

Public Transport Reforms – A Journey on Three Axes: Ownership, Competition, and Regulation

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THIS IS a roundtable on the public transport reforms and I would like to take you on a journey on three axes: ownership, regulation and competition, which I learned in my more than 45 years of work in the field. It was a journey with many turns. More than 40 years ago, I was an impressionable young person who looked at, first of all, data, literature from development agencies like the World Bank, and other researches from the Western sources which somehow made me say 'wow, these are big ideas that I should learn and capture.' But as time goes on, you get to middle age, after 10, 20 years, you've learned to be skeptical and cynical about all of those recommendations coming from different experts. After 40 years, you get to that point where you have learned a lot of things along the way. Competition, regulation, consolidation, all the issues. Of course, the journey is towards a good public transit system. So, let me try to share with you in less than 15 minutes my journey of more than 45 years.

First, I think we can have a consensus of what makes for a good public transport system. I put as number one convenient transfers with no cost penalties. Most commuters would rather have a door-to-door trip if they can have it. Meaning, almost no transfer. And when you get on board a vehicle you want comfort – you have a seat, you have ventilation, perhaps air-condition, and personal space, not a very crowded one. When you go to a bus stop or look for a jeepney stop, you want it accessible, convenient, very safe, very near your place. And once you're on board, you want your

journey times to be very reasonable – not so short, not too long. And of course, you want reliability, predictability, and high frequency at affordable fares.

Solving the public transport puzzle is really not as difficult as Rubik's cube, that's one thing I learned in 45 years. My early explorations on public transport regime was in two axes or two dimensions of competition versus regulation, and this is the matrix that I applied and researched on when I did consulting work (Figure 1). Around 2004, they were thinking of consolidation and, in fact, ownership was not an issue because it was a state-on enterprise. And at the time, I look back at the Bangkok experience on a public monopoly and its bad experience that happened afterwards and shared it. Of course, this is the same framework that I used in another city like Da Nang in Vietnam where I've also been part of a team that looked at public transport, and where I have to address these two issues of competition and regulation for public transport. But then, I found a third missing link to make it whole instead of making it just two-dimensional. I added the axis of ownership, so now I call it the trifecta or three interacting factors of ownership, competition and regulation. (Figure 2) And when you view it this way, it becomes a little bit clearer.

The strategy to me is a movement in 2 dimensions, either x, y, or z, but at least in 2 dimensions, or if you want to get out of one color cube to the other. It's tactical if you are changing a position within the same cube, and perhaps a movement in 1 dimension. It is an

My early explorations on PT Regime

←----- REGULATION ----->

	Regime	Demand on Public Institutions		Demand on Public Funds		Externalities: Effects on Other Sectors	
		Short Term	Long Term	Short Term	Long Term	Short Term	Long Term
COMPETITION	Public Monopoly	Medium: Capacity building for bureaucracy	HIGH: enlarge bureaucracy for transit O&M	HIGH: Funding to buy out or replace fleet	HIGH: Capex & Operating Subsidy	HIGH: Adverse effects on existing operators	LOW: minimized traffic impact
	Controlled Competition	High: Reform of LTFRB & franchising	Low: small bureaucracy required	Medium: Gov't may need to seed the consolidation	LOW: sound fare will lead to zero subsidy	Medium: Bus consolidation	Low: minimized traffic impact from fleet management
	Deregulated Regime	LOW: small bureaucracy & low competency	LOW small bureaucracy & low competency	NONE	LOW: for common infrastructure	Low: no change in current structure	HIGH: high congestion due to street competition

Figure 1. Competition and regulation

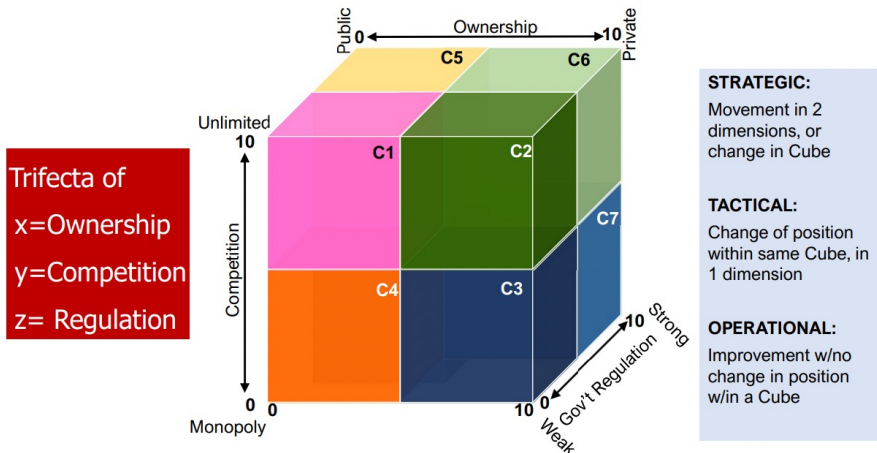


Figure 2. Ownership, competition, and regulation

operational matter if you are seeking improvement of changes but you do not change position within the cube. In these cities that go into the C4 or Cube 4, I call them the Thredbo countries. Where transportation is public, competition is 0, it's a monopoly, and institutions are very strong. They virtually have no paratransit to deal with. And the main competitor actually is the car, and they'll be happy if the public transport will get 30% or more of share.

So what is Thredbo talking about? They're talking about unbundling, service contracting, movement on the Y-axis. Some would call this mental gymnastics, but borrowing from the current language of this current administration, I would call the Thredbo discussion 'mental masturbation.' Very interesting, but very inappropriate to our situation. For cities of 3rd world countries, like us, we're actually in Cube 2, in that corner, where competition is almost unlimited, regulation is very weak – I put a score of 2 for our regulatory system – and ownership is 100% private. What is the reform thread that is happening within this cube? We want consolidation, which is a movement along the Y-axis from thousands of hundred thousands of competitors to a few service providers. We want to improve regulation, so we want to move on the Z-axis, but there is very few suggestion to move or change ownership. These pictures (see Figure 3) were shown to us in one of the Foundation for Economic Freedom forums about 6 years ago by somebody who was doing research on competition in the Philippines. He asserted that it was a clear demonstration of supply deficiency, absence of competition. And so, most of the audience in that forum who are eminent economists in the country said yes, there is lack of competition. But in terms of the learning, I think they're in the early stages. In that forum, I was the only one who stood up and said, no, it is not lack of competition. Supply is adequate but fare is too low. The reason for that? I've gone around the country, I've seen this scenery in several municipalities, overloaded jeepneys but there are 3 or 5 more

jeepneys empty on the terminal. Why? Because there is no backhaul, meaning they bring the passengers to one village outside the poblacion but there are no passengers on the way back; so what the jeepney driver will do is overload it with passengers so that he'd earn his revenue for the return trip. It's the same thing that is happening on your tricycles and on your skylab motorcycles for hire.

So you see, the viewpoints of whether there is competition or lack of competition depends on where you are in the learning curve. If you are early, there's lack of competition, but if you're far ahead like me after 40 years, you say, ops, no, no. It is not actually a lack of competition. Of course, for you, you can take the long route to your learning curve or you can shorten it, if you believe in me. One way to speed up your journey is to look back at public reforms in the last 45 years. And I would like to capture it in this kind of chart, a history of 40 years in one slide. From 1995-1990, 1990-2015, and 2015-present.

The Philippine experiment on public transport reforms started in 1975 on the Bus Consolidation Program. I was in charge of that program when I was in government. My task is to consolidate more than 120 bus operators initially in to 10 groups which we called consortia. Then, upon discussions with them after a year or so, we could not put them together to 10 because the bus operators could not agree with each other. They want to be separated, so we changed the letter of instruction signed by the President that lifted the ceiling to 14. We succeeded in forming 14 consortia, they have color coded livery and routes, meaning the routes are one color, that area of responsibility, and the buses also started the same color with one consortia. From 1990-2015, deregulation devolution became the mantra of the administration. The consortia was dismantled and they reopened the franchising on the philosophy that the more providers, the merrier and better for commuters. And then in 2015, we're back to bus restructuring and consolidation which was

ordered in May 2020 by Land Transportation Franchising and Regulatory Board (LTFRB). The challenge today, you have about 600 bus operators and you want to move it to something like 31. Also launched during this period is the Public Utility Vehicle Modernization Program (PUVMP) launched in 2017, aiming at 100% vehicle replacement and consolidation by 2022, which is next year.

In the first wave of reforms, the icon of bus reforms at that time was the love bus. It was the first air-conditioned bus in the country. It is very similar to the Point to Point (P2P) of today because it was providing express bus services. Why love bus? It was coined by a staff assistant when she saw the movie “The Love Bug” about the Volkswagen. When Imelda Marcos saw the love bus that we brought to Malacanán for ceremonial launching by the President, she claimed it as her idea.

At the present, we are talking about Bus Rapid Transit (BRT). BRT is now what we call the foster child of third wave reforms. In Metro Manila, we have the EDSA Carousel which has morphed into a busway. The literature on public reforms, if you will research on that in the 1970’s to about 2000, many advocate or proselytize about unfettered competition that the government should not interfere in the market. Then it changed its tune right about 2000, saying, no, we should have limited competition in urban transport service if that’s the only way to get better public transport service. In the 1990’s, of course, busways became popular, then it became renamed as BRTs of the year 2000 and so on. Other Asian cities such as Singapore and Bangkok were actually doing the same reforms as we did in 1975.

Bangkok went the other way. It chose the European route of the Thredbo country route of a public monopoly called Bangkok Mass Transit Authority. Taipei on the other hand built 11 busways.,. Singapore also consolidated 8 buses, but it did not really create a single monopoly. There were 2 or 3 bus companies



Figure 3. Overcrowded public transport vehicles

and these bus companies in Singapore have diversified into services other than buses. Because of the losses encountered by Bangkok in 10 years, it was a financial disaster. They went into bus contracting, the same issue that is now being discussed by the Thredbo countries. So that gives you an overview of the reform on the global stage, in the Asian stage, and on the Philippine side.

Let's look at current modes of public reforms, the bus consolidation, what I call version 2020. You are merging 600 or so operators into 31. The existing operators will have to re-apply, and one franchise will be given per one route. The bus route design did not specify the turn-around points, the depot locations for the transfer points between the bus routes. It did specify color-coding of buses and routes, but I haven't seen them yet after more than a year. If you look at those bus route designs, actually it tells me you only need 6 or 7 bus operators, and that is operational analysis: how will the bus be able to serve a particular area and it tells me you need only 6 or at most 7 bus companies. So that's one red flag that I see at the current effort. Then the second red flag, is there is little overlap of the other routes on EDSA, which means the transfer of passengers from other routes to EDSA will be problematic. The third red flag is it ignored that the demand load profile on EDSA is not flat. The operators now running on EDSA Carousel also reported that they don't have enough buses from the middle sections of EDSA, which means the bus route design did not consider the load profile along EDSA.

Let's compare the bus consolidations of the 1975 and the year 2020. 1970 was backed-up by a Presidential Letter of Instruction; the consolidation of 2020 is backed-up by the LTRFB Memorandum Order. The 1970 version had a cabinet level of committee and there are high-powered names like Cesar Virata, Enrile, I can recall as members of COBRE. I do not hear of any steering committee for the bus consolidation of 2020 – I assume it could be the Board of LTRFB. We

had a full-time project team interacting with bus operators; I do not see a project team for the 2020's. The route structure was derived from operators' own suggestions. We asked them how to group and modify the routes and we approved what was to us was logical. In the case of the 2020 version, the route structure was proposed by a consultant and imposed to bus operators (follow, or else...). There is also bus color-coding and route coding in the 1970 version. There was also no reduction in bus number; we only imposed minimum fleet size for its consortium. Whereas in the 2020 version, there is a reduction in bus number from 10,000 to 4,600 units.

Let's look at the PUVMP. That program targets 200,000+ jeepneys to be replaced with minibuses by 2022; it requires re-design of all public transport routes to be done by the local government units; and it also talks about amalgamation or consolidation, one coop or one operator only per one route. It has several dubious assumptions, but I will only point out three. One, you buy a new vehicle that will cost about 2.5 million pesos versus 300,000 pesos for the old jeepney, and without increasing the old fare, you'd think it will be viable – that is a wrong presumption. The other presumption is the local government can prepare route plans following a manual issued to all of them. Thirdly, the consolidation will magically happen because it was ordered.

The 3rd thread in the existing reform is what I call 'service contracting.' It is a very slippery slope, because the private sector counterparty is yet to be organized. Buses and jeepneys are in process of consolidation. You cannot contact thousands of small operators because it is a bureaucratic nightmare. This was experienced by LTRFB; several bus operators stopped operating because they could not be paid. There is also no pre-existing public transport agency. No local government has embraced public transport as a public service obligation (PSO). In contrast, that is considered as PSO by Thredbo countries. LTRFB as the counterparty on the government is the wrong

party to issue service contract. It is a regulator and it is not an operator, it has no experience in public transport management. And if you really want to destroy public transport in the Philippines, make the government the transit manager. My 4th issue with the service contracting is it opens a Pandora box. It is too tempting for politicians not to meddle and dip their fingers in and maybe affect the selection of fares or operators as well as the setting of fares.

And lastly, it starts from the wrong cube in the trifecta I mentioned earlier. This brings me to the last part of my presentation. What I have realized, after more than 40 years; what an aging researcher can share with some of those early in the game? Public monopoly is to be preferred when there is economies of scale, and that is the economic theory. Of course, there is no economies of scale according to the World Bank in bus transit or jeepney transit, but there is also one strong argument for it if we have institutions that are strong and competent like Singapore or Hongkong. We don't have that in the Philippines.

Government is a bad manager when it comes to operations & maintenance situation. It has a reverse Midas touch, it has the ability to turn gold into bronze and it can start, well initially, but it then accelerates into entropy. According to economists in a competitive market, the government hand is unnecessary, meaning strict regulations should not be there, and the dilemma to our transport regulations is balancing too many versus too few operators; too many operators can't differentiate the good and the bad. Thirty-one buses to me is too many. We're frightened with too few because we think that it's a monster which to me is imaginary because there are other modes that are competitors. They're hiding in plain sight. You don't have to have competition within buses; there are competition from other modes, for example, the car or the jeepney provide competition,

or even the taxi.

I cannot dismiss also colonial mentality inherent in some of the proposals. They think that anything that is invented abroad is very good for the Philippines, and anything invented by the local people, imagined by the local experts are not good. There are also still many questions. Is public transport modernization equivalent to corporatization or amalgamation? In short, can we have modernization without amalgamation? Second, can small operators be coordinated or integrated without consolidation? Can we have hundreds of thousands of jeepneys, 60,000 on Metro Manila operate like a colony of bees, without putting them under one umbrella? The PUVMP, can it be saved, or does it need saving? The bus consolidation seems to follow the old playbook; will it produce a new outcome this time around? When we talk about modernization of public transport, what about the more than 1,500 municipalities and LGUs throughout the country? About 1,400 of them really do not have buses or jeepneys to talk about, so modernization will fly over their heads.

As Steve Jobs would like to say, what comes after STO framework? When I was early in the game, I did ask what is the difference between strategy, tactics and operations. And this framework sort of guided me, but it also opened up the question: how about policies? There is another layer to your STO framework which is policy, and above policy is the value or norms. And then the last part is the creation. This framework puts everything, a guide, a compass, if you will, on what to do as you get in your own journey. So with that, I would like to end my presentation. I would like to thank you, everybody for bearing with a story of an old researcher and an old guy who has seen many things and got wounded in the process but still soldiers on.

About the Speaker

Engr. Rene S. Santiago



Engr. Rene S. Santiago is a founding member of the Transportation Science Society of the Philippines (TSSP). When he served as President of TSSP in 2002, the Philippines won the Best Domestic Society Award from the Eastern Asia Society for Transportation Studies (EASTS).

His transportation career began in 1973 when he joined government. Among the notable outcomes of his 5-year work in government were the consolidation of bus companies into 14 consortia, the formation of the Metro Manila Transit Corporation, and the creation of the Metro Manila Commission. Before he left government, he drafted the decree that separated the Department of Transportation and Communications (DoTC) from the Department of Public Works and Highways (DPWH). He began his consulting work in transportation in 1983. His institutional memory about transportation developments in the Philippines spans more than 47 years.

As a frequent guest on TV and radio over the last 8 years, he has become inadvertently controversial for taking on the hot issues bedeviling transportation and traffic in the Philippines. He has guested in several public affairs programs such as Headstart with Karen Davila on ANC, Ted Failon Ngayon on ABS-CBN, Magandang Umaga Bayan with Noli de Castro, Agenda with Cito Beltran on One TV, Investigative Reports on GMA 7, Agenda with Luchi Valdez on TV 5, and on CNN Philippines with James Deakins and Riza Hontiveros.

At one time or another, he served as advisor to three heads of the Department of Transportation (DoTr).