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Public transport demonstration route in Surabaya

# Legal, Policy and Institutional Aspects

May 2000, Surabaya



GTZ's Sustainable Urban Transport Project (SUTP) in Surabaya aims to work with related agencies and the people of Surabaya to devise and implement policies toward environmentally, economically, and socially sustainable transport in the city.

This will result in a range of "local" economic (enhanced investment climate), social (poverty reduction) and environmental (cleaner air) benefits, and will also contribute to a stabilisation of "global" carbon dioxide emissions from Surabaya's transport sector. The project is hoped to provide a model of how to reduce such emissions from the transport sector in large cities in developing countries.

GTZ SUTP has embarked on an integrated program, including – working closely with the City Government – development of sustainable transport policies, design and implementation of a public awareness campaign, technical measures to reduce vehicle emissions, enhanced air quality management capability, adoption of appropriate fiscal instruments and transport demand management measures, improvement of conditions for non-motorized transport and pedestrians, elaboration of an effective inspection & maintenance and roadworthiness program, promotion of the use of CNG, a public transport demonstration route including regulatory and institutional reforms to be applied nationally if successful, and dissemination of international experiences.

GTZ SUTP commenced in Surabaya in 1998 and is due to finish in 2001.



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Richard Meakin, May 2000

The findings, interpretations and conclusions expressed in this report are based on information gathered by GTZ SUTP and its consultants from reliable sources. GTZ does not, however, guarantee the accuracy or completeness of information in this report, and GTZ cannot be held responsible for any errors, omissions or losses which emerge from the use of this information.

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## INTRODUCTION

This is the report of Work Package 2 of the 'Elaboration of Concept and Implementation Plan for Bus Improvements Demonstration Corridor' in Surabaya. Terms of Reference are at [Appendix 1](#). The report is based on an assignment of 15 working days in Surabaya during the period from 7<sup>th</sup> to 29<sup>th</sup> January 2000. Work Package 2 addresses 'General Policy, Legal and Institutional Aspects'. Work Package 1 covers 'Transport Planning, Physical Improvements and Monitoring and Reporting Requirements', and is reported separately. The proposed Action Plan in Section 3 of this report incorporates the actions recommended by both Work Packages 1 and 2.

The goal is the preparation of a concept for a corridor pilot project to demonstrate how an integrated package of legal and institutional (operational and low-cost infrastructural) can enhance delivery and attractiveness of public transport service delivery.

## **1. THE CURRENT LEGAL BASIS OF BUS LICENSING**

Two areas of legislation are relevant to the pilot project. Firstly the legal provisions specifying the level of government at which the regulation of urban transport services should be carried out. Secondly the reforms to be introduced on a trial basis by the pilot project must be within the legal provisions governing transport regulation.

### **1.1 Legislation to Decentralise Transport Administration**

It has long been the policy of the Indonesian government to delegate certain government functions, which are essentially local, including the regulation of road transport services, to provincial and municipal governments. Progress towards implementation has been slow. The matter is of importance to the pilot project since its implementation will be confined to the city of Surabaya.

Ten years ago the government regulation to decentralise transport functions (Govt. Reg. 22/1990) made provision for the devolution of powers to regulate urban transport to the level of Tk. II. In practice, little devolution ever took place, partly because of the lack of resources at Tk. II level, and probably also because of the protection of interests served by the current arrangements. There is, however, a pilot scheme of delegation (including route licensing and vehicle inspection functions) in Bandung, Bali.

The implementation and consolidation of reforms at city level will continue to be very slow. It took Surabaya five years to enact local mayoral decrees (Nos. 102 and 103 of 1998) to give full effect to the provisions of the then national law on transport regulation Minister of Communications Decree No. 68/1993 regarding the Carrying out of Public Transportation (KM 68/93). The government regulation on local autonomy No. 22/90 had still not resulted in a significant devolution of transport regulatory functions to Level II when it was superseded by Law No.22/1999 regarding Local Government.

### **1.2 Legislation to Regulate Road Transport**

The legal basis for the regulation of public transport services is provided by a hierarchy of national, provincial and municipal legislation.

#### **1.2.1 National Transport Legislation**

The policy framework and basic categorisation of public transport services throughout Indonesia is provided in Government Regulation No. 41/93 regarding Road Transport.

Provisions on fare-setting are contained in Government Regulation No. 41/93 and Minister of Communications Decree No. KM 70/93 regarding Tariffs for Passenger and Goods Transport by Road.

More detailed provisions for public transport regulation are set out in Minister of Communications Decree No. KM 84/1999 regarding the Carrying out of Public Transportation (KM 84/99), which was enacted in October 1999. This decree specifies in detail the principles and procedures for regulating road public transport in Indonesia, though it is anticipated in the near future that many provisions of KM 84/99 may be overruled by local legislation enacted under regional autonomy legislation of 1999.

A full English translation of KM 84/99 was not available during the mission, but it is understood to contain some new provisions whilst leaving the procedures for public transport route licensing largely unchanged.

The main changes introduced by KM 84/99 are:

- Introducing the concept of “urban area transportation”
- provisions to address various road transport problems; eg regarding tourist vehicles, rental vehicles, border area transportation
- revised penalties for various infringements
- added provisions on route evaluation and classification.

The change of most relevance to this pilot project is the concept of “urban area transportation”<sup>1</sup> and “urban area routes”.

KM 84/99 Art. 1(5) defines “urban area transportation”:

Urban area transportation is transportation from one region to another region located in 2 or more adjacent municipalities or regencies which form a single economic and social unity, by public bus and/or public passenger vehicle which operates in a fixed and regulated route and is of a commuting nature.

KM 84/99 Art. 2(e) defines “urban area routes”:

An urban area route is an urban route which crosses a municipal/regency boundary within one province or through the boundary of adjacent provinces.

The logical application of the concept in Surabaya should be to confer authority for licensing all routes within the urban area on the Level II municipal government. However, Article 45(2)(b) of KM 84/99 provides that the licensing authority for "urban area transportation" is the provincial governor (at Level I). This appears to be inconsistent with the spirit of the new national law on local autonomy Law No.22/99 regarding Local Government, which provides for the devolution of responsibility for urban transport management to Level II. There is reported to be strong support in Surabaya for vesting all responsibility for bus licensing in DLLAJ Level II, rather than Level I, though no formal commitment has yet been made.

DGLT is responsible for drafting national licensing legislation and concedes that the new provisions in KM 84/99 are not yet fully disseminated within the DGLT, nor widely known outside the department.

DGLT supports the application of the 'urban area transportation' concept to Surabaya. To enable it to be implemented, a decree of the DGLT will be needed to modify Article 45(2)(b) in the case of Surabaya. Words to this effect would be required:

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<sup>1</sup> This concept was developed primarily to apply to deal with the situation of Jakarta Both. West Java Kabupaten and DKI Jakarta Provincial agencies, for example, issue many licenses for taxis which in practice all operate in the DKI Jakarta area, resulting in an oversupply of taxis.

Di kawasan perkotaan Surabaya, izin trayek untuk trayek perkotaan sebagaimana dimaksud dalam KM 84/99 Pasal 45 Ayat 1, diberikan oleh Walikota/Kepala Daerah Kota untuk trayek perkotaan yang melalui perbatasan administratif daerah kota/kabupaten dalam satu propinsi.

### 1.2.2 Provincial Transport Legislation

Provincial licensing legislation for East Java<sup>2</sup> has recently been drafted and is to be administered by DLLAJ Tk.I., but it is not yet in effect. It was reported to be necessary to enable DLLAJ Tk.I to fully implement the provisions of KM 68/93. No significant changes are made by the new provincial legislation<sup>3</sup>.

### 1.2.3 Municipal Transport Legislation

Detailed local arrangements for administration are provided in provincial and municipal/regency legislation. In Surabaya the relevant decrees are:

- Mayoral Decree No 102/1998 regarding Procedures for Completion of Public Passenger Transport Route Licences within Surabaya Municipality.
- Mayoral Decree No. 103/1998 regarding Procedures for Completion of Public Passenger Transport, Transport Business Licences within Surabaya Municipality.

## 1.3 Licensing Procedures

Current licensing procedure for buses and angkots in Surabaya follows the principles set out in Reg 41/93 and the detailed provisions in KM 84/99. KM 84/99 has only recently been enacted and is still not widely known, though with regard to licensing procedures it differs little from its predecessor KM 68/93.

### 1.3.1 Transport Business Licenses

Operators of road passenger transport services require a Transport Business Licence to engage in the transport business. It remains valid as long as the business continues.

### 1.3.2 Route Licences

Three categories of public transport service license are defined in the law:

- i. Every bus or passenger car operating a service on a 'fixed and organised' route must hold a Route Licence (*Ijin Trayek*) which is valid for 5 years. A Control Card, valid for one year, is issued with each Route Licence and must be carried on the vehicle. The Control Card must contain details of the vehicle, the owner and the daily operating timetable of the vehicle, except for vehicles on rural routes where demand does not warrant a fixed timetable. In practice a timetable is often omitted.
- ii. Every taxi, rented vehicle and tourist vehicle which operates on the instructions of the hirer and not on a fixed route requires an Operating Licence (*Ijin Operasi*).

<sup>2</sup> No. 551.2/ /110/2000 'Technical Guidelines on Procedures for Awarding Route Licences for Intercity Transportation with East Java and Operation Licences for Taxis . . .'

<sup>3</sup> DLLAJ referred to an objective of "de-bureaucratization", such as time limits to respond to an application for a licence or amendment, but these were already provided in KM 68/93.

- iii. An Incidental Licence (*Izin Insidental*) may be issued to a company which already holds route licences, and which has spare vehicles. It permits the vehicles to be used for a single round trip only to meet a temporary demand for a festival or special occasion.

One of the reforms proposed by the current study is that all the operators on a route should be collectively responsible for providing a proper service on that route. This can be facilitated if all the buses on a route are covered by a single route licence. Under current practices the application of KM 84/99 (and previously KM 68/93) results in one route license per operator per route. Thus where there is only one operator on a route, there is only one route license, but where—as is usually the case—there are more than one operators on a route, there is accordingly more than one route license per route<sup>4</sup>.

There is no legal obstacle to issuing a single Route Licence to an incorporated group of owners who win the right to operate a route by tender.

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<sup>4</sup> The Consultant's view is that a Route Licence may cover any of the following:

- A single vehicle on a multiple-operator route
- all the vehicles of one owner on a multiple-operator route
- all the vehicles of one owner on a sole-operator route
- buses owned by companies and individuals.

## 2. POLICY, LEGAL AND INSTITUTIONAL REFORMS

### 2.1 A Metropolitan Authority for Planning and Licensing

To overcome the co-ordination problems caused by the geographical division of transport responsibilities in Surabaya, several previous studies have recommended the formation of a body, such as an Urban Transport Authority, to be responsible for policy making, planning and regulation, including operational aspects such as licensing.

DGLT has proposed a “Dinas Perhubungan” (Communications Office) under the municipal government. Bina Marga (Highways Division of Public Works Dept) would be a part of this Dinas. This proposal remains under consideration.

As part of the implementation of Law No.22 of 1999 regarding Local Government, the DGLT/Dept of Communications have proposed an independent regulatory body<sup>5</sup> for the cities that would include both government officers and NGOs and would have authority to act independently of government. This body would be specified in a Decree of the Minister of Communications. Its responsibilities would include licensing of public transport. This idea is still being developed. There are uncertainties related to the implementation of this and other measures as many regulations related to the new laws on regional autonomy are still being developed.

Articles 90 and 91 of Law No. 22/99 make provision for some form of urban transport authority, though such a body would be solely governmental (consisting of joint representation between contiguous Level II authorities), and would therefore differ from the independent regulatory body described above.

So in the institutional context too, the tender project is being implemented against a background of change and uncertainty. The Consultant recommends that an ad hoc, interim institutional arrangement should be made in Surabaya through a municipal decree. Its constitution and functions should reflect the consensus that there is a need for better planning and co-ordination of transport across the current boundaries. Its objective should be to improve the quality, range, efficiency and demand-responsiveness of urban public transport through incentives and competition. A more liberal regulatory policy based on a sound knowledge of demand is needed, especially in setting fares. The inclusion of representation by transport users is entirely consistent with these objectives.

An authority, (Surabaya Transport Authority) comprising representatives of both DLLAJ I and II, other departments of municipal government, user representatives and chaired by the Mayor, is proposed to act as an interim transport authority for Surabaya. This committee could be formed by an enlargement of the existing Transport Guidance Board (Badan Pembina Transportasi Daerah [BPTD] ). It would also take over the responsibility for managing urban termini from Dinas Terminal. Its primary responsibilities would be to:

- Determine urban public transport policy

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<sup>5</sup> It was anticipated that this body would be established by the Level II governments and that the members of this body would elect the chairman. It was expected that DLLAJ Tk.II would play a prominent role, but would not necessarily lead this body. Discussion of this concept is still internal to the Dept. of Communications, though it is likely to form part of the department's Five Year Devt. Program 2000 – 2005. No discussion has yet taken place with the cities.

- direct the preparation and consultation of an annual three-year public transport plan for the city
- direct the administration of new route licensing and regulatory procedures.

In the context of the current project the authority would supervise the procedures and programme for tendering bus routes, including the routes to be tendered, the sequence and approximate dates. The authority would be supported by the professional staff of DLLAJ II.

## **2.2 The Case for Tendering**

It has been demonstrated in many cities overseas that the private sector is capable of providing very efficient, demand-responsive bus services at affordable fares provided the operators have incentives to respond to users needs. Incentives may be created through competition between operators and by the regulatory system. Competition tends to keep service quality high and fares low. Competition may be generated by the award of licenses through tendering, and subsequently, for revenue and passengers. Government's primary task as regulator then becomes guiding the development of the bus industry. This includes ensuring that minimum vehicle and service levels are complied with by all operators, and that competition is on equal terms. The incentives must be carefully 'tuned' to remain effective. This requires regulatory staff to be trained in monitoring and planning techniques.

Although the private sector now operates about one-third of bus services in Surabaya, the quality and capacity of services remains low. The implementation of competitive tendering on a trial basis for the right to operate bus services is a central proposal of the pilot project.

## **2.3 The Legal Basis for Tendering Bus Routes**

### **2.3.1 The Need for a Legal Basis for the Initial Tenders**

Neither KM 84/99 nor its predecessor KM 68/93 makes any direct reference to the award of route licences by tender and no principles or procedures are specified. However, there is nothing in these transport laws, nor in the decentralisation laws Govt. Reg. 22/90 and Law 22/99, that precludes tendering. There is some recognition in the Department of Land Transport that the emphasis of the licensing system should now move from 'quantity licensing' defined by KM 68/93 and KM 84/99, towards 'quality licensing', but there is still no consensus on the definition of quality licensing, nor how it would be achieved through a tendering procedure.

The proposal to introduce a scheme of tendering bus route licences in Surabaya comes at a time of impending changes in the legal and institutional background of urban transport. Policies and institutional arrangements are in a process of transition to deal with the filtering down of implications and opportunities created by the new legislation on local autonomy.

Bus tendering in Surabaya will be introduced into a legal and institutional background which is in transition. There is a general climate of change and reform, but no clear idea of how these will translate into policies and strategies at city level.

In these circumstances, the most prudent strategy to enable tendering to proceed is to create an 'ad hoc' legal and institutional basis. DGLT has expressed support for the implementation of a scheme

of route tendering in Surabaya, but holds the view<sup>6</sup> that a new decree regulating tendering would be required only after the tender process has been successfully demonstrated and a decision made to use it on a wider scale.

DGLT's view implies that the first tender(s) would be conducted without a formal legal basis. The Consultant feels that a legal basis must be provided before the first tender is held, and feels that the success of the first tender is dependent on a firm legal basis which will:

- Define the constitution of the regulatory authority
- create a legal obligation on the authority to prepare and implement a tendering program
- commit the authority to tender and regulatory procedures that are transparent, fair and consistent
- give aggrieved bidders a course of action in case impartial procedures are not followed.

The rules of the game must be clearly defined, known to the bidders and applied consistently and impartially. A municipal decree on tendering is required to create this legal basis. Without it, operators will have little confidence in the tender process. It will be seen as an isolated experiment, able to be manipulated by the organising agency.

### **2.3.2 A Revised Licensing Scheme**

It is recommended that the current three-tier licensing scheme comprising:

- i. a Transport Business Licence – perpetual
- ii. a Route Licence - 5 years and
- iii. a Control Card - 1 year.

be replaced by a two-tier system for tendered routes:

- i. a Transport Business Licence - 5 years, extendable
- ii. a Route Licence 1 to 3 years, extendable subject to satisfactory performance.

It is recommended that the new licences be introduced prior to the holding of the first tender.

One Route Licence will be issued for each route awarded by tender. It will confer responsibility on the licensee to operate all the buses on the route in accordance with the licence. All vehicles to be used on the route must have a fitness certificate, be licensed as buses, and be identified in the schedule to be attached to the licence.

The obligations imposed on the licensee will be to:

- Maintain the minimum level and quality of service specified in the successful bid
- meet demand on the route
- ensure collective responsibility and accountability for all buses on the route
- ensure all staff serve under employment contract.

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<sup>6</sup> Expressed at a meeting between SUTP GTZ and DGLT officers on 17 February 2000.

The licence will confer:

- Some freedom to exceed the minimum service level
- a degree of security of tenure if operation is satisfactory
- a right to allocated terminal space
- a right to invoke procedures to restore economy 'fares to levels that enable cost recovery
- some freedom to adjust 'non-economy' fares in response to market conditions.

Only a company, consortium or cooperative with a clear management and responsibility structure and holding a Transport Business Licence will be eligible to bid.

The current system of flat fares for 'economy' bus services in Surabaya (which reflects nationally imposed fare scales) may only be feasible under the current system where each company's buses are distributed between many routes. During the trial period of the pilot project, fares may need to vary between routes, not only according to the category of service (basic, aircon, express, trunk, suburban), but also by journey distance and market conditions in the area served. The fares to be charged on the route may be among the tender selection criteria, or may be set by the municipal government. In either case procedures will be needed which entitle operators to adjust fares to meet increases in costs. Detailed recommendations for fare scales and mechanisms for escalating fares are set out in [Appendix 3](#)

The form of the current Route License and Control Card are specified by law. The specimen forms are schedules to KM 84/99 and licences issued must conform to these specimens.

The licensing system proposed by the pilot project is clearly inconsistent with KM 84/99. There will be no Control Card. Specific vehicles will not be allocated to specific routes. A fleet of licensed buses, managed by a single organization would be available to meet the specified service criteria which the operator must fulfil. The regulator will need powers to enforce the obligation of the licensee to operate the service according to the service specifications in the route license, which will be drawn from the winning bid, and to authorise variations to meet changes in conditions on the route. The power to impose sanctions in case of failure to comply with licence conditions is also needed. Surabaya will need a new form of Route Licence to be defined by decree.

DGLT has endorsed<sup>7</sup> the proposal for a special decree of the DGLT to override the route licensing provisions in KM 84/99 in order to allow a 'trial' of a new form of licence for the pilot corridor/bus demonstration project.

An alternative means of enforcing the operators' obligations would be to create a contract between the authority and each operator, though this needs to be confirmed by a legal opinion. However, a power of regulation is preferred as all operators will be subject to the same terms and procedures. A contract would tend to have fixed conditions while it remained in force. Renegotiation of individual contracts would be required to accommodate changing circumstances. This would be onerous for the authority, and could result in a divergence of terms between different operators. Regulations would define the scope for variations, and the scope would be the same for all operators. They are preferred because they can be applied more flexibly than a contract.

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<sup>7</sup> Expressed at a meeting between SUTP GTZ and DGLT officers on 17 February 2000.

To enjoy a real prospect of success the scheme of tendering should be introduced, not in isolation, but in a supportive environment of policy and institutional changes. The following sequence, in advance of the first tender, is suggested:

<b>Policy</b>	Obtain political consensus on policy objectives, including the operators and other interests likely to be affected.
<b>Authority</b>	Define the regulatory regime Specify necessary planning and regulatory powers and procedures. Vest licensing powers initially in DLLAJ II. Specify the constitution of the Authority to be formed later. Empower the Authority with regulations to discharge its functions.
<b>Resources</b>	Ensure DLLAJ Tk. II, and other departments of the municipal government, have sufficient resources (finance and qualified staff) to provide support to the Authority.
<b>Plan</b>	Draft the first 3-year public transport plan, with a policy statement. Draft planning, tendering, monitoring, procedures to be followed by the Authority.
<b>Programme</b>	Specify routes to be tendered, tender programme .
<b>Implement</b>	Finalise detailed tender programme. Provide technical assistance to the bus operators in management techniques. Initiate planning, tendering, monitoring procedures.

These reforms are expanded into a detailed action programme in Section 3 of this report.

If the reform programme is to be implemented comprehensively, it should be done in the context of the devolution of other powers from the central and provincial levels of government to the municipal level. However, it may take many years for the decentralization policies in Law 22/99 to be translated into action plans and implemented. If urban public transport administration is to be reformed in advance of other areas of urban management, as is intended, then interim legal and institutional arrangements, in the form of a municipal decree will be necessary. The proposed scope and content of a municipal decree is set out in [Appendix 4](#).<sup>8</sup>

## 2.4 The Tendering Process

### 2.4.1 The Principles of Tendering

The essence of the tendering process is the creation of competition for the right to provide bus services. The process must be capable of allocating routes fairly and objectively among operators with different corporate forms. It should be as transparent as possible, with the selection procedure being conducted in the presence of bidders, the mass media and observers, to exclude the possibility of subjective influences in selection.

The marking scheme (the defined criteria and the weighting of each) must be fixed prior to the publication of the invitation to submit bids. Criteria should be quantifiable, there should be minimal scope for the exercise of judgement by individual members of the tender committee.

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<sup>8</sup> It would be expedient if this interim legal basis could also include a power to revoke the existing 5-year bus route licences, though that would only be feasible if there was a full consensus with all the bus operators first. This may be difficult in view of the premium value of bus licences, which would be put at risk by the tendering process and the new collective licences.

The bidder offering the most favourable bid, as measured by the marking scheme, will be awarded the Route Licence.

The primary selection criteria will be fares (if policy permits fares to be variable) or level and quality of service (if fares are fixed). The criteria may include:

- Fares, and/or
- Level of service: frequency regularity, capacity, daily operating period
- Quality of service: capacity, specification, age, condition, equipment of buses to be used
- Environmental standards: emissions, fuel, etc.

#### **2.4.2 Conditions For Successful Tendering**

The urban bus business in Surabaya has been unable to attract new investment because of perceived low profits and high exposure to regulatory risks. Tendering will only succeed in creating competition if some new investors are willing to enter the business. They will only be attracted by the prospect of lower risks and higher potential returns. Effective competition requires that more bidders are seeking licences than are available. If existing operators are the only bidders, the tenders will only result in a re-distribution and consolidation of operators between routes, with little incentive to improve services.

The main sources of risk perceived by potential bidders will be:

- A diminishing market for bus services - competition from angkots, private vehicles, low increase in disposable incomes.
- Poor operating conditions - traffic congestion, poor conditions in terminals, no bus priorities.
- Failure of government to authorized fares that enable cost recovery, rapid cost inflation, or requirement to accept concessionary fares without compensation.
- Being required to operate levels of service in excess of demand.
- Demands for illicit payments.
- Constraints in entry/exit from the bus business, such as difficulties in getting licences, or in exiting from the bus business and liquidating assets.

Many of these risks are within government's control, and as many as possible should be quantifiable in advance of tendering. Regulatory risk must be reduced by limiting government's powers of intervention to a minimum, especially on fares, and clearly defining the rights and obligations of both the authority and the licensee.

Designing the tenders to comprise small batches of one or two routes will also enhance the level of competition. Small batches will allow small companies and consortia to bid (on average, the 32 private bus companies in Surabaya have only six licensed buses each) while a succession of tenders will allow losing bidders to re-tender several times. The negative effect of a succession of small tenders may be to deter substantial Indonesian investors of over 100 buses. However, it is unlikely that any foreign investor would be interested in a potential fleet of less than 300 – 400 buses, for the reasons explained in Section 2.4.3.

Perhaps the most fundamental factor in increasing the attractiveness of the tenders is the confidence of potential bidders in the integrity and impartiality of the bidding and evaluation procedures. The procedures and criteria must be clearly defined before the tender programme commences, and every step must be followed exactly, with transparency at every stage. Any suspicion of bias or improper influence will be a major deterrent to all bidders.

Proposed detailed procedures for organising and conducting tenders for bus routes are set out in [Appendix 5](#).

### **2.4.3 The Proposed Tendering Strategy**

It must be made clear in the initial round of publicity and consultation that ultimately all route licences will be subject to the tender process. Notice must be given that, after a grace period of perhaps 6 months after the first tender, no bus route licences will be renewed on the current 'joint' terms. This will provide an incentive for bus operators to consolidate into companies or co-operatives of the size required to bid for the routes. Bus owners will also have ample notice to recruit drivers and conductors as employees (since this will be a condition of participation in the tenders) and to develop internal management arrangements.

The consultation and information programme that precedes the first tender will need to emphasise the advantages of tendering to the operators:

- The routes offered (at least initially) will be potentially highly profitable
- the prospect of having more flexibility to set fares and levels of service, and to make higher profits
- the prospect of generating more passengers through greater efficiency and being able to manage the whole route
- the prospect to have their rights and obligations more clearly defined, and a channel to redress any grievances.

The tender programme must be designed so that no private buses are displaced from their current routes in the initial phase.

It is recommended that the first routes to be tendered should have a high level of commercial viability to attract maximum interest. Premium services (express, air-conditioned) have the highest commercial potential because of the scope for market development and the established principle of liberal regulation of fares for premium routes. The first route to be offered by tender should be a premium route which does not have an incumbent operator.

It is recommended that PAC Route 12, Sidoarjo to Tanjung Perak,<sup>9</sup> be offered in the first tender for the following reasons:

- There is no incumbent operator nor current licences on the route.
- It operates from a major terminal in the dense N/S corridor and is potentially profitable.

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<sup>9</sup> For details of the proposed schedule for PAC 12, and an assessment of its commercial viability, see Section 5.4 - 5.9 of the Report of Work Package 2.

- The route is designated to be air-conditioned and, as a 'premium' route, under the national transport legislation the operator may set the fare, subject to approval by the city government.
- A new air-conditioned route will compete less directly with private buses, which are mostly non-airconditioned.

There are currently 11 urban routes with no licences issued. Any of these that are potentially commercially viable should form the next batch of routes to be tendered.

The third phase of routes to be tendered should be chosen from the thirteen routes operated exclusively by Damri. Although Damri holds five-year licences for these routes, it is to be hoped that the Ministry of Communications which directs Damri, will consent to the surrender of some routes to the private sector in the interests of supporting the national development of tendering. Frequencies are so low on most citybus routes<sup>10</sup> in Surabaya that any Damri buses displaced may be reallocated to other routes to raise frequencies to reasonable levels.

When the tender programme extends beyond vacant Damri and premium routes to include the existing standard 'economy' routes with multiple incumbent operators, there will be further practical problems to be addressed:

- The incumbent operator(s) (unless winning the tender) will be displaced by the winning bidder. If the displaced incumbents simply move to other routes, tendering will only have interchanged operators between routes, a process which will generate little competitive incentive. The success of the tender scheme thus depends on its being able to attract new investment into the bus business.
- A cross-subsidy is implicit in the joint operation of routes. Operators displaced from profitable routes might be unwilling to continue serving unprofitable routes.

Another practical problem is that private operators will often have to commit their entire fleet to a bid for a single route. They may have to combine with one or two other operators to assemble enough buses. If the bid is successful the buses would have to be withdrawn for their current routes. An objective of the new licensing system is the consolidation of operators on their routes, but a consequence would be the depletion of buses from all other routes.

A mitigating factor is that since multiple operators are licensed to most routes, each would lose only a proportion of its business from displacement from one route.

But tendering will also involve risks and more responsibility for the licensees. The current urban bus sector under the *setoran* system comprises separate groups of owners and crews (drivers and conductors). The market knowledge of local demand which is necessary to compile competitive bids resides with the drivers under the *setoran* system, not the owners. But it will be the owners who will be tendering for licences not the crews. The bus owners, many who now simply hire their bus out on a daily basis to a crew, will have to accept responsibilities for the management of a whole route, including the employment of staff, and managing revenue and accounting. Also, there will be penalties, and ultimately possible loss of the licence for failing to operate at least the level of service

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<sup>10</sup> See Section 4.2 of the report of 'Work Package 2 of this consultancy *'Transportation Planning, Physical Improvements and Monitoring and Reporting Requirements'*. Of 17 routes supposed to operate from Purabaya terminal, 3 did not operate and seven had less than 4 departures per hour.

stipulated in the tender. Now, only one private operator (the sole licensee of Route 8) has responsibility for the operation of the service.

## **2.5 Some Practical Aspects of Tendering**

### **2.5.1 The Licensing of Multiple Operators on Routes**

The current practice of licensing multiple operators for a single route complicates the introduction of tendering.

Operators' current route licences are valid for five-years and have staggered expiry dates. If the new route licences giving collective responsibility for all the buses in a single licence may only be introduced on expiry of the existing licences, it may take five years before all the licences may be replaced. There appears to be no power in the current legislation to revoke route licences 'in the public interest'. A programme to revoke, truncate or amend existing licences would probably provoke protest. The operators now expect their licences to be renewed with little formality. They may oppose tendering since it involves a risk that they might not win the tender for their current route, or indeed for any other route. For tenders to create effective competition, there must be losers.

A substantial change in licence conditions to accommodate tendering may only be politically feasible with the consent of the operators. It might be difficult to obtain their consent.

### **2.5.2 Should Damri Participate in Tenders?**

The status of Damri as a state-owned corporation and as the dominant urban bus operator in Surabaya presents a dilemma in the context the tendering programme.

At the end of 1999 Damri Surabaya's fleet was 263 licensed buses, 60% of total city fleet of 445 buses. The largest private operator has only 15 buses. Only four operators have more than ten buses. The average private fleet size is six. These figures probably overstate the number of private buses actually in service. Many are off the road for lack of spare parts.

The case for excluding Damri from the tenders is that, although they are required to operate on commercial principles, the Surabaya operation does not have full financial or management autonomy. Damri Surabaya is not subject to commercial constraints and this, together with their dominant share of the total fleet, gives them the ability to win any tender they choose, either by bidding a fare below cost recovery, or a higher level of service.

For example, it is proposed to allocate a heavy weighting to vehicle age in the tender criteria, as an indicator of vehicle quality. Damri buses are provided by Damri headquarters in Jakarta, and are not purchased from funds derived from local revenue.

There is also the suspicion that Damri, being a government agency, will not be subject to the same regulatory powers as the private operators, or at least that those powers would not be exercised equally strictly.

Since Damri has 60% of available buses, as the tendering of routes progresses, the private sector buses will ultimately all be allocated. Unless a substantial new investment can be attracted into urban buses, it is inevitable that Damri will have to run half the network. Effective competition in the bidding process requires that the number of available buses exceeds that required. Without Damri's buses this may not be achieved.

Only four private companies have fleets of ten buses or more. But 15 of Surabaya's 26 urban bus routes have a bus allocation of ten buses or more. The biggest ten routes require more than 20 buses. In order to bid for these routes, the private companies will not only have to reinforce their managements to transform themselves from bus rental agencies to bus operators, but will have the added complexity of having to form consortia, or to merge, in order to bid for the bigger routes.

To achieve a 'level playing field' between Damri and the private operators the following conditions would need to be satisfied:

- Damri's bid for any route will need to be based strictly on the recovery of costs from revenue. This will be very difficult to calculate and verify.
- The Damri bid must not be identifiable from the data provided in the 'details of bid' form. The marking and ranking of bids must be done without knowledge of the identity of the bidders.

It very unlikely that 'a level playing field' can be achieved between Damri and the private operators, and even less likely that the field will be perceived to be level by the private bidders.

It is recommended that Damri should not participate in the tender programme until the conditions of equal competition can be met. Initially only private companies should bid.

It is also recommended that, in the interests of establishing the principle and procedure of tendering in Indonesia, that Damri should voluntarily withdraw from some of its routes that are likely to be met the criteria for tendering listed above.

### 2.5.3 Foreign Participation in Tenders

There no urban bus company in Indonesia with visible foreign participation. Decree KM 84/99 Art. 38 states that:

The undertaking of public transport by a public vehicle may be done by:

- A state-owned, or regionally-owned enterprise
- a national privately owned enterprise
- a co-operative
- an individual Indonesian citizen.

The question arises whether foreign investment in urban transport should be invited through the licensing reforms and tendering process. The advantages of foreign participation are that:

- It would provide access to resources of capital and expertise not readily available in Indonesia at present.
- The prospect of increasing the number of buses in Surabaya would be higher, leading to more competitive bidding.
- There would be a transfer of technology and expertise to the local transport sector.

Significant foreign interest is unlikely however, as:

- There is no precedent for foreign involvement in the urban bus sector in Indonesia. It may require a national level policy decision and an amendment to KM 84/99.

- The relatively small scale of bus operations in Surabaya is probably below the minimum scale (a start-up of at least 300 buses) at which a foreign investor would be interested. Only a tender of the size of half, or the whole of the city operation might attract foreign interest, and this is beyond the scale of the initial project.
- The recent climate of political and social instability has not been conducive to new foreign investment.
- The complexities of widening the scope of tendering to foreign bidders would delay the process.
- The regulatory mechanisms will need to be reformed, with rights and duties well-defined and enforceable, if foreign bidders are to be attracted to the bus sector.
- The prospect of a 'foreign take-over' of public transport in Surabaya would add a controversial element to the reform process and would probably generate strong resistance from the public transport industry and perhaps more widely.

On balance it is recommended that foreign participation should not be invited, and that bidders should be confined to the categories defined in Art. 38 of KM 84/99.

#### **2.5.4 Arrangements for Ticketing and Accounting for Revenue**

Under the *setoran* system of bus operation which is prevalent in Indonesia, the crew (driver and conductor) rent the vehicle on a daily basis from the owner. The crew pays for fuel and minor running repairs. Fares are collected by the conductor and net revenue divided between the driver and conductor. In Surabaya only Damri issues tickets. No tickets are issued on private buses. The law (KM 84/99, Art. 63 (1)-(4) and Art. 64. (1)-(5)) requires tickets to be issued on all buses, but are not necessary under the *setoran* arrangement, because accountability is only necessary between the driver and conductor. The 'revenue risk' (the risk that the days revenue will fail to cover the vehicle rent and fuel costs) also lies with the crew.

It is proposed that eligibility to participate in tenders will be restricted to buses operated under a form of organization that:

- Employs drivers and conductors and other staff and pays them a regular salary, with perhaps some additional incentives for increasing revenue. In Surabaya the only bus company employing its staff is Damri.
- Has a designated person who is accountable for the operation of the route.
- Confers collective responsibility on all vehicle owners (in case of multiple owners) for compliance with the conditions of the licence.

Employing staff effectively transfers the revenue risk from the crew to the operating organisation.

Companies or organisations of individual owners will need to make arrangements for secure handling of cash, and making the conductor accountable for the revenue collected.

In general it is proposed that the method for fare collection and safeguarding revenue should be a matter for the operator, and not dictated by the regulator.

Whether conductors are employed, or the bus is operated by a driver only (OPO one-person operated) should also be a matter for the operator, to be specified in the bid. The system that is the

most cost-effective will depend on the fare scale (how many increments, whether fares reduce progressively as the bus travels along the route, or whether fares are based on distance travelled), the characteristics of the route and the configuration of the doors and internal layout of the bus.

There are many alternative methods for OPO fare collection:

- Ticket machine operated by passengers
- farebox without tickets, pay-on-entry or on exit
- driver-operated ticket machine
- electronic cards.

A negative factor for the first two methods is the absence of coins in Indonesia. Almost all denominations are notes, many worn, soft and damaged, which are difficult to feed into a ticket machine or 'gravity' farebox, and difficult to verify, count and handle. A positive factor is the current universal flat fares for each route category, though it is recommended that variations in fares be allowed in the bidding process.

The cost of labour is relatively low in Indonesia, so high-cost electronic ticket systems will probably not be attractive to operators.

It is likely that most bidders will opt for operation with a conductor, who will dispense pre-printed tickets corresponding to the value of the fare. No ticket machine is needed. The conductor accounts for his cash and the remaining tickets on return to the depot. On-road inspection is simple and the authenticity of tickets can be verified by security printing and serial numbers. The conductor needs only a simple receptacle to hold cash and tickets. BMTA, the state-owned bus undertaking in Bangkok uses this system universally. The conductors there use a simple hinged metal tube for tickets and cash.

In some overseas cities, tickets are purchased prior to boarding the bus, either in the form of a single or multiple journey ticket or a pass. This is not likely to be practical in Surabaya because passengers may have a choice of several operators, and possibly different fares, for their journey. Off-bus tickets will only be practical if one ticket is accepted by all operators, and if some form of revenue pooling is used. This does not seem practical in Surabaya for the foreseeable future.

The guiding principles in fare collection in Surabaya should be:

- Simplicity of equipment and accounting
- let the operator decide.

### 3. THE PROPOSED IMPLEMENTATION ACTION PLAN

#### 1. Generate Political Support for Public Transport Reform and Development

Identify members of Surabaya Municipal Council with interest in transport issues whose views accord with the objectives of the SUTP. If members from more than one political group can be persuaded to work together this would clearly increase the chances of success.

Try to have the project “adopted” by the political establishment with some public commitment to the implementation of specific changes. Appoint public relations consultants to work with the study team and the involved council members. This should be to the mutual benefit of the members and the study.

#### 2. Establish a Committee with Executive Powers

With the initiative coming from Surabaya Municipal Council, and with an agenda to progress the specific changes noted above, form an Executive Committee drawn from all concerned jurisdictions and divisions of government. This committee should be a reconstituting and a renaming of the Transport Guidance Board (*Badan Pembina Transportasi Daerah*, BPTD) and with changes to membership if necessary to ensure active and empowered participation. Try to have SUTP accorded observed status at this Committee. The Committee is to be re-constituted as the Surabaya Transport Authority under a proposed municipal decree.

#### 3. Institutional Strengthening of DLLAJ II

Examine the staffing levels, skills and capabilities of DLLAJ II and assess need for expansion and training to implement agreed policies. Determine how to obtain the skills in the short term in order to progress key components of policy. Options might include staff recruitment or temporary secondment of consultants.

Create capability within DLLAJ II to:

- Draft policy proposals for consideration by the city government.
- Compile and maintain a strategic public transport plan.
- Develop procedures for implementing the plan including:
  - issue and administration of route licences
  - organisation and holding of tenders.
- Exercise of regulatory powers to intervene to correct service deficiencies.

#### 4. Undertake a Transport Policy Review

The Surabaya Municipal Government debates and adopts a policy framework supportive of public transport development, and a greater role for bus services, which defines the regulatory policy and the roles of citybuses, angkots and other modes. The creation of a competitive environment is a commitment. A draft policy statement at the level of detail needed, is provided in [Appendix 2](#).

Review policy recommendations in SUDP 2018 and assess current validity taking special account of availability of funds following the recent financial crisis.

## 5. Create a Legal Basis for Planning and Regulation

Responsibility for planning and regulation is to pass from DLLAJ II to a Surabaya Transport Authority as soon as a legal constitution and resources can be provided.

Create a sound legal basis for establishing and empowering the Authority, implementing urban transport policy, preparing the annual planning programme, monitoring and regulation of licensees, particularly:

- Creating new Route Licence (all vehicles on a route to be under a single licence)
- legal powers to award licences by tender and to monitor enforce licence conditions
- legal obligation on the Authority to act fairly and transparently
- creating an avenue of appeal against regulatory decisions.

## 6. Commence the Annual Cycle of Route Planning

Commence an annual cycle of strategic public transport plans, including a rolling program for increasing/redistributing capacity to better meet demand in terms of capacity, frequency, service type and quality. Identify priority routes for allocation of citybuses, either new routes or converted from angkots.

Inputs: basic data on supply and demand - levels of service to different districts/corridors, how far demand is being met. Basic data on affordability by district

Prepare a modest 3-Year Route Development Plan for buses and angkots designed to ensure that all areas of the city have public transport service, premium services are planned wherever demand warrants and major corridors are served by high capacity buses as well as angkots.

## 7. Technical Assistance to Bus Operators

Advise bus operators on:

- Forms of organisation (companies, consortia, partnerships and co-operatives) that will meet the tender requirement for collective responsibility
- basic management techniques, tender and monitoring procedures, including model employment contracts for drivers and conductors to replace *Setoran*
- how to raise capital.

## 8. Prepare Draft Operator-based Route Licence

Establish the first operator-based route licence using one of the routes operated solely by Damri as a pilot. This would involve the preparation of a licence that did not involve a control card but specified the performance of the route in terms of quality and quantity of passenger service. Legal powers to issue such a licence will be included in the municipal decree.

Train staff of DLLAJ II to monitor the service.

## 9. Specify the New Pilot Route and Refine Tender Procedures

Finalise details of the proposed pilot route PAC 12 from Sidoarjo to Tanjung Perak, including terminal locations.

Using the operator-based route licence piloted above but modified as necessary in light of experience, prepare draft tender documents for the new route. The widest possible discussion should be held with prospective bidders to ensure that the tender is likely to be attractive to a number of reliable operators and thereby ensure the success of the trial.

Prepare evaluation procedures and all necessary legislative changes.

Based on the discussion held with prospective operators on the draft tender documents, make any revisions and prepare finalised version.

## 10. Commence the Tendering Programme

The proposed order in which categories of routes are to be tendered is as follows:

- i. the first citybus route - route PAC 12
- ii. Damri premium routes in the N/S corridor
- iii. Economy citybus routes in the N/S corridor
- iv. The remaining existing city bus routes
- v. Remaining routes suitable for citybuses (new routes or existing angkot routes)
- vi. Commencement of a programme of tendering angkot routes.

Invite tenders and award routes. Detailed procedures for tendering are in [Appendix 5](#).

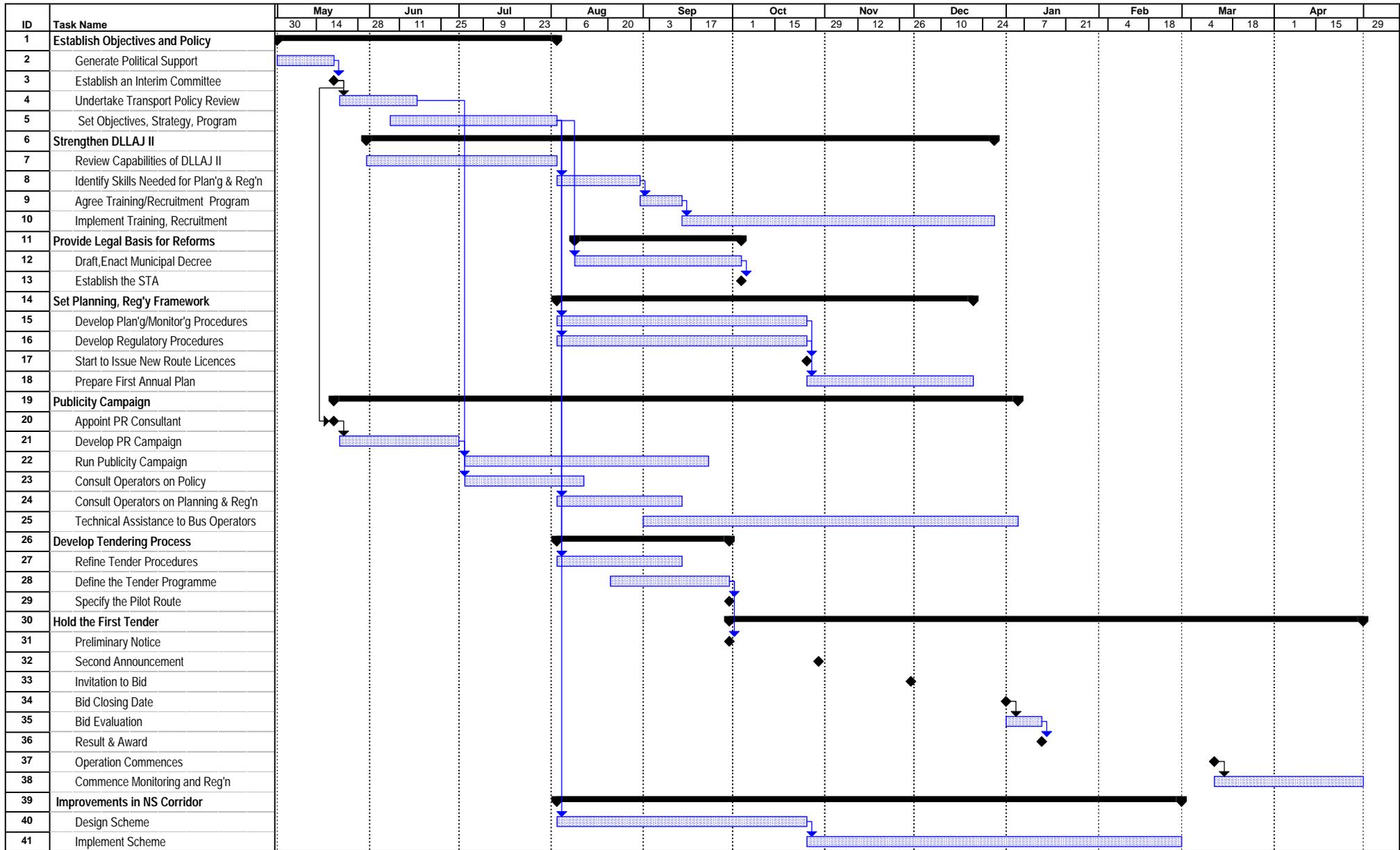
## 11. Commence Monitoring and Regulatory Procedures

As routes progressively commence operation under the new licences, the Authority will commence systematic monitoring of operations, intervening where warranted. The data from monitoring will be fed back into the annual planning cycle. Regulatory staff will continue to be trained in network planning, service monitoring and demand-responsive regulation in a competitive environment.

## 12. Undertake Physical Improvements Along the N – S Corridor

At any time progress can be made on implementing some of the physical improvements specified in the report on the N – S corridor. The need for better pedestrian facilities, better stops and shelters, improvements to the environment and organisation at the bus terminals and better enforcement of existing bus priority measures should be undertaken at the earliest possible date. This will benefit both existing bus and angkot passengers, users of the new route and the population of Surabaya in general.

Once the political support for public transport has been established and the planning process is underway, a detailed programme of works can be prepared.



Project: Surabaya Implementation Plan for Bus Improvements  
 Date: 4 April 2000



## APPENDIX 2: URBAN PUBLIC TRANSPORT IN SURABAYA

### A Draft Policy Paper for the development of city bus services

#### 1. Introduction

- 1.1 This paper focusses mainly on Surabaya, Indonesia's second city, but the basic elements of public transport policy, and the reforms necessary to implement them, may also serve as a model for other cities.

#### 2. A Vision for Public Transport in Surabaya

- 2.1 The public transport system in Surabaya must offer a comprehensive route network, adequate capacity and a range of service qualities and fares to cater for different income groups and journey purposes. Services must be safe, convenient, reliable and environmentally friendly. Users will include both those who would otherwise travel by car and those who have no choice. Buses are potentially the most efficient and economical means of carrying the heavy flows of people in the main corridors, and their share of the market must be increased, and that of angkots reduced. Buses, some air-conditioned, operated mainly by private companies and cooperatives, should carry at least a quarter of the non-walking trips within the city. Buses and angkots will continue to be supplemented by upgraded taxis for those willing to pay higher fares for a faster and more direct journey, and becaks for local trips within the kampongs. In the longer term, there are plans for a modern light rail system.
- 2.2 Realising this vision will require changes to the way public transport, especially buses, is planned, organized and regulated. More attention must be focussed on the legal, regulatory and institutional framework and on monitoring the development of the transport system with reference to policies and plans. There must be better recognition of the role of regulatory controls in encouraging investment and innovation, upgrading the quality of services and improving standards of safety. Unnecessary restraints on routes and fares must be progressively removed. The role of the government as the biggest operator of bus services and terminal manager should be reduced once private bus operators have begun to respond to these incentives.
- 2.3 With the need to make more efficient use of roadspace and other public infrastructure, priority must be given to public transport on social and environmental grounds. Urban traffic and congestion management strategies will be developed which maximize the efficiency of the urban transport system as a whole, taking into account the environmental, social and economic costs associated with each mode. Whilst investments in new roads and other transport infrastructure will continue to be made, it will also be necessary to introduce measures to influence the choice of travel mode towards public transport, and towards buses, especially in central areas.
- 2.4 The transport reforms will help reduce disparities between rich and poor in the community by providing better access to economic and social opportunities to lower-income groups and districts.

### 3. Lessons from the Recent Decline of Bus Services

- 3.1 In recent years the number of buses on Surabaya's streets has declined steadily. There are one-third less buses now than in 1993. One reason is that the number of private cars and motor vehicles has been increasing rapidly - by about 400% in the last 20 years. Another reason is that private bus owners have lacked the confidence to invest in expanding and improving their fleets.
- 3.2 As the role of buses has reduced, the number of individually-owned *angkots* has increased, to over 4,600. They have provided all the growth in public transport capacity in the last ten years, they are now the main mode of urban public transport. They are unsuitable for this purpose as they do not have enough capacity to carry the large passenger flows at peak periods and busy routes. Whilst *angkots* offer high frequencies and flexible routeing, they are uncomfortable, relatively unsafe and are major contributors to congestion. They will continue to have a role to play on minor and feeder routes, but their dominance on the main urban corridors should be reduced in favour of large buses.
- 3.3 The low quality of *angkot* services has deterred many people from using public transport. It encourages people to buy and use private vehicles. Experience in other countries shows that once a family acquires a private car or motorcycle it is almost impossible to attract them back to public transport.
- 3.4 The failure of the private bus operators to expand has been one factor in government's involvement in the operation of urban buses through Damri, a state-owned corporation. It reflects the view that, as urban transport was an essential social service that should be affordable and cater for all groups in the community, its provision should be assured by government.
- 3.5 But experience has shown that it is difficult to achieve efficient and cost-effective services within the resource constraints and political influences that affect government. Management objectives tend to be ill-defined.
- 3.6 It has been demonstrated in many cities overseas that the private sector is capable of providing very efficient, demand-responsive bus services at affordable fares provided the operators have incentives to respond to users needs. Incentives may be created through competition between operators and by the regulatory system. Competition tends to keep service quality high and fares low. Operators may compete for passengers, or for the award of licenses through tendering. Government's primary task as regulator then becomes guiding the development of the bus industry. This includes ensuring that minimum vehicle and service levels are complied with by all operators, and that competition is on equal terms. The incentives must be carefully 'tuned' to remain effective. This requires regulatory staff to be trained in monitoring and planning techniques.
- 3.7 Although the private sector now operates about one-third of bus services in Surabaya, the quality and capacity of services remains low. There are several reasons why the potential of private sector operators to run efficient and demand-responsive bus services has not yet been realised in Surabaya.
  - Despite the prevalence of entrepreneurial private operators, the current licensing system provides no effective competition or other incentives to raise service standards; in fact it inhibits development. A policy of restraint of fares means that, to make even marginal returns, the operators must cut capital and maintenance costs to a minimum. They cannot

make provision for new replacement vehicles. The licensing system is being administered without clear policy objectives and without reference to performance. There are also some organisations within the trade who tend to restrict access to routes and terminals, and impose charges on operators. These restrictive practices inhibit competition and do not serve the interests of passengers.

- Individuals with limited resources can afford a minibus to join an *angkot* route since the vehicle can be parked and maintained at home. But they find it difficult to borrow enough money to buy a new, large bus, even though such a vehicle would carry up to six times as many passengers.
- The licensing system distributes each company's buses between many routes. Conversely most routes are operated by the buses of many owners. The owners themselves take no part in the operation of the bus - they rent it out on a daily basis to a driver and conductor crew. As a consequence, no-one is responsible for the satisfactory operation the route as a whole. There is no collective responsibility for route management to ensure that services are co-ordinated or adjusted to demand.

#### **4. A New System of Route Licences Awarded by Tender**

- 4.1 It is a basic objective of Surabaya's urban transport policy that city buses must provide not only a network of basic services in the main corridors, but also services that are capable of attracting high-income users and car owners, at least for journeys to and from congested central areas. This means encouraging bus operators to develop premium-quality, customer-oriented services with direct routing, air-conditioning, minimal access, waiting and transfer delays, and relatively high journey speeds. Promoting competition among potential operators to supply such services will be an important key to upgrading standards of service. A new bus licensing system will be introduced, and carefully designed and administered to meet these policy objectives.
- 4.2 The strategy for reforming bus licensing arrangements is to introduce modern principles of planning and management. The system will be a partnership between government and the operators. Government's role will be to plan and regulate services in a way that maintains a balance between the operators' need to make a profit and the users need for safe, convenient and affordable services. The regulatory agency will need a good knowledge of the demand and supply, up-to-date transport plans and policy objectives and sensitivity to the needs of both operators and users.
- 4.3 The basic unit of bus licensing will be a route, not a vehicle as now. A licence will impose an obligation to operate the whole route according to the approved schedule. Operators will also have some freedom to adjust the route to meet changes in demand.
- 4.4 The new route licences will be awarded by competitive tender. The bidding process will be transparent and fair. There will be an avenue of appeal for bidders who feel the award has been made unfairly. Only a cohesive organisation such as a company, or cooperative that controls enough buses and has a formal structure that ensures collective responsibility for the route, will be eligible to bid. The licence term will be long enough to encourage investment in vehicles and to develop a market, but it is also necessary to ensure that an unsatisfactory operator can be replaced.
- 4.5 The regulatory agency will set basic standards for buses and services and will monitor service levels to check how far demand is being met. Operators will compete for passengers on some

corridors where routes overlap. This competition, together with penalties for breach of traffic regulations or licence conditions will provide the incentive to operate efficiently and to be responsive to the needs of users.

- 4.6 To minimise the effect of the transition on existing bus and *angkot* operators as well as users, the programme of introducing new route licences by tender will be progressive. The first bus routes to be offered will be premium routes on which no buses are licensed. The second phase will be other premium routes in the main north-south corridor where, up to now, Damri has operated all services. Subsequent phases will tender economy routes in the corridor.

## 5. Viability and Fares

- 5.1 A fare adjustment mechanism will be developed that will ensure that efficient operators will be able to cover their full costs, including provision for vehicle replacement and a reasonable profit, but only if they are efficiently managed, sensitive to their customers and safe. Fares will remain affordable but may be a little higher than now, and they may vary between routes. Competition will give incentives to operators to offer different types of service to different groups in the community. It is likely that the wider range of services offered will attract more passengers to use buses.
- 5.2 An increasing number of passengers will be willing to pay a higher fare for an air-conditioned, premium service. Among them will be many who would otherwise use private cars. It is an important element of governments transport policy that as many trips as possible, especially to the city centre, should be by public transport, thereby reducing congestion, pollution and the need for additional capital spending on roads. However, a comprehensive network of basic services will be maintained to meet the needs of those on low incomes who will wish to forego some service quality and comfort for savings in cost.
- 5.3 There will be groups in the community who are unable to pay fares high enough for a bus operator to fully cover his costs. This is not a reason to subsidise all bus users. In future, schemes will be developed to subsidise the fares of users who are unable to afford normal fares. The cost will be borne by the sponsoring agency, or by government, but neither bus passengers nor the bus operators will be asked to bear the cost of this welfare function.
- 5.4 Similar principles will apply to any socially necessary bus routes on which the passenger traffic is insufficient to cover the costs of providing the service. Government will determine the level of service necessary to meet demand on such routes and will invite operators to bid for the right to operate them. The bid requiring the lowest level of subsidy to operate the route will normally be awarded the licence. The cost of subsidising these unprofitable services will be met from the government budget or by a sponsoring agency. The bidding process will be repeated periodically to ensure subsidies are kept to a minimum.

## 6. Bus Priority

- 6.1 Traffic congestion has very damaging effects on bus services, increasing operating costs and reducing speed and reliability. Wherever warranted traffic management measures will incorporate priority for buses to enable them to move quickly, unhindered by congestion. On the wider streets there is room for special lanes to be used by buses only. There are techniques available to give buses priority through junctions. The government's commitment to give priority to buses reflects the importance of their role in the urban transport system.

- 6.2 Wherever possible, the stopping of buses to pick up and set down passengers must be done without obstructing the flow of traffic, including other buses. Buses will stop only at properly designated stops, and where possible there will be bays to enable buses to stop outside the traffic stream.
- 6.3 Good pedestrian facilities will encourage both more walking trips and greater use of public transport so are a policy priority.

## APPENDIX 3: PROCEDURES FOR SETTING FARES

### 1. Political Sensitivity

Fare-setting is the most difficult aspect of regulation because:

- it is politically and socially very sensitive
- it is basic to operators' commercial viability and survival
- it affects the operators' confidence and capability to invest
- it requires accurate and commercially sensitive information to be supplied by the operators.

A fare-setting mechanism must maintain the balance between the operator's right to a reasonable return on his investment and the community's need for a safe, convenient and affordable bus service.

Economy bus fares in Indonesia follow nationally imposed scales, but a policy of fare restraint has produced the low-fare/low-quality equilibrium that currently prevails and which serves neither the interests of the operators nor the users.

To attract private investment in buses in Surabaya it is essential that reasonably efficient operators are assured of cost recovery and a reasonable return. Political resistance to fares increases is more likely under fare-setting arrangement where evaluation criteria are ill-defined and which involve a process of 'claim and adjudication' into which political considerations are likely to be drawn.

It is interesting to note that many bus operators in Surabaya are charging fares in excess of the official level. There has been little public complaint and the authorities have taken no action to enforce approved fares. It seems that the public will accept increases where these are evidently justified and where they are introduced without formality.

Competition, or the prospect of competition, tends to exert downward pressure on fares. In a fully competitive environment market forces can keep fares low without regulation, and even a limited degree of competition will reduce the extent to which fares need to be controlled by regulation. Under current circumstances in Surabaya there is some competition, the market (taking buses and angkots into account) is generally well-supplied, and affordability imposes constraints, so regulation of fares is may fairly liberal.

### 2. Fare Increase Mechanisms

Experience elsewhere has shown that fares increases are less likely to become a political issue to the detriment of the development of the system, under the following arrangements.

- i. Fares are linked to a transparent 'trigger' mechanism which reduces the scope of the regulator's discretion and removes the need for an adjudication process. Fares may be linked to changes in cost or, with more complexity, to changes in profitability.
- ii. The fare increase mechanism is specified in the licence.
- iii. Fares are increased relatively frequently, annually or at most biennially, 'little and often'. Infrequent large increases are more likely to generate resistance.

- iv. Government accepts liability to compensate the operator if, for any reason, it is unable to authorise fares on the agreed basis.

The initial fare-scales will be specified in the licence (and may be the subject of competitive bidding) but procedures must be agreed by which fares may be increased over time to take account of cost inflation and changes in ridership.

Monitoring costs and revenues is an important part of the functions of the regulatory authority. It enables them to anticipate, and to some extent verify, an operator's application for increased fares.

## **2.1 Schemes for Escalating Fares**

### *i. A Formula Based on Cost Indices*

A possible basis for escalation of fares is a formula comprising the consumer price index and various other cost factors such as exchange rate variations, interest rates on capital debt and the cost of fuel. This provides the upper ceiling of fares. The licensee is allowed to charge fares below the ceiling. If increases in the cost factors warrant an increase in the fare ceiling, the licensee applies to the authority who conducts an evaluation. If the authority finds the increase warranted, but refuses approval, the government must reimburse the licensees for their losses.

An advantage of a cost-based formula is that it does not depend directly on data provided by the operators. The data is easy to gather and to interpret. Disadvantages are:

- The formula does not provide a strong incentive towards efficiency or market-responsiveness.
- the cost factors of different operators will differ widely. A large capitalised licensee would be exposed to exchange rates and interest charges, whereas a small local operator would probably have little exposure to foreign exchange, but would be more sensitive to local labour and fuel costs.

### *ii. Actual Costs, Plus a Reasonable Profit or Management Fee*

The main difficulties with such a basis are how to verify the operators actual costs, and how define a reasonable rate of return. Also, under such a formula the operator has no incentive to minimise his costs, operate efficiently or be demand-responsive.

### *iii. A Fixed Rate of Return on Assets Employed*

This scheme gives the operator an incentive to invest in buses and plant to expand and improve services, but on the other hand there is no incentive to utilise those assets efficiently and productively or to be responsive to demand. The need to define the basis on which assets are to be valued adds complexity. Such a formula is workable if the industry comprises heavily capitalised companies, but the asset value of a small operator with a few elderly buses might be close to zero.

### *iv. A Fixed Rate of Return on Turnover*

This basis provides an incentive to increase revenue, and overcomes the problem of the disparity in asset values between large and small operators. However, it relies heavily on data submitted by the operator which is difficult to verify.

## Recommendation

It is recommended that in Surabaya a formula based on an index of costs, as described at (i) above, be applied each year to set the rate escalation of maximum fares. The same tariff structure (route categories and distance bands) and the same rate of increase would apply to all operators. Since the index base would be the fares proposed in the initial bid for a licence, disparities would exist between the maximum fares that different operators could charge for the same category and distance. Since operators will be free to charge fares below the ceiling, the effect of competition may be to reduce the differentials.

### 3. The Structure of Fare Scales

The concept of different fare-scales for different service categories is already established in Indonesia.

It is recommended that the pilot project in Surabaya should introduce a fares structure is based on the following principles:

- Different service categories (one 'standard' low-fare category and several premium categories reflecting quality, cost and market factors) each having a distance-based fare-scale, to be defined by the authority and adopted by all operators.
- Operators will have flexibility to respond to market conditions by setting fares for premium services below the maximum, although fares for the basic network of standard routes might be fixed.
- Any concessionary fares that government wishes to be provided must be stated prior to the award of the licence, and arrangements for reimbursement negotiated and agreed.

The 'standard' urban fare-scale will apply to the basic network of non-airconditioned ordinary services to be defined by the authority and should be kept as low as possible, consistent with cost recovery to ensure affordability by lower income groups. Provided an adequate network of basic low-fare buses is maintained, and passengers feel they have a choice of cost and service level, the sensitivity of premium fares should remain relatively low.

The route categorisation is intended not only to reflect operating cost and affordability, but also to give operators scope to innovate and market various kinds of premium service. Premium categories already include air-conditioned services and express routes, but may extend to all-seated commuter services using small buses and airport services with luggage capacity. Premium fares will also apply to temporary routes, or extended operating periods on special occasions such as festivals.

## **APPENDIX 4: THE CONTENT OF A MUNICIPAL DECREE ON THE PLANNING AND REGULATION OF BUS SERVICES IN SURABAYA**

### Article No.    Content

1. Reference to other laws governing urban transport and their applicability.
2. National provisions which shall not apply to the Surabaya Transport Area, and which are substituted by local provisions: The law on tariffs (KM 70/93) Certain provisions of KM 84/99.
3. Statement of general objectives of this decree.
4. Specifies the boundary of the Surabaya Transport Area ('the Area') within which this decree will apply.
5. The Surabaya Transport Authority ('The Authority') will be established to exercise powers of monitoring, planning, licensing and regulation of public transport services within the Area.
6. The Constitution of the Authority
  - a. Definition of functions and responsibilities of the Authority
    - i. Licensing of public vehicles which operate within the Transport Area
    - ii. Award licences for certain categories of routes by competitive tender
    - iii. Exercise other powers specified by this decree
    - iv. Hold meetings and enquiries as necessary
  - b. Composition of the Authority
    - i. Chairman (the Mayor, or a person appointed by the Mayor)
    - ii. The Head DLLAJ I
    - iii. The Head DLLAJ II
    - iv. Representative of KANWIL
    - v. Representative of Traffic Police
    - vi. Local district political representatives
    - vii. Four people representing users - to be appointed by the Mayor
  - c. Tenure of seats on the Authority by the appointed members - (term, appointment,
    - i. Resignation, condition of regular attendance, fitness, propriety)
    - ii. filling of vacant seats
  - d. Meetings of the Authority
    - i. Frequency
    - ii. Procedure for convening meetings
    - iii. Disqualification for conflict of interest
    - iv. Decisions made by voting
    - v. Quorum

## 7. Duties of the Authority

- a. To prepare an annual public transport Policy Statement and Plan

To prepare and maintain each year a Policy Statement and a Plan for public transport for the following 3 years.

The Policy Statement and Plan are to be:

- approved by the Mayor, and
- published for public consultation and discussion with operators.
- Representations made are to be recorded and addressed in the next Plan.

The Plan is to include a schedule of the current network and proposed changes, with specific reference to whether demand may be most efficiently met by:

- an economy bus service
- a premium bus service
- an angkot service
- another mode of transport

The Plan will include a time-based programme of routes to be offered by tender during the plan period (the 'Tender Programme').

- b. To Issue Licences for Public Transport Services

The Authority will issue all Transport Business Licences and public transport route licences for services within the Area.

Transport Business Licences, Route Licences for angkot routes and bus routes not included in the Tender Programme, Operating Licences for non-fixed route modes (*Ijin Operasi*) and Incidental Licences (*Izin Insidental*) will continue to be issued according to the procedures set by KM 84/99.

Route Licences for tendered routes shall be in the form at Schedule 1 of this decree.

- c. To Award Route Licences by competitive tender

To hold tenders for the award of Route Licences for routes specified in the Tender Programme.

To hold tenders according to the procedures specified in Schedule XX

*(Note: Schedule XX is not attached and is to be developed from Appendix 5).*

To exercise regulatory powers specified in Schedule 2 of this decree relating to the issue, cancellation, extension and variation of licences, and the issue of directions to operators in accordance with licence conditions and regulatory powers.

- d. Appeals against the decisions of the Authority

## **Schedules to the Decree**

### **Schedule 1 - Specimen Forms**

Form of Route Licence for Tendered Routes (*see Schedule 1.1 below*)

Form of Route Licence for Non-Tendered Routes

Form of Notice of Tender inviting submission of bids, including specification of the route

Forms for submitting a bid:

- details of the bidder
- details of the bid

Bid evaluation form

Notice of results of tender

Form of acceptance of award of licence (by winning bidder)

#### *Schedule 1. Form of Licence for Tendered Routes*

Date of issue

Period of validity

Licensee: name, address, legal form of organisation

Route no.

Route and terminals

Schedule of service:

- type and capacity of buses
- no. of buses allocated weekday/Sat/Sun
- first/last bus and frequency
- no. of trips per day

Fare table

Restrictions, special conditions (if any).

### **Schedule 2: Summary of the Rights and Duties of the Authority and the Licensee Under the Licence**

The licensee shall:

- i. commence operation of a route within three months of acceptance of award of licence by tender,
- ii. operate at least the minimum service according to the route and schedule specified in the licence,
- iii. maintain a service that is, in all respects, proper and efficient,
- iv. operate only buses approved for the route,

- v. submit data returns as required (See Section 8. Report Work Package 2),
- vi. ensure that buses stop to pick up and set down passengers only at designated stops,
- vii. notify the Authority of an intention to cease operation of a route 3 months in advance.

The licensee may:

- i. increase the service frequency, capacity, daily period of operation at his discretion,
- ii. Charge a fare lower than that specified in the licence, as amended from time to time,
- iii. Charge a fare higher than that specified in the licence under 'special circumstances' to be specified in advance by the Authority,
- iv. Apply to the Authority to
  - o divert, shorten, or extend the route
  - o change the fare category of a route,
- v. apply for the Route Licence to be renewed 6 months before expiry,
- vi. apply for a change in the fare for the route.

The Authority shall:

- i. specify the maximum fare for each route and any section of a route,
- ii. specify the 'special circumstances' under which an above-scale fare may be charged,
- iii. authorise a scale of fares for the route that enables a reasonably efficient operator to recover in full the costs of providing the service.
- iv. Respond to an application by a Licensee:
  - o for a change in fares
  - o for renewal of the licence
  - o to vary the conditions of a licence
  - o to divert, shorten, or extend the route
  - o to operate a new route
  - o to change the fare category of a route, within 2 months of the application.

The Authority may:

- i. designate any road suitable or unsuitable for bus operation, or limit its use to buses of specific types, weights or dimensions,
- ii. designate any place to be used as a terminal or bus stopping place and allocate terminal space between different operators,
- iii. designate a route exclusive to a single licensee, or non-exclusive,
- iv. extend the period of a Route Licence at any time,
- v. amend the terms of the licence with the licensees agreement
- vi. specify operating data to be submitted by the licensee, and the dates of submission

Offences and penalties on the operator are to be specified for:

- i. failure to operate a service on a route that complies with the licence and is proper and efficient in all respects,
- ii. failure to submit operating data as required by the Authority,
- iii. charging a fare exceeding the approved scale,
- iv. operation on a road not designated as suitable for a bus route,
- v. use of a terminal or stopping place not approved by the Authority,
- vi. infringement of the exclusive right of another licensee.

Penalties will include:

- formal warning letter,
- loss of exclusivity (where granted)
- revocation of licence,
- monetary fine.

An avenue of appeal against a decision of the Authority.

## APPENDIX 5: TENDERING PROCEDURES

### 1. Procedure For Conducting Tenders

#### Three months before first tender - Preliminary Announcement

The Tender Committee publishes its intention to offer bus route licences by tender, including the objectives, the outline procedure, the routes (if known), the timescale for the tender programme and the timing of subsequent announcements. The notice is published and sent by mail to all holders of route licences.

#### Two months before tender closing date - Notice of Tender

The publicity programme is repeated, with more specific information about the routes to be offered, the tender programme, any pre-conditions for eligibility and the evaluation criteria.

#### Not less than 30 days before the tender closing date

Full details of the first tender are announced. The notice will include:

- The specification of the routes (or packages of routes) to be offered
- the eligibility criteria (any pre-conditions for a valid bid)
- the selection criteria to be included in the marking scheme
- the marking scheme (the maximum marks, and marking scale to be awarded for each criterion).

The specifications of the route to be offered will be prepared by the Authority. The route parameters will determine the minimum number of buses required, and will therefore fix the cost base. The Authority must be satisfied that the potential demand on the route is sufficient for an efficient operator to recover costs at a reasonable fare level. The following data will comprise the Route Specification and will provide the minimum against which bids will be evaluated.

- The route - with any permitted variations, and termini.
- Running time (competition on journey times, and bids based on unrealistic journey times should not be allowed).
- Minimum frequency, by period.
- Days of operation, minimum service hours.
- Minimum capacity.
- Maximum fare (or the fare may be a factor in competition).
- Any restrictions on the size or type of bus to be used.

Generally, marks will be awarded with reference to a pre-set marking scale which reflects the weighting of each criterion. They will be awarded, up to maximum, for the extent to which a bid exceeds the minima in the Route Specification. A suggested scheme of weighting of the criteria is provided in section 6 below.

Operators wishing to participate in the open tender must submit a written application to the responsible agency (a Surabaya Transport Authority is proposed) to receive a set of tender documents. The deadline for applications to receive the tender documents will be not less than 15 days from the day the tender was announced. The STA will record all applications in a register.

A bidder may be charged for the package of tender documents based on their actual production cost. Payments are to be deposited in a special account to be used only in connection with the tender.

The selection criteria and marking scheme shall, as far as possible, be consistent between tender exercises. Any change shall require the authority of the Mayor and shall be publicised.

- i. Bids must include the following data and information for evaluation by the Tender Committee:
  - the corporate structure of the organisation, including the management structure and terms of employment of staff
  - the proposed fares to be charged, taking into account full cost recovery
  - make, type, specification, capacity and age of buses to be used
  - the proposed operating timetable for the route.
- ii. Only applicants holding a Transport Business Licence to operate urban passenger transport are eligible to bid.
- iii. The STA must receive all submitted applications, without exception, from participants.
- iv. Bids received after the closing date will not be considered.
- v. The package of tender documents distributed to intending bidders shall include:
  - regulations and procedures for awarding bus Route Licences by open tender
  - a form for submitting information about the bidder
  - instructions for bidders
  - the service requirements for the tendered routes
  - a form for submitting details of the bid
  - a specimen Route Licence showing the conditions of operation for a route (or package of routes)
  - a set of envelopes (1 big and 2 small) for submitting the bid and information on the bidder to the STA.

The words "Tender Bid", and "Details of the Bidder " are marked on the small envelopes. The name of the route (or a package of routes) is marked on the big envelope. The tender documents prepared for the bidder must be certified by the STA. Receipt by the bidder is registered in a special book.

- i. The period for preparation and submission of bids must be not less than 15 days after receipt by bidders of the package of tender documents. The closing date for submission of bids must be specified in the tender announcement.
- ii. Bidders may not make any amendments after submitting tenders.
- iii. Bids will be valid for 60 days after the date of their submission.

- iv. The small envelopes containing the bids and information on the bidder are submitted in the big envelope. If more than one package of routes is offered, a separate set of envelopes must be used for each package. The envelopes must not have any marks or distinctive signs in order to make it impossible to identify any bidder. All envelopes are to be sealed.

## **2 The Procedure for Opening and Evaluating Bids**

- i. Evaluation of bids is the responsibility of the Tender Committee. STA will provide the 'evaluation team' which will make the initial assessment of marks for verification by the Tender Committee.
- ii. The Chairman of the Tender Committee marks the first serial number boldly in the upper right corner of the big envelope, opens it and marks the small envelopes with the same number. The envelope with the information on the bidder is put back into the big envelope.
- iii. The Chairman opens the envelope containing the first bid, marks the first serial number on each copy and distributes them to the STA evaluation team.
- iv. The STA team examines each bid against the eligibility criteria. Any disqualified bid is marked, together with the reason.
- v. STA evaluates each criterion in each valid bid and awards marks with reference to the marking scheme approved by the Tender Committee.
- vi. The team's evaluations (including those bids disqualified) are handed to the Chairman of the Tender Committee who puts them into the big envelope with the first serial number. The same procedure is followed with all the remaining envelopes of bidders for that route.
- vii. Each member of the Tender Committee reviews and verifies each result. The Chairman of the Tender Committee compiles a form with the final scores on which the winning bid is identified.
- viii. After the Chairman of the Tender Committee has confirmed the tender result, the small envelope with the serial number of the winning bid containing "Information about the Bidder"- is opened and the winner identified.
- ix. The results of the evaluation of bids by the Tender Committee is entered in an official record, which is signed by the chairman and members of the committee. The winner of the tender is given a certificate, confirming the right to operate on the route. The certificate is signed by the chairman of the Tender Committee and is certified by the seal of the Municipality.
- x. On the basis of the record of the Tender Committee, the winning bidder has the right to be awarded the Route Licence. The Licence must be issued within 30 days after the winner was announced.
- xi. In the first 15 days after the tender and before the contract signing, the STA (on behalf of the committee) has the obligation to check and verify the data provided in the winning bid. If the commitments in the winning bid cannot be honoured, the bidder with the next highest score is considered to be the winner.
- xii. Any bidder has the right to receive the results of the bid evaluation in writing from the Tender Committee, both of his own bid and those submitted by other bidders. Any bidder who feels he has not been treated fairly or in accordance with the bidding procedure may appeal to the Mayor.

### 3 Tender Evaluation Criteria

The following pre-conditions for eligibility to bid are proposed:

- Vehicle types, within permitted range, complying with emission standards.
- Age of vehicles, to be below specified maximum.
- Vehicle fitness certificate, valid.
- All owners to be members of an incorporated organisation.
- Drivers and conductors to be employees.

Bids not complying with these conditions will not be considered.

The following evaluation criteria and possible weightings are proposed:

#### Option 1 - where the fare is to be an evaluation criterion

Criterion	% of marks
Fare	50
Frequency and capacity offered compared with minimum	25
Type and size of vehicle	15
Age of vehicle	10

#### Option 2 - where the fare is fixed

Criterion	% of marks
Frequency and capacity offered compared with minimum	50
Type and size of vehicle	30
Age of vehicle	20

The proposed criteria are very simple and easy to quantify, and are direct indicators of the quality of service. They leave no scope for the exercise of qualitative judgement by the members of the Tender Committee. There is, for example no marking for quality of management or maintenance facilities. Experience elsewhere has shown that subjective judgement of such criteria is a major source of disparities and bias.

Marks will be awarded, up to the maximum indicated in the tables above, according to the degree that the bid exceeds the minimum parameters for the route set out in the Route Specification.

It recommended also that the amount of royalty payment (the amount of premium the bidder is prepared to pay the Authority for the right to the licence) should not be a criterion.

## APPENDIX 6: BACKGROUND INFORMATION

This Appendix provides background information on current policies and procedures relevant to the implementation of the pilot project.

### Note 1. The Status of DAMRI and the Damri Exclusive Zone

DAMRI is a state-owned urban bus operator under the authority of the Dept of Communications. It has fleets in most of the large cities of Indonesia. It has had the status of a 'commercial corporation' since 1980. Local depots, including that in Surabaya, have limited operational autonomy and are required to operate commercially. However, Surabaya Damri does not have financial autonomy.

Policy, overall direction, financial control and supplies including buses are provided by the Damri HQ in Jakarta. Daily, 10-daily, monthly, quarterly and yearly returns of costs and revenue are faxed to Jakarta. Each month a proportion of revenue is remitted to Damri HQ, and funds for wages are transferred from Damri HQ. Surabaya Damri has no access to capital. New buses are provided by HQ, but depreciation is charged to the local undertaking. Nationally, and also within Sby Damri, there is substantial cross-subsidy from profitable to unprofitable services, although loss-making operations are subject to closure. If Sby Damri wants to expand it must apply to Jakarta for more buses. Although there is no direct subsidy, it is not clear whether Sby Damri recovers its costs fully from fare revenue. This is important since Damri may only participate in any future tenders for bus routes if it is able to compete on equal terms with private operators.

Sby Damri has some social obligations, for example, 60 buses were lent without charge to Semarang and Denpasar to help those areas meet the peak of demand over the Christmas/Lebaran period. Damri is also required to provide services to isolated areas where private operators are not willing to operate.

Sby Damri is required to obtain the same licences and pay the same taxes and duties as the private buses, and is theoretically equally subject to regulatory control.

However, Damri has had an exclusive right to the busiest and most profitable routes in the cities where it operates. A decree of the Minister of Communications (KM 91/PR008/PHB-87) gave Damri exclusive rights to operate urban trunk routes, with private buses and angkots to operate on feeder and sub-feeder routes. In Surabaya, this decree has been implemented by giving Damri buses an effective monopoly in the most densely trafficked section of the NS corridor between Jl Raya Darmo and Jl Embong Malang/Pemuda. Private buses on NS routes detour to avoid this section, though some angkots serve it.

Although in January 2000 officials of both Sby Damri and DLLAJ Tk. I claimed that this decree was still in force, Directorate General of Land Transport officials in Jakarta subsequently stated<sup>11</sup> that the decree has not been in force for several years, having at the least been implicitly overruled by KM 68/93, which made no mention of it.

<sup>11</sup> Notes of a meeting between SUTP GTZ and DGLT officers in Jakarta on 17 February 2000.

## Note 2. The Licensing of Multiple Operators on Bus Routes

Since major terminals for urban bus services in Surabaya are outside the municipal boundary, urban bus routes are categorised as 'inter-city' and regulated by DLLAJ TKI. Only one bus route is wholly within the city boundary and is licensed by DLLAJ II, who also licence and regulate angkot services.

Surabaya's bus network comprises 26 routes with a total bus allocation of 445 buses. 263 buses (60% of the total) are operated by Damri, and 40% by 32 different private companies. Twelve routes are operated exclusively by Damri. There is one single-bus route, and on Route 8 all eight buses are provided by one private operator.

The remaining twelve routes are operated jointly by multiple operators. The 28 buses required for Rt D are provided by fourteen different private operators. Route P5 requires 24 buses and involves fourteen operators including Damri. Each operator usually provides between one and three buses to each route on which he operates, and holds a Route Licence for all his buses on each route, valid for 5 years.

The licensing of multiple operators on many of the urban routes creates some complications and imposes constraints on the future re-organisation of the bus sector. Problems include:

- No single operator or organisation can be held responsible for service regularity, capacity, adherence to the timetable or overall efficiency.
- Regulation and supervision becomes very complex, as changes to one route require the agreement of up to 14 different operators.
- The need to co-ordinate the timetable of multiple operators on a route has created an opportunity for 'freemen' to step in and impose control of bus departures from the termini. This illicit control has reduced productivity, added costs to bus operations and reduced the authority of the regulator.

There are two advantages of joint operation:

- The buses of each company are spread over several routes, which tends to equalise the *setoran* income (the daily bus rental varies with the revenue of the route on which the bus operates) of different operators. Without this 'averaging' effect the flat fare system might be untenable.
- The failure of one bus company will reduce capacity over a range of routes but will not cause a total loss of service on any route.

On balance however, it is evident that the constraints imposed by licensing multiple operators on a route substantially outweigh its advantages.

## Note 3. The Planning and Regulation of Angkot and Bus Routes

### 3.1 Angkot Routes

Authority to plan and regulate the bus and angkot network within the city boundary is vested in DLLAJ Tk. II. There are 57 angkot routes with a total of 4,684 licensed vehicles, and one bus route with 14 licensed buses, wholly within the municipality. The largest angkot route has 163 vehicles.

No new angkot routes have been created since 1991. Increased demand for existing routes and for new catchment areas is met by extending, and adding vehicles to, existing routes. Thus routes tend to get longer, though once they cross the municipal boundary they fall under the jurisdiction of Tk I.

The practice of meeting increases in demand by licensing more angkot routes has led to a steady increase in the angkot fleet. In recent years an average of about 100 licences per year have been issued. In the second half of 1999, 50 additional vehicles were licensed on six routes. Angkots have thus catered for all the growth in demand for urban transport in recent years.

Tk. II undertakes no route planning procedures for angkot. They only react to applications, which come mostly from the heads of angkot route associations.

The usual procedure for considering route applications was described in the following terms:

- The head of a route association applies to DLLAJ Tk II for more vehicles.
- The Municipal (Level II) Transport Guidance Board (BPTD), which comprises PWD, Traffic Police, Organda, the City Economic Bureau, Legal Bureau, Social & Political Bureau and Dinas Terminal, discusses the application. In practice only a 'small team' or 'sub-committee' meets for this purpose.
- BPTD may order DLLAJ to conduct a field survey.
- The association head must submit a letter stating that 95% of his members support the application.
- DLLAJ recommends to the Mayor that additional licences be issued.
- The Mayor endorses the application.
- DLLAJ issues the licences to the head of the association, who is free to distribute them at his discretion.

Requests from the public for new routes are rare (or are rarely accommodated). They may be directed to the Mayor, who may then order the sequence of procedures 2 - 6 above.

Since the addition of more vehicles to a route is against the commercial interests of the incumbent operators, it is evident that an application for more vehicles by the route association head is more likely to get 95% support than an application by the public. It is not a legal requirement that 95% of operators on a route must support an application. The procedure gives the route association heads an effective veto over any proposal to increase capacity.

Where more than one existing route is affected by a route extension or more licences, DLLAJ leaves it to the route association heads to agree on the distribution of the new licences between the routes. If they cannot agree, a dispute, or gang violence, can result. Association heads thus need to be 'strongmen'. If the associations are unable to agree, DLLAJ will not issue the new licences. If there is agreement, DLLAJ will follow the agreement.

A primary role of the angkot route associations, and of KOPATAS, is to protect the interests of their members. Individual route associations and groups have frequently taken protest action against DLLAJ, rival angkot groups, bus route proposals or other perceived threats to their livelihood. DLLAJ has usually withdrawn its proposals in the face of such protests. Though they tend to object strongly to changes to bus routes, it is reported that angkot operators object less strongly against increases in capacity on existing bus routes.

The current procedure of angkot route development by 'negotiation and consensus' between DLLAJ and the angkot association heads, without reference to the needs of the users, is a major constraint on the development of adequate public transport services in Surabaya.

Similar arrangements for dealing with angkot route licences apply in other Indonesian cities, which will add to the difficulty of reform.

#### *Licence Premia*

Transfers of vehicles and route licences to a new owner are expressly permitted by the new DLLAJ I Decree on 'Technical Guidelines'<sup>12</sup>.

A substantial transfer premium is payable when ownership of a bus is transferred with its route licence. It is also reported that a substantial informal premium is payable when a new bus route licence is issued.

The 4,680 angkot route licences are more frequently traded and have a market value of up to Rp 20-30 million, depending on the viability of the route, in addition to the value of the vehicle (up to Rp 10 million). The total market value of the 100 new angkot licences issued each year, at an average value of Rp. 20 million, amounts to Rp. 2,000 million (UD\$278,000 at the current exchange rate).

As described above, new angkot licences are issued by DLLAJ II to the head of the route association who initiated the application. The official fee ('retribusi') for the issue of a new licence is only Rp 24,000.

A key question is: in what ways is the licensing procedure influenced by the distribution of this substantial value. Since each additional vehicle will reduce the revenue of existing vehicles on the route, the issue of additional angkot licences is contrary to the interests of the incumbent operators. Extension of the route is also against the operators' interests as, due to the flat fare, revenue-per-km may fall. So what motivates an association heads to apply for more licences, and what motivates the existing operators on a route to support that application when they are so active in defending their business against big buses?

#### *The 2 for 1 Scheme*

As the number of small angkot vehicles on Surabayas streets proliferated, DLLAJ took an initiative to increase efficiency and capacity by offering to convert two angkot licences into one medium bus (28 seat) licence (the '2 for 1 Scheme'). The scheme is defined in Art. 19 of the new DLLAJ I Decree on 'Technical Guide-lines'. However, no angkot operators have accepted the offer, probably because the '2 for 1' transaction would involve the loss, or a substantial reduction, in the transfer value of the licences.

### **3.2 Bus Routes**

There is no systematic forward planning process for the bus network. No new routes have been created in the last ten years, despite the growth of the city. Route development is incremental and reactive, and new demands are met by extending existing routes rather than by creating new routes.

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<sup>12</sup> Decree of DLLAJ I No. 551.2/ /110/2000 ' Technical Guidelines on Procedures for Awarding Route Licences for Inter-city Transport Within East Java . . . '.

The number of buses licensed to operate routes has been unchanged for ten years, although the number actually operated has dropped substantially (*See Report of Work Package 2*)

The bus route planning process was described by DLLAJ TkI in the following terms.

DLLAJ Tk I monitors the performance of the route network, undertaking an annual evaluation of demand, load factors, number of trips actually operated etc. Network viability is assessed and whether new routes, or more buses, need to be added.

If a need for a new route is indicated DLLAJ will survey the potential demand along the proposed route to assess its likely load factor and viability. The routeing and the initial number of buses required to provide the service will be assessed. An endorsement of an application for a route licence for a Surabaya bus route which crosses the southern municipal boundary is required from the head of DLLAJ level II of each region passed through ie KMS and Sidoarjo.

If unsatisfied demand is evident on an existing route, DLLAJ will contact the operators of existing routes in the area and invite proposals to provide new services. Any operator is free to apply, and there is no preference for Damri. The application is determined by considering the operator's record and the quality of the services to be provided.

In practice, these procedures do not appear to be followed. The few changes to the bus network that have taken place in the last decade have been necessitated by relocation of termini<sup>13</sup> rather than identification of unsatisfied demand. Except for the introduction of aircon services in 1995, and the addition of 4 buses to the P7 route, there has been no change to the number of buses licensed to serve urban routes since 1990.

Neither DLLAJ TkI nor Tk. II engages in systematic monitoring of the supply of public transport services, nor is data collected on transport demand with reference to the needs of users. Their current role appears to be mainly to arbitrate and protect the interests of the bus companies and angkot route associations with little reference to the wider interests of the public.

This passive, reactive role is not consistent with national or municipal policy for public transport. Decrees of the Mayor (Head Surabaya Level II) nos. 102/98 and 103/98 specify procedures for Tk. II to issue Route Licences and Transport Business Licences respectively. The preamble to both decrees states that their objective is to 'improve the services to the community'.

The lack of network planning reflects several constraints.

Citybuses were not introduced until 1980, and were then superimposed on an established network of angkot routes. DLLAJ Tk II was not created until 1997. There has been very little scope for asserting its planning functions.

DLLAJ lacks funds and skilled resources for evaluation. Proposals for new bus routes from developers, the public or operators are rare, because changes are not possible without a consensus of vested interests. Proposed changes to bus routes are likely to be opposed by a variety of groups if they perceive their interests to be adversely affected. In the recent past opposition has come from the owners and drivers of angkots, the workforce of Damri and private bus operators. These protests

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<sup>13</sup> Changes in bus routes were needed to accommodate the opening of the Purabaya terminal in 1990, the opening of the Tambak Oso Wilangun terminal in West Surabaya in 1994, and the addition of a route to Sidoarjo.

have generally resulted in the withdrawal of the proposals and have acted as a constraint on new initiatives.

The route planning process has been constrained by the reduced number of large buses available for service. This in turn reflects the relatively low financial returns available from bus operation - fuel and operating costs have been inflated by the effects of the economic crisis, while cost increases have not been matched by fare increases.

Planning and monitoring are complicated by the mix of operators on each route. Data from all licensees is needed to monitor the route performance. Conversely, no licensee can be held accountable for failure to operate a proper schedule. It is not evident that there is an 'official' schedule for each route.

#### *Licence Premia*

Bus route licences also have a premium transfer value, though since they are all held by companies they are not traded with the same frequency as angkot licences. The premium value is established when a licence is issued. It is reported that extraneous payments are necessary for the issue of a new route licence. When a bus together with a route licence is transferred from one operator to another, the premium can amount to 'several times the value of the bus'. This increases the stake that a bidder has in the tendering process. Once an existing route is offered by tender it is implicit that all the existing licences will have been cancelled, or will have expired and not been renewed. An operator who loses his operating right in this way, and then fails to win any tender, will lose the transfer value of his licences.

However, it is likely that the new form of collective route licence awarded by tender will have no transfer value, since it is attached to an organisation and not to a vehicle. Eliminating the transfer value of buses will be a generally positive effect, though it might be a reason why incumbent operators resist reforms.