Doroy et al (2017)

NEW STRATEGIC POLICY DIRECTIONS

- Integration
 - Integration means the speedy, convenient, and economical connection of services to make up complete journeys for passengers from their origins to their final destinations
 - Types of Integration
 - Institutional Integration
 - Operational Integration
 - Physical Integration
 - Ticket Integration
 - Fare Integration
 - Information Integration
- Dedicate Bus Ways/ Bus Rapid Transit (BRT)
- Quality-based Service Delivery System

NEED FOR BETTER METROPOLITAN GOVERNANCE

- 1) Strategic spatial planning initiatives take many different forms, performing different kinds of governance work in different contexts
- 2) The formation of policy agendas should be integrated around some central framing concepts, which can then be translated spatially, so that stakeholders involved can grasp the practical implications
- 3) The development of the spatial dimensions of strategic plans is not just a matter of technical analysis, but the development of spatial logic and metaphors that can command attention and carry persuasive power in complex political contexts;
- 4) There is a need to create appropriate institutional arrangements among stakeholders; and 5) Initiatives benefits from the existence and acceptance of a strong role for the state and a strong political consciousness that allows for shifting governance

CONCLUDING REMARKS

- Public transport franchising continue to pose major challenges to existing institutions and the broader policy environment. Clearly public transport administration requires a more innovative and comprehensive view of the public transport governance framework above and beyond quantity metrics which were the subject of many interventions in the past.
- There is a need to pursue effective governance mechanisms towards harnessing new technological and institutional strategies

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THANK YOU!