



Liberating Nepali Enterprises

REGULATORY REFORM IN TRANSPORTATION SERVICES

Vol II: Revisiting taxi licensing in Bagmati Zone

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The paper at a glance...

In May 2000, the Department of Transport Management issued a notice to halt new registration of taxis in Bagmati Zone speculating an oversupply and seeking time to investigate the situation. The ban was initially expected to last only 90 days for the formation of a Taskforce for the preparation of a study report which would help the decision-makers revisit the decision in light of evidence. Fifteen years have passed and as of July 2015, no Taskforce ever came into life for this, neither was such a report prepared and the ban lasts till date. This, taken into consideration with the agreement between Federation of Nepalese National Transportation Entrepreneurs (FNANTE) and three related government agencies requiring a recommendation from FNANTE for the issuance of service license or route permits for any transportation service has successfully created and maintained the Great Wall of entry barrier in the taxi industry, getting past which comes with a very high cost. This paper throws light on that cost.

A decision based on a notice from a government department (and it is important to note, its not a policy or an Act or any other kind of law that went through the legislature), which is not informed by any substantial study has created manifold impact on the taxi owners that existed before the ban, existing taxi owners, future taxi owners and mostly, the consumers. But it is important to ask few important questions on this - Who gains the most from this ban? Who loses the most from it? And most importantly, if one group gains at the expense of the other.

The quantity control has distorted the demand and supply of taxi service in Bagmati Zone. The new quantity supplied has thus been set below the quantity demanded in a market free of intervention. This had led to the reduction of the producer and consumer surplus significantly. This means the producer group as a whole and consumers are both losing from the current arrangement. However, the amount that arises from the difference between demand price and the supply price i.e. Quota rent, is transferred to the owners of taxi meaning the taxi owners gain from it. Furthermore, this restriction on supply of taxi has resulted on a dead-weight loss to the industry.

As important as the cost element (if not more), is the direct violation of a fundamental right caused by this entry barrier. Nepalese citizens are guaranteed 'the right to enterprise' by Interim Constitution of Nepal (2007) and the entry barrier has successfully kept hundreds out of the market by making it exorbitantly costly to become a taxi entrepreneur. For the entry into taxi market, one has to buy the existing number plate costing NRs. 900,000 and an old taxi of NRs. 1,000,000. Hence a total outlay of 1.9 million Rupees has to be borne exclusive of the time and money cost of building ties with the federation. Still a limited new entrants come into the industry because this huge cost get transferred to the consumers eventually in the form of high taxi fares. As a response to this problem, the government has opted for price control, which has again only increased the burden on the government for monitoring the market while not making any significant impact in addressing the plight of the consumers and prospective entrants of the industry.

Lifting this ban would mean that the surplus of both producers and consumers increases. The benefits would mostly be seen in following forms:

Taxi Entrepreneurs:

- New would-be entrepreneurs are able to enter market and enterprise freely i.e. economic opportunities for enterprising youth.
- Capitalisation on the fact that there persists a demand-supply mismatch, i.e. as new taxis enter the market, they can then cater to the unfulfilled demand, thereby churning more profits from a competitive market. Enhanced benefit for the producer group as a whole.

Taxi drivers:

- As new taxis enter the market and replace the old ones, the unsafe and unhealthy vehicles will exit the market, causing a surge on the safety and well-being of the drivers.
- Licensed drivers who have been forced to exit the country due to unavailability of job opportunities within Nepal get a chance to earn a decent living within Nepal and can realistically aspire to own a taxi themselves.

Consumers:

- Power to choose among many competing taxi service providers, based on his/her own preferences of quality and price.
- Cheaper commutes as their bargaining power goes up with the entrance of new service providers in the market.
- Higher quality of services as the service providers start to compete amongst themselves on factors other than mere transportation of commuters, viz. price and quality of service
- Lower waiting times.

From both economic and legal perspective, the paper makes it clear that the ban on the new registration of taxis in Bagmati zone should be lifted. This will be a starting point in raising competitiveness, innovation and better deliverance of services and offering services at cheaper prices to the consumers.

Introduction

The government of Nepal put a halt on the registration on new taxis in Bagmati zone in May, 2000 (Shrestha, 2014). Prior to the halt, about 8,000 taxis were plying the roads of Bagmati zone and this amounted to about 80% of the total taxis in the country. Currently about 5,500 of those Maruti 800s ply the roads of Kathmandu valley in Bagmati zone and these are over 15 years old (Shrestha, 2014). With a large number of them being out of order and many being run down and battered over the decade, the halt on registration raises some serious issues.

With slowly growing economy, wider roads, and more people willing to use taxis for their daily commute, the artificial shortage created here seems to hit many commuters. At a period in Nepalese economic history where more and more of the rich and higher middle class people are opting to own cars (Figure 4), it is the lower middle class and the poor - even among them, mostly the old, the pregnant women, and those in an emergency situation with no option but a taxi for immediate transportation - that face most of the brunt of this quantity control. Additionally, as other public transit services are unreliable, uncomfortable and even risky (The World Bank & Australian Aid, 2013), many seek an alternative with taxi services although it comes at a much higher cost. The

artificial shortage has caused the taxi fares to soar and consumers are forced to ride over-a-decade old vehicles while paying high prices (Rawal, 2013)¹. The government in response has introduced price controls and there has been much hue and cry over it from the taxi owners. On 16 July 2013, the government raised the fare by 15.6 percent which put the flagdown rate at NRs. 14 and the fare at NRs. 37 per kilometer from NRs. 32. Even in the years prior to that, the government had been raising the taxi fares according to the rate of inflation, increasing fuel prices and changing wage rates for the drivers².

In recent years, the government has started holding discussion with stakeholders on opening up the registration of taxis in Bagmati. However, no progress has been made (as of July 2015), with constant opposition from the taxi operators and the associations of these existing operators (Shrestha, 2014). During the fifteen-year ban on registration of taxis in the Bagmati zone, the region has seen a formation of syndicate among the transportation operators in the country (The Kathmandu Post, 2011).

¹ Based on this article published in myRe-publica in 2013, the analysis of the demand and supply of taxi services in Bagmati, in the following sections, will strictly look into the cases where the taxi drivers and their customers negotiate and agree on a price before the taxi ride. The article presents cases where both producers and consumers point towards their counterpart for showing willingness to negotiate a price beforehand, rather than go by the meter on the government-fixed price.

² The government had raised taxi fare by 8.19 percent in March 2012. Similarly, the government had raised taxi fare by 17 percent in May, 2011. With this, the passengers had to pay NRs. 27 per km from NRs. 23 per km, with flag-down fare of NRs. 10 (The flag down rate had been maintained at NRs. 10 from 2008.)

During the fifteen-year ban on registration of taxis in the Bagmati zone, the region has seen a formation of syndicate among the transportation operators in the country.

...despite its recent reform intentions, the government had to yield to the demands of the syndicate.

Former taxi entrepreneur and now a consumer rights activist Mr. Ram Thapa shared that the government getting into an agreement with the Federation of Nepalese National Transportation Entrepreneurs (FNTE) has fostered syndicate giving substantial authority to the Federation to decide who can and who cannot enter the industry. This has given rise to situations wherein despite its recent reform intentions, the government had to yield to the demands of the syndicate.

This paper will look into the rationale behind banning the registration of taxis in Bagmati Zone, Nepal. It also digs into the agreement made between the government of Nepal and the Federation of Nepalese National Transportation Entrepreneurs (FNTE). Then it will gauge the effects of this quantity control on both the producer and consumer groups. It can be easily observed how such artificial shortages can negatively impact the consumers. However, what is more interesting in this case is that the overall well-being of the producer group (in this case the taxi service providers) has also been diminished. The paper looks at how the policy impacts the level and quality of service that is rendered to the consumers of the industry. The relevance of the policy in the present scenario is weighed against the rising population, rising number of taxi driving license holders, increased demand for taxi owners and falling supply of taxis itself. The paper further looks into the

policy reform initiatives taken by the government and the cause behind the failure of these initiatives.

Against this background, the paper looks into possible policy alternatives, learning from international experience and makes recommendations to the Ministry of Physical Infrastructure and Transport on how the problems being faced by the citizens of Bagmati could be solved.

From an Economic Perspective

With the government ban on the registration of taxis in Bagmati zone in May 2000, a quantity control – quota – has been clearly established and enforced in the supply of taxi services. Even if a willing entrepreneur wants to enter the industry and offer his/her services, he/she cannot do so easily. If we consider Kathmandu valley alone, the population went up from just over 1.64 million to over 2.5 million in the 10 year-period (from 2001 to 2011)³ and currently hovers around 3.5 million (Ekantipur, 2015). On the other hand, the number of taxis in this market has gone down from 8000 in the year

2000 to 5500 taxis in 2015 (Shrestha 2014). The supply of taxi services for people willing to buy has gone down.

From an economic perspective, in a market free of government intervention, where there is no restriction on prospective taxi entrepreneurs to enter the market and offer taxi services, the price of the taxi service would be determined by the interaction between the demand and supply. This would be achieved through repeated interaction between the producers and consumers of the service, the process culminating at the point where the consumers pay the equilibrium price for the service and the producers provide the equilibrium quantity of taxi services in the market,

Even if a willing entrepreneur wants to enter the industry and offer his/her services, he/she cannot do so easily.

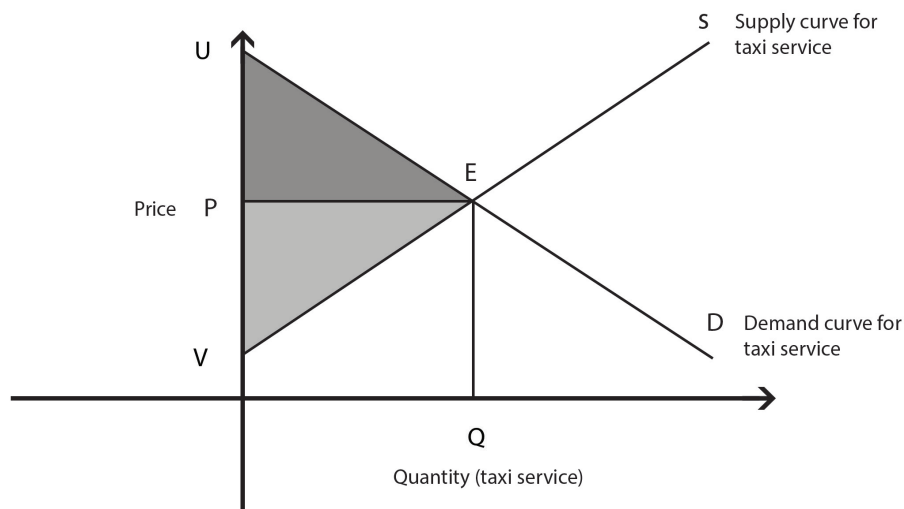


Fig 1: Price of taxi service under perfect competition

³ National population census reports:
 • 2001: Please visit <http://cbs.gov.np/wp-content/uploads/2012/Population/National%20Report%202001/tab1.htm>
 • 2011: Please visit http://unstats.un.org/unsd/demographic/sources/census/2010_phc/Nepal/Nepal-Census-2011-Vol1.pdf

which is also the right price and right amount of service in the market.

At the equilibrium point of the taxi service market, E (Fig 1), triangle UPE and triangle VPE represent the consumer

Any distortion in the market will lead to both the producer and the consumer surplus to decrease.

and producer surplus respectively. This means that the consumer group gains a net benefit by making a transaction at the equilibrium price level, which is a measure of well-being in economics. The surplus originates from the fact that had the quantity supply of the taxi service been below the equilibrium level or controlled by any external factor (be it government policy or the taxi syndicate), that would mean that the consumer's choices are reduced and therefore he would have had to pay a greater price at that supply level.

Similarly, there is a producer surplus equal to the area of triangle VPE at the equilibrium price P. This producer surplus comes from the fact that had there been a below-equilibrium level demand of taxi services, the producer's choices would be reduced, reducing his bargaining power, forcing him to sell his service at a much cheaper price than P. However, at equilibrium level E, the producers of the taxi service are selling their services at a price that is greater than the lowest price they would have agreed for, had there been lesser demand for their services.

Any distortion in the market will lead to both the producer and the consumer surplus to decrease. These surpluses are maximum at the equilibrium point, leading to the maximum social surplus. The case of taxi industry in Bagmati is explained using Figure 2 in the forthcoming paragraphs.

Tracing the roots...

In the year 2000, a ban was put on the registration of taxis in Bagmati zone. This ban on new registration was brought to effect not on the basis of some national policy, but on the grounds of a notice published by the Department of Transport Management under the then Ministry of Labor and Transport Management.

According to the document published on May 30, 2000 by the Department of Transport Management, the department wanted to study if the number of taxis had surpassed the carrying capacity of the roads in light of the growing number of taxi registrations. The state-ministerial level meeting thus decided to form a task-force under the chairmanship of the department to conduct the study and submit a report to the then His Majesty's Government (HMG) of Nepal within three months of its formation. Based on the findings of the report, HMG would introduce programs to deal with the issue. Following this decision, the department implemented a ban on the registration of any new taxis.

In the days following the decision, the task-force never got formed and no such study was conducted. However, the department has managed to put the ban in effect for over 15 years now. Therefore, as it stands, the ban on new registration of taxis in Nepal is not guided by any policy but by a notice issued by the department, which failed to deliver on its mandate on time.

Tracing the effects...

As an effect of this decision, a quantity control has been enforced in the taxi market in Bagmati effectively creating an entry barrier in the taxi industry in Nepal. A lot of those taxis are now over 20 years old and can no longer ply the roads of Bagmati zone as per current environmental regulations. Many have met with accidents and suffered damages beyond repair. Thus, supply of taxi services has fallen below the year 2000 level.

The quantity control in the taxi market has caused the demand price (the price at which the service would be demanded) and supply price (the price at which the service would be supplied) of the taxi service to be distorted (Fig 2). From the interaction between the controlled quantity of the service and the demand of the consumers, we can see that the demand price of the service has now changed from the equilibrium price (P) to P_d (Fig 2). This is because the quantity control in effect has barred any interaction from taking place beyond the new quantity supply level of Q_s . In the meantime, the supply price of the service is now P_s .

As a result of the enforcement of quota, there has been a decline in both the producer surplus and the consumer surplus. The consumer surplus has gone down from the area of triangle UPE to that of triangle UP_dX because: a) the price which now has to be paid for the service has gone up, and b) there is no

possibility of making any transaction beyond the controlled quantity supply level of taxi service. Similarly, the producer surplus has gone down from the area of triangle VPE to that of triangle VP_sY .

Who wins? Only taxi operators already registered before the initial ban

The difference between the demand price and supply price ($P_d - P_s$), also known as the "quota rent" is the amount that is now transferred to the owner of the taxi for the fact that s/he now owns a valuable asset (the taxi), courtesy of the quota. Today, the taxi license sells in the industry for a cost of Rs. 900,000 (Ram Thapa, personal communication, July 31, 2015) while the registration fee for vehicles of similar capacity (car, jeep, van, pick-up and tempo) is Rs. 750 as per the Motor Vehicles and Transport Management Rules, 1997. This rent worth Rs. 900,000 which now accrues to the holders of the taxi license would otherwise be close to the registration fee of similar vehicles in the absence of quota. As an effect of this rent (the special privilege worth $P_d - P_s$, which s/he would not have had otherwise), the operators are incentivised to organize and lobby with the government to never re-open the registration of taxis in their market. Re-opening the registration of new taxis would mean that their asset would cease to be as valuable to the consumers as when there are not enough alternatives to choose from.

As a result of the enforcement of quota, there has been a decline in both the producer surplus and the consumer surplus.

As the quantity control is creating a shortage in the market, the taxi drivers have the power to seek higher fares.

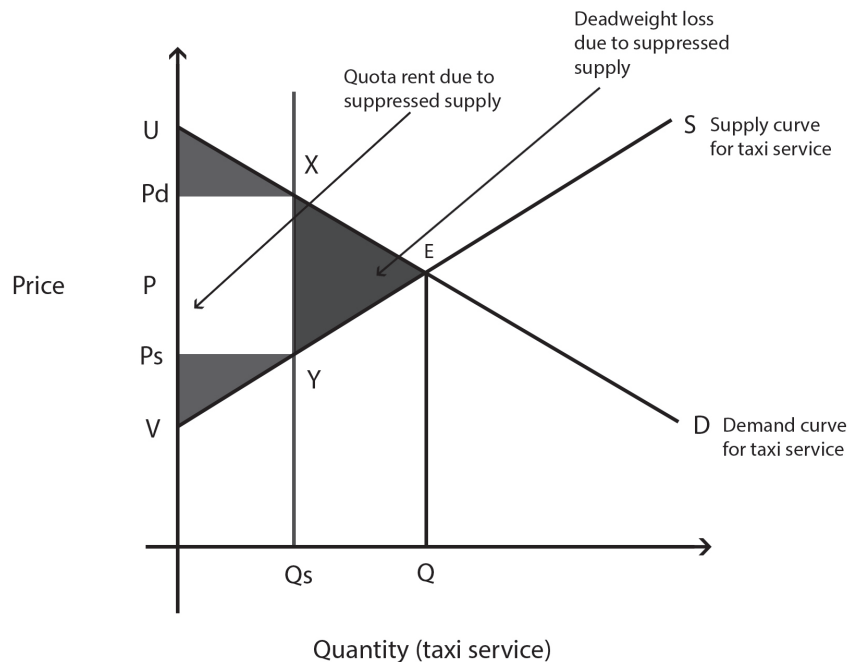


Fig 2: Impact of suppressed supply on the consumer and supplier surplus

Who loses? Consumers and producer group as a whole

In what is another impact of the enforcement of the quota, the price of the service is no longer derived from the interaction between the demand and supply of the taxi service. As mentioned, both consumer and producer surpluses have declined after the enforcement of the quota. In other words, the consumers and producers of the taxi service are no longer making mutually beneficial transactions. The restriction on the producers and consumers in terms of being able to make a transaction beyond the restricted supply of taxi services results in there being a deadweight loss to the industry, equal to the area of the triangle XEY (Fig. 2). This revenue goes to neither of the three parties

involved, viz. the consumer, the taxi driver and the owner of the taxi. It is lost altogether.

However, the characteristics of Nepalese taxi industry do not end there. Realizing that the operators might charge exorbitantly high prices under a suppressed supply, the government has stepped in and introduced a price control as well. But the government's failure to enforce the price control has meant that the consumers end up paying a higher price than the official fare for a specific commute. As the quantity control is creating a shortage in the market, the taxi drivers have the power to seek higher fares. The researchers took 35 taxi rides and recorded details as shown in Annex 2. In this experiment, taxi drivers charged 53.9 % higher on an average than the

official rate⁴. A huge difference was noted in the range of fares taxi drivers charging above the official rate. 26% were found to charge double or more than the official rates and only few charged marginally higher. Additionally, very few charged below the official rates. This might have been so because given the price control, the taxi drivers have a legal protection (a guarantee) of at least the revenue equal to official rate. The consumer, on the other hand, facing the brunt of the quantity control is generally compelled to give in to the price that the taxi operator asks for. Thus, the price and quantity control combined, beat the government's good intentions to protect the consumers

⁴ This was the rate agreed upon the bargaining. The initial quoted price would go well beyond 100% of the official rates, depending on the length of the travel. The shorter the distance to be travelled, the higher the quoted price (in relative terms).

when it comes to real-life transactions that the taxi drivers and consumers make.

An interesting observation here is that even though an individual taxi owner/ taxi driver gains through this ban, there is a net loss to the overall producer group as a result of the quota. We have already seen how the quantity control has shrunk both the consumer and producer surpluses (compared to the equilibrium price level in an open market). We have further seen that the price control creates a shortage in the market and forces the consumers to pay extra at the producers' will.

The price and quantity control combined, beat the government's good intentions to protect the consumers.

With the ban on the new registration of taxis in Bagmati, the government has in effect violated every Nepalese citizen's 'freedom to enterprise.'

From a rights perspective

The Interim Constitution of Nepal, 2007 guarantees every Nepalese citizen the right to free enterprise. With the ban on the new registration of taxis in Bagmati, the government – which is the protector of a citizen's fundamental rights – has in effect violated every Nepalese citizen's 'freedom to enterprise.' Since the move is not backed by any Act as such, and has been brought into effect by an administrative process, one order from the Supreme Court would technically suffice to lift the ban.

On one hand, the Department of Transportation Management (DoTM) never formed the task-force that was supposed to study whether the taxis in the zone had really surpassed the carrying capacity of the roads in the zone and therefore, did not submit the report to the then His Majesty's Government (HMG) to make further decision on whether or not to relax the ban on registration of taxis. On the other hand, Ministry of Home Affairs (MoHA), Ministry of Finance (MoF) and the DoTM collectively entered into an agreement with the Federation of Nepalese National Transportation Entrepreneurs (FNANTE) on January 22, 2007. The agreement required that registration of any new transportation license, and issuance of new route permits to ply vehicles could only be done with the recommendation of

FNANTE (The Kathmandu Post, 2011).

These two events combined lend massive protection to the taxi operators that were already registered before the initial ban on the registration of new taxis in the year 2000. While the former decision meant that there was a possibility of the ban being lifted, based on the findings of the study made by the task-force lead by DoTM, the latter completely shields the existing operators from the threat of new entrants and the competition they bring along.

Entrance of new players in any industry means increased competition for the existing businesses. This means that there is no security for an individual or a group of individuals who might otherwise collude to make gains from anti-competitive practices. An entrepreneur now has to constantly worry about availing quality service to the consumer at the lowest possible price, or he faces the threat of losing to another entrepreneur within the industry. An entrepreneur has to either innovate, or cut down on his profits in order to survive such competition.

Giving the FNANTE the power to decide who gets to enter the industry and who does not effectively means that no new players will be allowed to enter the industry. A rational individual/group would reserve such power for an opportune moment; they would only allow lifting the ban if the ownership of the new vehicles were guaranteed

to themselves, unless forced to do otherwise by a more powerful entity. Securing the ownership for themselves would mean that the pie gets bigger for every player. This is evinced by the fact that the latest mulling of the government regarding introduction of 1800 new taxis⁵ has been met with extreme lobbying and pressure from the FNTE to guarantee that the taxis are distributed as per the federations demands (ekantipur, 2015).

In 2000, the same year the Department of Transport Management put a ban on the registration of new taxis within Bagmati zone, the High Court of The Republic of Ireland deregulated its taxi industry citing that regulation of the taxi industry it had been practicing since 1978 was a violation of human rights in two fronts: a) violation of rights of the consumers to purchase a service that would otherwise be available, and b) violation of the rights of drivers who would otherwise be active workers within the industry (Barrett 2003, as cited in Seymour, 2009).

While all of this has been happening in the backdrop, the taxi industry is a lucrative one for people outside the industry and many people are willing to come despite the heavy costs

⁵ Note that even with the introduction of 1,800 new taxis in Bagmati, the total number of taxis will only reach 7,300. This number is already below the year 2000 figure when the number of taxis was 8,000 and the population of the Kathmandu valley alone was only 45% of the current figure.

associated with it. Any entrepreneur wishing to own a taxi has to purchase existing number plate/registration at exorbitant rates. Currently, an old taxi sells for Nepalese Rupees (NRs.) 1,000,000 in the market. The buyers acquire existing licenses for the taxis (registration certificates) by paying an additional NRs. 900,000. Therefore, an individual who purchases the taxi and the license from an existing entrepreneur within the industry pays a total of around 1.9 million just to enter the industry⁶, exclusive of the time and money cost of building ties with the associations and the federation.

Any entrepreneur wishing to own a taxi has to purchase existing number plate/ registration at exorbitant rates.

⁶ The numbers are based on the author's conversation with taxi drivers during the study period. These are not official numbers and therefore the actual price that a new entrant pays to acquire the taxi and the license may vary.

The consumer ends up bearing all costs arising as a consequence of the economic insensibility at work.

All costs transferred to consumers

Those entrepreneurs that buy their way into the industry by paying exorbitant costs become a part of a wider ecosystem. As they have already paid huge sums just to buy their way in, their immediate goal is to recover those investments. This plays out in two ways: a) when the owner himself is the driver, and b) when the owner hires a driver to drive his car for a daily fee.

When the taxi owner himself becomes the driver, the maths is fairly simple – he transfers the costs to the consumers of the service. When he hires another driver, he gets to choose among many people willing to drive his particular taxi. This happens because the District Transportation Offices continue to issue driver's license to applicants who pass all due processes. Over the period of last fifteen years, the people holding driver's license has also surged considerably, while the number of taxis they can choose to drive has dropped. This creates a competition among these valid driver's license-holders that the taxi owners can take unfair advantage of (because of the restriction on the number of taxis.) The taxi owners now have the power to ask for high daily fees from this swarm of unemployed license-holders. The one who can offer the highest fee gets the job. Today, the rent for these drivers is around NRs.700 per day and NRs. 600 per night.

In either case, the costs get transferred to the final consumers. Whether for the sake of paying the daily rent to the taxi owner as a taxi-driver, or for the sake of retrieving the initial investment, the taxi owners/drivers have an unfairly high bargaining power against the consumers of the service. They retain the power to turn down any consumer's offer for the plain fact that there is a huge demand-supply mismatch and the drivers can almost certainly always find someone who is willing to pay a higher price than the previous consumer.

The consumer ends up bearing all costs arising as a consequence of the economic insensibility at work. In addition to these costs, the consumers also end up paying for all other periodic fees that are paid to the associations to insure the taxi owners from unforeseen circumstances (for eg. legal charges following an unforeseen road mishap)

Do we really have more taxis than we can handle?

Compared to some of the cities around the world, Kathmandu has the lowest taxi density and highest number of people per taxi. This is despite the availability of world class public-transportation services in some of those cities in consideration. **This makes a case in favor of opening the taxi industry in Bagmati (where Kathmandu valley is located) for more entrepreneurs and creating competition among them.** This

would not only offer new avenues of occupation for Nepalese people, but would also mean that the consumers of the taxi service get a better service at fair prices, on top of getting to choose which producer to transact with.

However, the existing regulations have robbed a number of people from their right to free enterprise and have forced them to pay excessive price to enter a market amidst government-backed protection to existing operators. As expected, a lot these otherwise-entrepreneurial people are forced to seek economic opportunities elsewhere.

Compared to some of the cities around the world, Kathmandu has the lowest taxi density and highest number of people per taxi.

Table 1. Comparison between selected cities in terms of availability of taxi service

City	Population	Areas (sq. km)	No. of cabs	Population to taxi ration	Taxi density (per sq. km)
New York	8,715,133A	790	57252C	104	72.5
London	7,750,000	1572.1	22,500B	107	14.3
Paris	2,257,981	105	17,137B	131	163.2
Tokyo	13,190,000	2,188	47,236	131	21.6
Singapore	5,310,000	710	28,210	188	39.7
Seoul	10,140,000	605.2	70,000B	139	115.7
Delhi	16,787,941B	1492	53,739	312	36
Tehran	7,804,000	686.3	77,962	109	113.6
Sao Paolo	11,320,000B	1523	33,000	343	21.7
Kathmandu	3,500,000*	899	5500	636	6.1

Source: Valoriser Consultants, 2014⁷

*Ekantipur article, *Entrepreneurs exercise influence on distribution of taxis (In Nepal)*⁸.

Note: A:2010/ B:2011/ C:2013

7 For more, refer to Radio Taxi Market in India – A case study of Delhi, at http://www.slideshare.net/valoriserconsultants/radio-taxi-market-in-india-a-case-study-of-delhi?qid=a69e5124-bc8e-4bde-b025-201a8c-56b04a&v=qf1&b=&from_search=1

8 For more: <http://www.ekantipur.com/np/2072/3/27/full-story/412547.html>

Both the consumer and producer groups have nothing but to lose as a result of suppressed supply.

The case for lifting the ban on new registration of taxis

If the registration of taxis were to be opened in Bagmati at this point, the consumers would be able to enjoy a much better quality service of new taxis, cheaper rates and lesser waiting times. There would be a substantial number of new taxi entrepreneurs entering the market, looking to tap the benefits offered by the possibility to make transaction beyond the controlled supply level, thereby increasing the producer surplus. In that case, as the number of new entrepreneurs, and consequently taxis rise, the supply curve would shift towards the right (S1) (Fig. 3). The new equilibrium price would then be set at E1 (instead of E), as a result of the interaction between the demand of supply of taxi services

in a market where the supply has just gone up. The consumer and producer surpluses at this new equilibrium level would increase and be equal to the area of triangles UP1E1 and WP1E1 respectively, as compared to that of triangles UPE and VPE respectively. In other words, the well-being of both the consumer and producer groups would increase.

Therefore, both the consumer and producer groups have nothing but to lose as a result of suppressed supply of taxi service in the zone. Relaxing this policy would mean that existing operators might lose some of the profits they enjoy today (as a result of the decline in their individual bargaining power when new entrants come in), but the entire producer group would

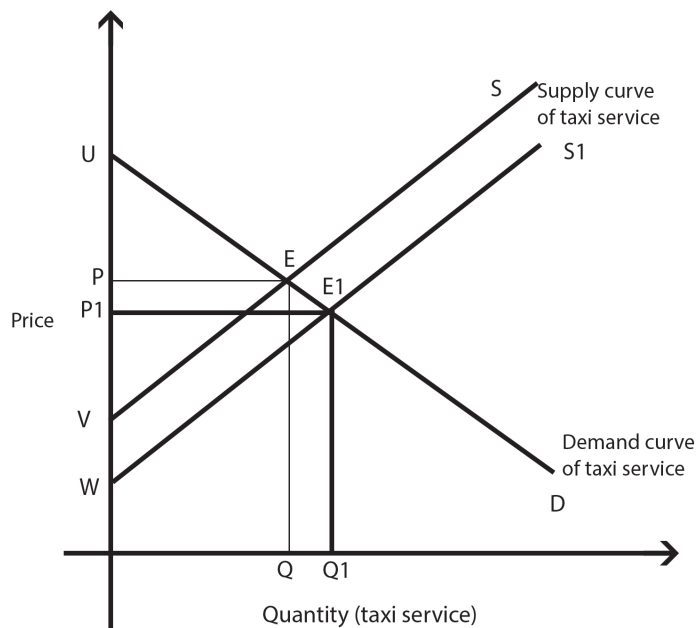


Fig 3: Increased consumer and producer surplus due to competition

benefit in the whole. For the consumer group, there is only gain in surplus if the current policy is relaxed.

The prevalence of this quantity control, despite some government efforts to bring in new taxis and the benefits it can reap, hints that there is an existence of special interests and rent seeking⁹ that is keeping the government from lifting the ban.

⁹ The rent seeking is explained by the quota rent that the existing operators get as a result of the quantity control.

The people that are hurt the most by the taxi industry policy that has been put in place in Bagmati are the lower middle class and the poor.

Deregulation for whom?

At a time when more people in Bagmati are opting for private vehicles (see Annex I) (18% of the population of Bagmati in 2015, compared to 1.3% in 2001)¹⁰ the people that are hurt the most by the taxi industry policy that has been put in place in Bagmati are the lower middle class and the poor, especially the old, pregnant women, and the sick that have absolutely no alternative means of transportation to choose from, at times of emergency.

The government of Nepal has clearly taken a note of these facts. Setting prices while it restricts the number of players in the market is an indication of the fact. Letting the taxi entrepreneurs price their services on their own subjects the consumers to price-gouging. However, this intervention of price control, in effect, has only meant that the government has to bear one more layer of burden – that of monitoring the market. Stories in Nepal are aplenty where the government has failed to monitor the market efficiently; and the consumers have been subject to price-gouging nevertheless (Rawal, 2013).

Even when consumers find a taxi driver who agrees to go by the meter and on government fixed prices – who are already few and far to come by – there have been cases where the consumers later complain that the taxi drivers

¹⁰ Derived from author's calculation based on the data from Central Bureau of Statistics for population of the year 2001, Ekantipur article (see reference below) for population of the year 2015, and the Department of Transport Management for the number of vehicles registered in Bagmati.

drive around the city streets instead of taking the shortest route, only to make sure that the consumer ends of paying more than the official charge for the shortest route travelled (Rawal, 2013).

The taxi deregulation in New Zealand in the 1980s brought in a series of positive changes within the industry, with both the number of taxis, and the number of taxi companies proliferating within the first five years of the deregulation. The greater-than-expected surge in these aspects dismantled all arguments in favour of taxi industry being a natural monopoly where “incumbents with large fleets enjoy economies of scale” (Seymour, 2009). The service providers were allowed to set their own prices, provided that they notified their respective municipalities. As the market matured, there emerged different kinds of taxi companies serving different kinds of customers – from VIP service to cheap and discounted services. Interestingly, in 2004, one company hired only women.drivers to provide more security to female passengers. It made a clear statement: deregulation creates platforms for innovative services in the market. The proliferation in the number of taxi companies and subsequently taxis, innovations in the local taxi industry, and the fall in real prices of the service are clear indications that deregulation made the taxi industry in New Zealand a vibrant industry, making all parties involved, better-off (Summarized from Morrison 1997, as cited in Seymour, 2009).

Mr. Ram Bahadur Thapa, a former taxi entrepreneur, now a consumer rights activist, has been fighting to break the taxi syndicate in the zone since 2010.

Born in Simthali -6, Kavre, Thapa started driving a taxi in Kathmandu in 1991. By the year 2006, Thapa already own a taxi when he was still a taxi driver. Following the people's movement II in 2006, that established Nepal as a Federal Democratic Republic by overthrowing the monarchy, Thapa recalls big players within the taxi industry slowly beginning to exercise influence on the political sphere of the country. In an interview taken in February 26, 2015, Thapa shared the following:

"In addition to the ban put on the registration of new taxis in Bagmati in the year 2000, the Department of Transport Management entered into a covert agreement in 2007 with the Federation of Nepalese National Transportation Entrepreneurs. A deal was struck by politically influencing the department, at the cost of the consumers and the state."

"The department gave up the right to issue route permits and handed it to the federation. Fees that are collected in the process is circulated among different transport associations and committees. None of it gets channeled to the state. The state thus loses out on millions of rupees."

"The over-20-yr-old vehicle could be taken out of Bagmati and re-registered in some other region of the country, while they also get to replace their old vehicle with a new one in Bagmati. Therefore in practice, an operator's' vehicle never goes out of business while he gets to buy more and more, every 20 year (per vehicle.) This only worsens the pollution situation throughout the country. On the face of it, it appears as though the government is only accountable to the people of Bagmati zone – pollution containment wise."

"The transportation fares would be adjusted in line with the increase in fuel prices."

"The fares would be revised at the end of every fiscal year"

In response to these illegal anti-competitive practices, Thapa exited the industry and by now has approached the Prime Minister's Office (PMO) Ministry of Physical Infrastructure and Transportation (MoPIT), Department of Transport Management (DoTM) and Commission for the Investigation of Abuse of Authority (CIAA) time and again since 2007, demanding that these practices and the taxi syndicate be brought to an end to the soonest. The Supreme Court offered a mandamus to the government to end syndicate and all other forms of anti-competitive practices in 2008. However, the mandamus has not been implemented in real sense till date. Thapa claims, he has been receiving "death threats" instead. He still continues to fight for the rights of the consumers to a quality service at fair prices under a system where the consumers can choose between the service providers.

Benefits of deregulation of the taxi industry

From both analytical and empirical perspectives, it is thus clear that the ban on the registration of taxis in Bagmati zone has greatly affected both producers and consumers of taxi service. Lifting this ban would mean that the surplus of both parties increases. The benefits would mostly be seen in following forms:

Taxi Entrepreneurs:

- New would-be entrepreneurs are able to enter a market and enterprise freely i.e. economic opportunities for enterprising youth.
- Capitalisation on the fact that there persists a demand-supply mismatch, i.e. as new taxis enter the market, they can then cater to the unfulfilled demand, thereby churning more profits from a competitive market. It must be noted that lifting the ban will not necessarily enhance the prospects of profit for each entrepreneur; rather, there will be an enhanced benefit for the producer group as a whole.

Taxi drivers:

- As new taxis enter the market and replace the old ones, the unsafe and unhealthy vehicles will exit the market, causing a surge on the safety and well-being of the drivers.
- The licensed drivers who have been forced to exit the country due to unavailability of job opportunities within Nepal get a chance to earn a decent living within Nepal.

Consumers:

- Power to choose among many competing taxi service providers, based on his/her own preferences of quality and price.
- Cheaper commutes as their bargaining power goes up with the entrance of new service providers in the market.
- Higher quality of services as the service providers start to compete amongst themselves on factors other than mere transportation of commuters, viz. price and quality of service
- Lower waiting times

Uber: A case of innovation in the taxi industry

Uber was established in San Francisco, California in 2009. It began as a transportation system organization that used authorized cab drivers for its ridesharing services. As of late, the business has incorporated non-taxi driving rideshare services into its plan of action. The idea was to incorporate a mobile application into its practices to connect travellers and drivers with vehicles for hire. The drivers within the system use luxury vehicles for travellers to ride in style – Lincoln Town Cars, Escalades, BMW 7 Series, and Mercedes-Benz's. Users are able to reserve vehicles by sending instant messages or through the application on their smart-phones. The customer can likewise track the vehicle as it advances towards their location.

The idea of Uber as a new innovation in the transportation has had an immense impact on the industry – providing better and cheaper services to the consumers on one hand, and challenging the existing “privileged and guild-based taxi business” on the other. This innovation in the taxi industry is becoming more popular and more around the world. The main reason behind the success of Uber is definitely the better and cheaper facilities it provides in comparison to existing taxis. Moreover, it has benefitted customers in many other ways. Offering quality customer experiences, accepting different forms of payments, clean ride, are namely some of the benefits that customers enjoy from Uber. Also, as the vehicles can be accessed from any place through mobile application, where Uber service is available, it has proven to be a savior for many during the times of emergencies.

Customers aren't the only ones experiencing positive effects from the execution of this service. Uber drivers are profiting likewise. The business is generating employments for drivers and limo companies that are having difficulty finding job in the city. The company connects qualified drivers with customers who need rides located within a predetermined geographical area. Working as a driver in the cities of the United States can earn some upwards of \$500 per day, which is the amount a taxicab driver stands to make in one weeks' time on average.

Uber, through its better and alluring services has been condemned for disrupting the market of conventional taxis. This company has changed the face of the taxi service, challenging the conventional taxi business and thus making a group of people unhappy and inducing them to go against it. It has been accused of having monopolized the 'new' taxi service industry, as it is so much bigger than competing app-based ride-sharing companies like Lyft, or the conventional taxi service. It is not regulated and has been accused of being an unfair competition to the privileged guilds.

However, this accusation of 'monopoly' is not quite justified and is baseless. According to Dr. Per L Bylund, a Research Professor, “The problem of monopoly is supposedly that it harms consumers, who under monopoly are not offered a sufficient number of choices and therefore are “forced” to pay too high prices as producers can demand payment above the (equilibrium) market price.” This statement claims that the monopoly harms the consumers by providing them with limited choices and thereby affecting consumer's sovereignty forcing them to pay high prices. However, Uber has extended the choice available to the consumers and has provided them with better facilities in less price. It doesn't possess the trait of a monopoly. Instead by entering into the market of transport, it has increased the competitiveness.

Recommendations

Based on the analysis above, this paper recommends that the Ministry of Physical Infrastructure and Transport (MoPIT) lift the existing ban on the registration of taxis in Bagmati. Additionally, the paper recommends delving into the following aspects:

- While the MoPIT is mulling introducing a fixed number of additional taxis into the market, it is recommended that the taxi ban be lifted altogether and no restriction of any kind be imposed on any willing entrepreneur. Allowing only a fixed number of new entrants means that they will also be part of the same ecosystem – one of collusion. While the people will feel some respite in the short run, it is very likely that under continued quantity control, the new entrants will firmly establish themselves within the existing system of anti-competitive practices in the medium term. In that case, the consumers and the government will end up back at square one.
- Along with lifting the ban on the registration of taxis in Bagmati once and for all, the MoPIT could relax the price controls as well. As is seen in the Nepalese taxi market, the price control does not work in the intended ways and the consumers eventually end up negotiating fares with the taxi driver. Therefore it seems as though the price control is only an additional monitoring burden to the government at present. Furthermore, keeping price controls intact while the MoPIT deregulates the entry and exit within the industry would discourage the existing operators and aspiring taxi entrepreneurs as it would effectively put a ceiling on the amount of profits they could make, as against allowing them compete for profits under free competition. Therefore, the MoPIT could go for a complete deregulation of the taxi industry.
- The MoPIT would then have to mitigate the opposition it is highly likely to face from the existing taxi operators that are benefitting from the current setup. Under such a situation, MoPIT would have to learn lessons from some of the international cases of taxi market deregulation. In Ireland and New Zealand for example, a zero-compensation policy was adopted i.e. the existing operators were not compensated at all. However, there were some operators within those markets that had taken great amounts of loan to buy their way into the system (buy taxis and licenses from pre-existing operators and replacing them). These new entrants continued to try to enter into some form of bargain with the government to cover their losses. This happened because deregulation meant that the value of the otherwise valuable asset (taxi license) that they were holding went down to zero. Similar case is highly likely within the taxi industry in Nepal.
- The Supreme Court (SC) has given a mandamus to the government to end syndicate and all forms of anti-competitive practices. Therefore, it is already the duty of the government to ensure free competition among different service providers within the industry and maintain a 'rule of law.'

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Annex - I

Registration of private vehicles in Bagmati (since 2000)

Year	Car/Jeep/Van (Annual)	Car/Jeep/Van (total)	Motorcycle (Annual)	Motorcycle (Total)	Total
2000/01	3754	3754	18728	18728	22482
2001/02	2568	6322	22535	41263	47585
2002/03	1847	8169	19322	60585	68754
2003/04	4961	13130	18289	78874	92004
2004/05	3156	16286	18986	97860	114146
2005/06	3369	19655	21001	118861	138516
2006/07	3624	23279	32503	151364	174643
2007/08	3359	26638	36394	187758	214396
2008/09	4362	31000	42054	229812	260812
2009/10	7425	38425	70527	300339	338764
2010/11	5423	43848	55092	355431	399279
2011/12	5561	49409	44894	400325	449734
2012/13	6334	55743	54051	454376	510119
2013/14	8397	64140	53494	507870	572010
2014//15	8143	72283	48836	556706	628989
Total	72283		556706		

Source: Details of Registration of Transport, Department of Transport Management.

Annex - II

Comparison of actual and official taxi fares in 35 rides

*All calculations are based on day time rates

Flag down Rate: NRs. 14; Per km: NRs. 37

S.N.	From	Destination	Approximate Kilometers	Actual Amount Paid	Official Amount	Percentage Change
1)	Minbhavan	Pulchowk	4.1	290	165.7	75%
2)	Pulchowk	Minbhavan	4.1	210	165.7	26.7%
3)	Minbhavan	Singhadurbar	2.5	145	106.5	36.2%
4)	Singhadurbar	Minbhavan	2.5	145	106.5	36.2%
5)	Minbhawan	Durbarmarg	5.4	350	213.8	63.7%
6)	Minbhawan	Teku	6	300	236	27.1%
7)	Teku	Minbhavan	6	210	236	-11%
8)	Pulchowk	Minbhawan	4.1	350	165.7	111.2%
9)	Minbhawan	Teku	6	300	236	27.1%
10)	Teku	Minbhawan	6	300	236	27.1%
11)	Dwarika's Hotel, Battisputali	Singhadurbar	2.7	250	113.9	119.5%
12)	Singhadurbar	Minbhavan	2.5	200	106.5	87.8%
13)	Minbhavan	Tripureshwor	3.1	300	128.7	133.1%
14)	Tripureshwor	Minbhawan	3.1	350	128.7	171.9%
15)	Minbhawan	Teku	6	300	236	27.1%
16)	Teku	Minbhawan	6	300	236	27.1%
17)	Ekantakuna	Minbhawan	5.5	300	217.5	37.9%
18)	Baneshwor	Lazimpat	6	170	236	-28%
19)	Baneshwor	Baluwatar	5.6	130	221.2	-41.2%
20)	Baluwatar	Baneshwor	5.6	150	221.2	-32.2%
21)	Kupondole	Minbhawan	3.5	320	143.5	123%
22)	Minbhawan	Singhadurbar	2.5	150	106.5	40.8%
23)	Minbhawan	Durbarmarg	5.4	160	213.8	-25.2%
24)	Minbhawan	Babarmahal	2.1	200	91.7	118.1%
25)	Babarmahal	Minbhawan	2.1	105	91.7	14.5%
26)	Durbarmarg	Minbhawan	5.4	230	213.8	7.6%
27)	Minbhawan	Teku	6	300	236	27.1%
28)	Minbhawan	Singhadurbar	2.5	120	106.5	12.7%
29)	Singhadurbar	Minbhawan	2.5	200	106.5	87.8%
30)	Minbhawan	Teku	6	220	236	-6.8%
31)	Minbhawan	Durbarmarg	5.4	300	213.8	40.3%
32)	Minbhawan	Buddhanagar	1.3	200	62.1	222.1%
33)	Minbhawan	Kupondole	3.5	300	143.5	109.1%
34)	Minbhawan	Kupondole	3.5	350	143.5	143.9%
35)	Minbhawan	Soaltee Crowne Plaza	7.7	450	298.9	50.6%

Average=Total/No.=1887.9%/35=53.94%

On an average, taxis charge 53.94% more than the official rate

Annex - III

List of interviewees

1. Dinanath Mishra, Deputy Director General, Taxi Unit, Nepal Bureau of Standards and Metrology
2. Arjun Gautam, President, Nepal Meter Taxi Management Association
3. Ram Chandra Karki, General Secretary, Nepal Taxi Drivers' Union
4. Bharat Gurung, President, Nepal Taxi Drivers' Union
5. Ram Thapa, Taxi Entrepreneur turned Consumer Rights Advocate
6. Sharad Adhikari, Director, Department of Transport Management
7. Nabin Pokharel, Under Secretary, Ministry of Physical Infrastructure and Transport Management
8. Mukti Bahadur KC, Director, Department of Transport Management
9. Dr. Hari Paudel, Joint Secretary, Ministry of Labor
10. Subash Acharya, Lawyer
11. More than a dozen taxi drivers
12. Basanta Pant, Superintendent of Police
13. Bikash Dhonju, chief of Taxi-Tempo Unit (TTU) of Nepal Bureau of Standards & Metrology (NBSM)

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Samriddhi, The Prosperity Foundation is an independent policy institute based in Kathmandu that focuses on economic policy reform. Established in 2007, Samriddhi aims at facilitating a discourse on pragmatic market based solutions for a free and prosperous Nepal.

Known for bringing together entrepreneurs, politicians, business leaders, bureaucrats, experts, journalists and other groups and individuals to make an impact on the policy discourse of Nepal, Samriddhi works with a three-tier approach - Research and Publication, Educational and Training, Advocacy and Public Outreach. Some of its highly successful efforts include the annual economic policy reform initiative named "Nepal Economic Growth Agenda (NEGA)", a sharing platform for entrepreneurs named "Last Thursdays with an entrepreneur" and a regular discussion forum on contemporary political economic agendas named "Econ-ity". Samriddhi also hosts the secretariat of 'Campaign for a Livable Nepal', popularly known as Gari Khana Deu campaign.

One of Samriddhi's award winning programs is a five day residential workshop on economics and entrepreneurship named Arthalya, which has produced over 400 graduates over the past few years, among which more than two dozen run their own enterprises now.

The organization is also committed towards developing a resource center on political economic issues with its Political Economic Resource Center (PERC). Besides this, Samriddhi also undertakes localization of international publications on the core areas of its work. Samriddhi was the recipient of the Dorian & Antony Fisher Venture Grant Award in 2009 and the Templeton Freedom Award in 2011.

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