



University of Belgrade
Faculty of Transport
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MUNI Institute
ECON for Transport Economics,
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"If you want to go fast, go on your own; if you want to get far, go with others" - an African saying

PSO CONTRACT MANAGEMENT VS. ON-TRACK COMPETITION IN THE PASSENGER RAIL SERVICES

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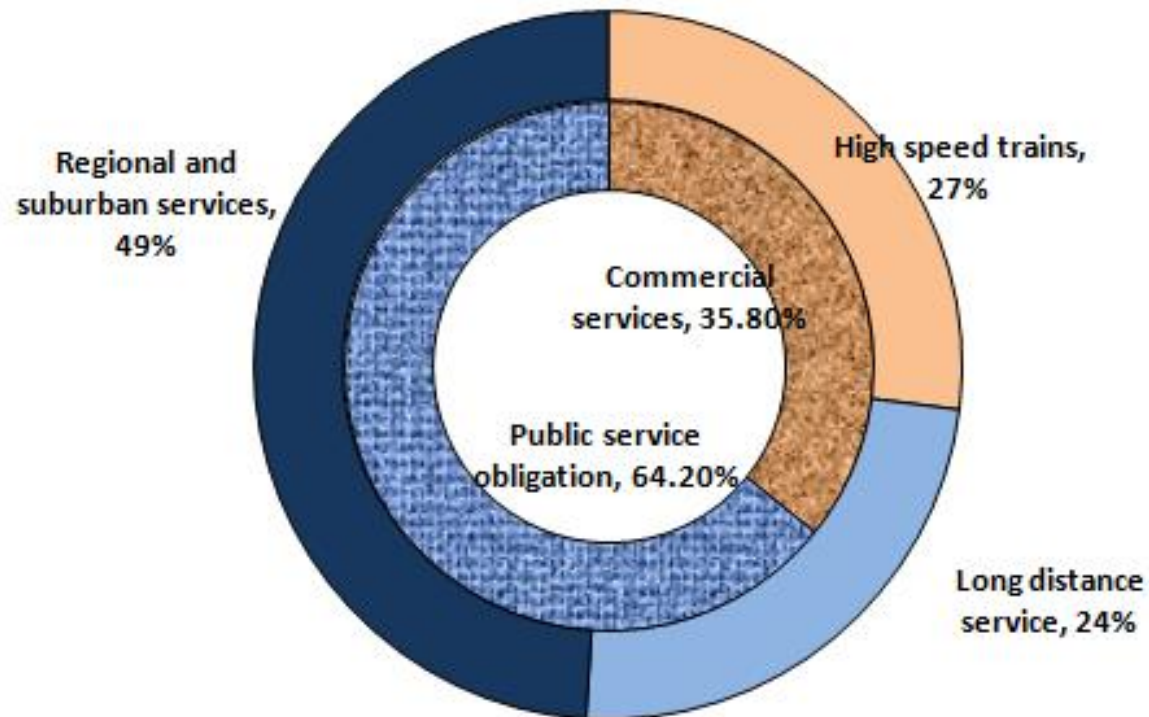
PSO CONTRACT MANAGEMENT VS. ON-TRACK COMPETITION IN THE PASSENGER RAIL SERVICES

Structure of presentation

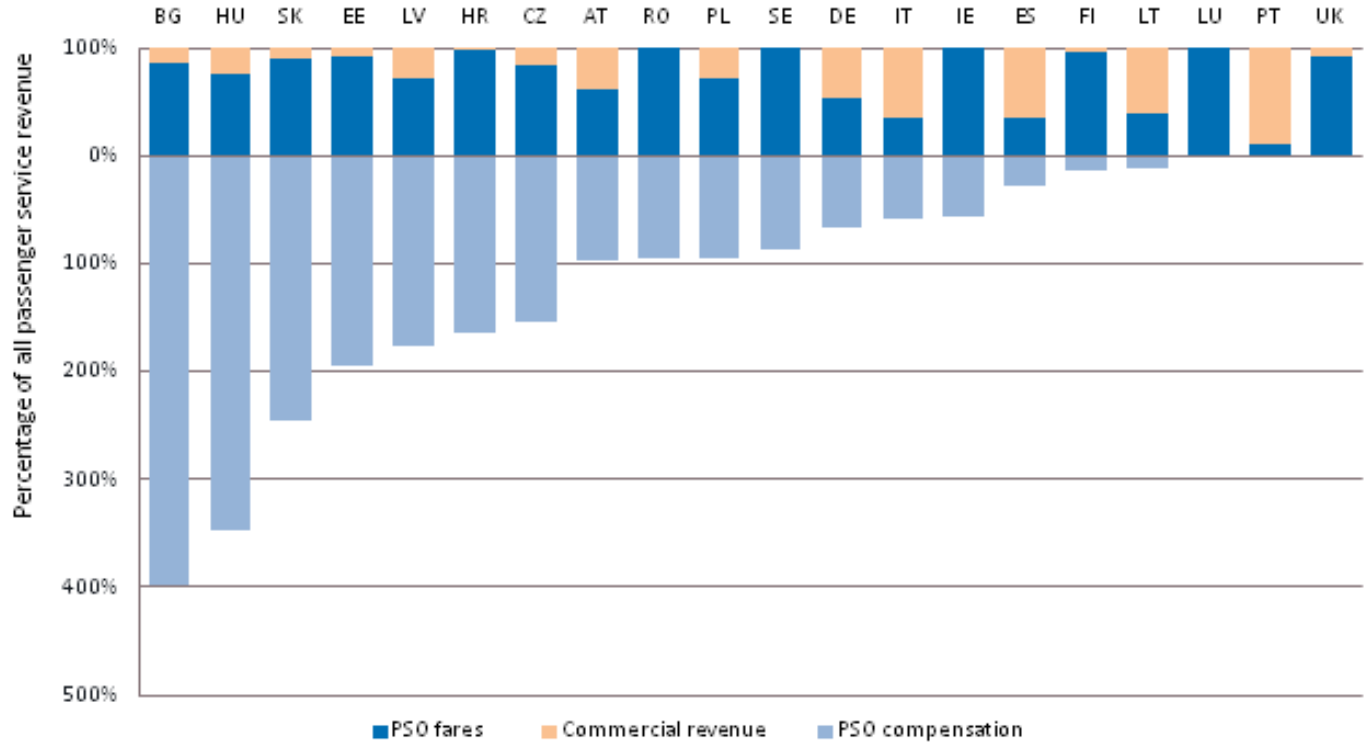
1. The ambient in which the on-track competition is introduced/ take place. A quick reminder!
2. PSO contract management: How it is realized - Serbian case

The Ambient: Key characteristics

- ✓ the dominant state ownership of passenger train operating companies (TOC)
- ✓ almost all passenger transport (suburban, regional and mostly long distance) is unprofitable or subsidized
- ✓ commercial services are high-speed trains and some long distance service;

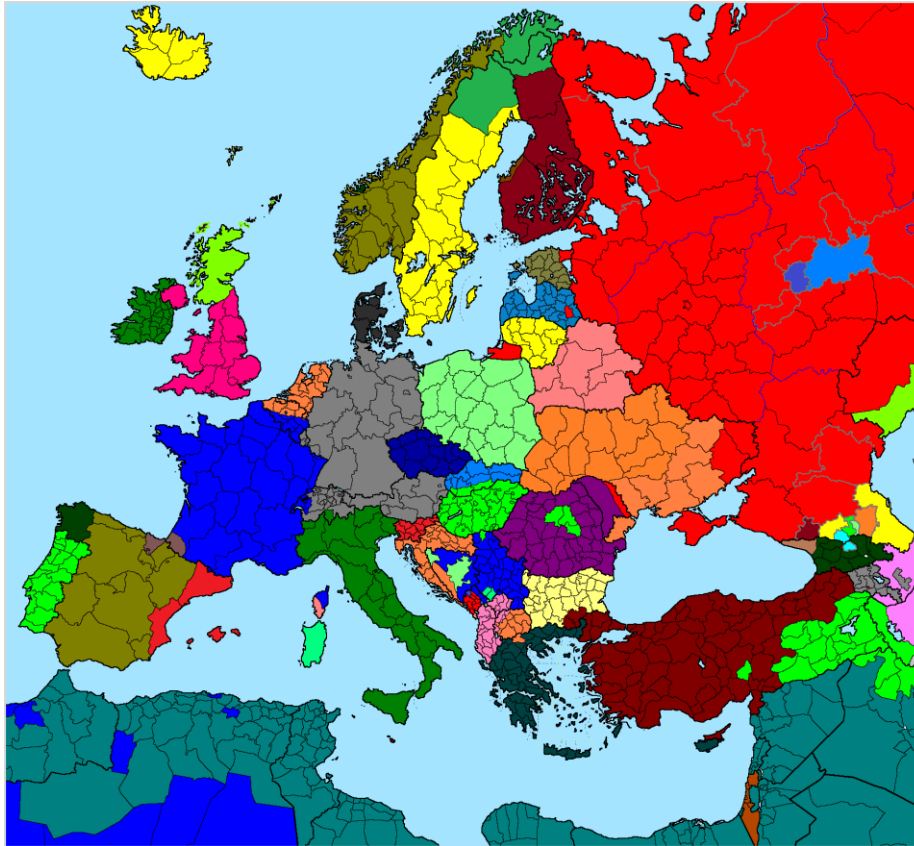


The Ambient: TOC revenues



Percentage of all passenger service revenues by countries

Is the situation different and how much in small countries?



- ✓ What do we assume with term "small country" and why we particularly distinguish that case?
- ✓ Which particular trends are present especially in those countries?
- ✓ Where are those countries located?



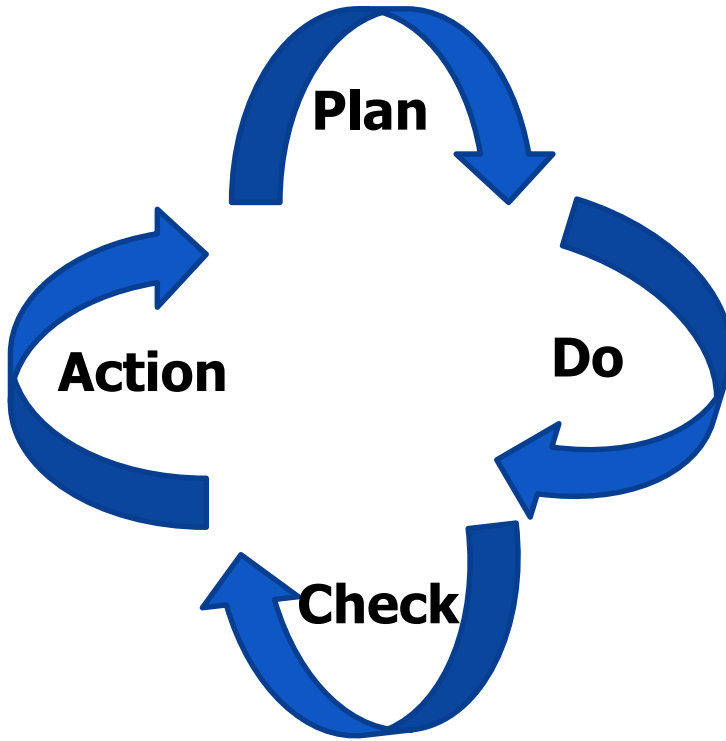
Reminder: What do we try to achieve with switch off from the subsidy concept to the PSO contracting?

- ✓ Nowadays governments are contracting, defining and controlling PSO services in order to get the best "value for money".

The primary objective of introducing a contractual relationship is to increase the efficiency of the railway operators, to obtain value for the money, to increase the quality of service for the customers and the efficiency of the railway lines.

- ✓ The question that is being raised now is: ARE THE RESPONSIBLE MINISTRIES AND THE GOVERNMENT READY FOR THE NEW ROLE THEY HAVE?
- ✓ This question can be transformed into the following: CAN GOVERNMENTS TOGETHER WITH THE RESPONSIBLE MINISTRIES REALLY MANAGE THE PSO CONTRACTS?

How to manage PSO contracts?

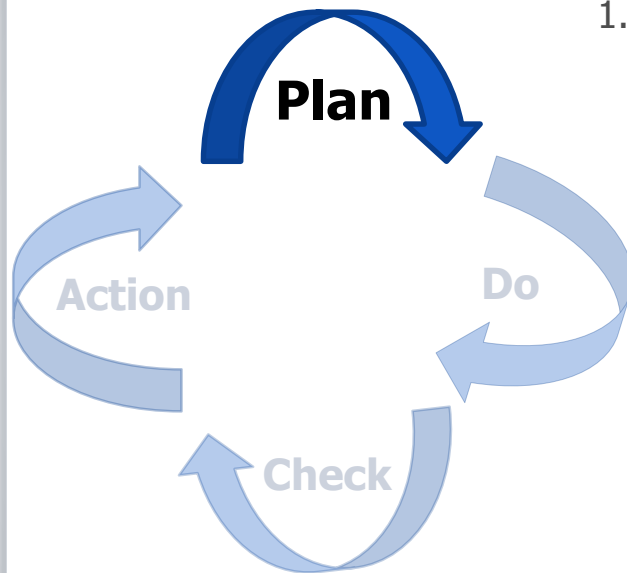


Effective contract management must start with research and analysis of current practice, i.e. existing contracts, then improving existing ones and implementing the missing processes.

- ✓ Deming cycle (PDCA)
- ✓ CMMI (Capability Maturity Model Integration) - process improvement standard, ISO 9001
- ✓ Application at IBM and SEI

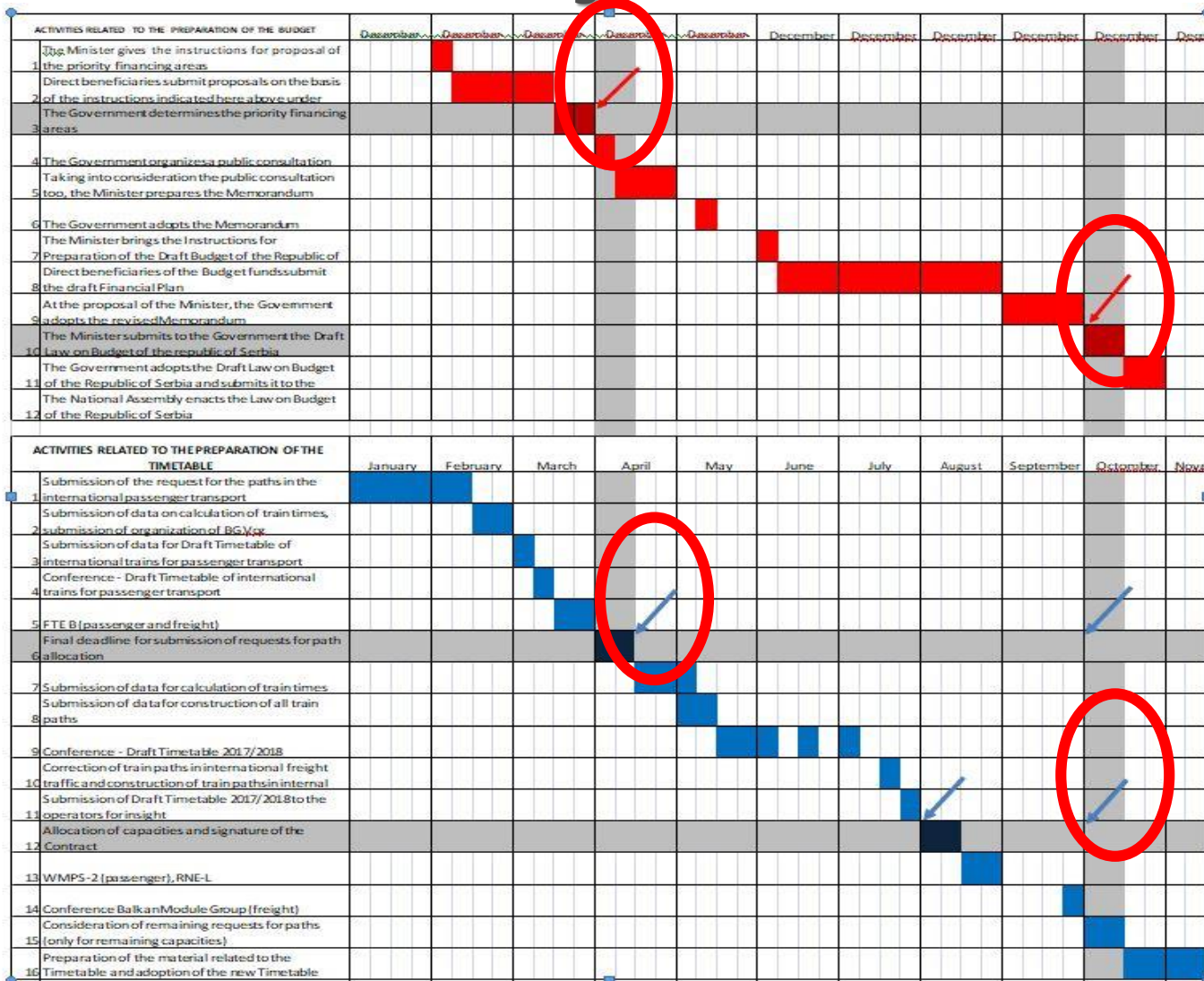
Problems in the phase "PLAN" - Serbian case

Problems noted in the service planning phase
(prior to the award of the contract)

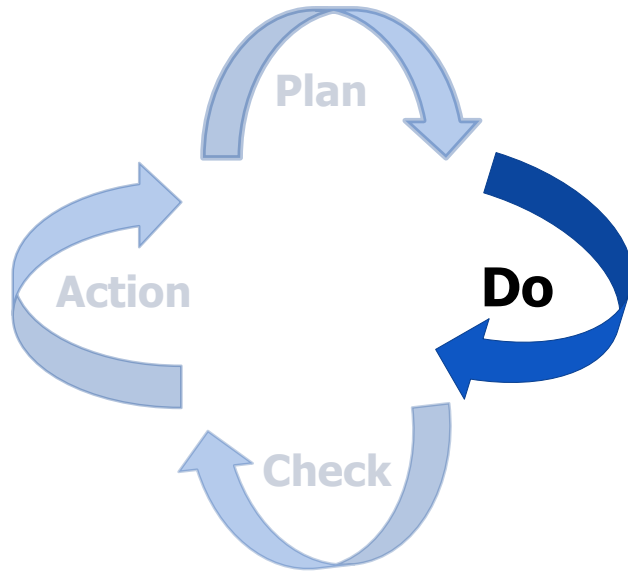


1. Defined service requests – number of lines, frequency of trains, quality of vehicles, service quality, etc.
2. Defining of KPIs
3. Unclear procedure in awarding contracts and negotiation

Compliance of procedures related to the adoption of the budget and timetable

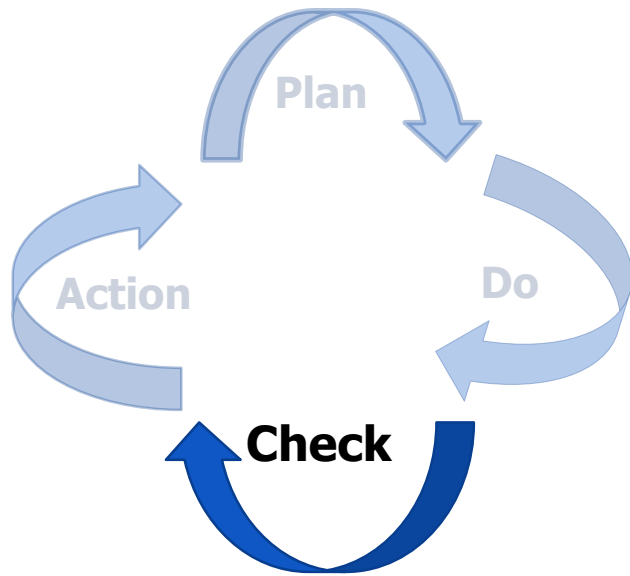


Problems in the phase "DO" - Serbian case



The DO activity belongs to operators. The contract is signed and applied. This phase is not the subject of a relationship between the contracting authority and the service provider.

Problems in the phase "CHECK" - Serbian case



Monitoring and control operation

1. Reporting and evaluation of the Contract realization

The reporting process according to existing PSO contracts is usually made up of two lines: periodic reports and periodical meetings on the same reports or other issues

Weaknesses: vague procedures and non-standardized reports disable the process of tracking the performance of services and making decisions according to the findings in the report;

2. KPIs – measure of PSO contract targets accomplishment

KPIs should be the "main trump" of the contracting authority in contract management and execution.

Weaknesses: Inadequate KPIs and non-standardized way of showing their calculation and explanations. This make impossible to monitor the reaching the contractual values for the KPIs; There are no (adequate) measures for failure with respect to the defined KPIs

Problems common for all phases - Serbian case

Lack of capacity and capability on the government/ministry side

A few illustrations for the above :

a) Unallocated responsibilities and jurisdictions regarding PSO

No	Name of the Act	Does the act recognizes the competence of MoT regarding PSO Contract	If it does not, is it necessary that it does	If it does, where and how it does
1	Law on Ministries	NO	YES	
2	Law on State Administration	NO	YES	
3	Law on Government	NO	NO	
4	Internal Regulation of the Government	NO	NO	
5	Law on Railway	YES	-	The competence of the Minister and of the Ministry in charge of transport
6	Rulebook on internal organization and systematization of jobs in MoT	NO	YES	Recognizes only in the domain of performing jobs

Lack of capacity and capability on the governments/ministry side

b) Number of employees in the railway sector at the Ministry for transport

- Matter of fact: The approach to concluding and overseeing the implementation of the PSO's contract is determined by the political will of the authorities.
- What is the number of employees in charge for PSO contract management in the Serbian Ministry of Transport?
- Where does this reluctance for PSO contract management come from?

"Nothing can exist without people and nothing can last without institutions" (Jean Mone)

Conclusion

How to increase efficiency of PSO contract?

- The results of the PSO indicate that their effect is more than 50% dependent on the capability of the PSO service provider to manage the contract and define the PSO service.
- The development of contract management and on-track competition and market opening must be observed at the same time as there are relations between them.
- The effect based on what we have been researching in Serbia is that **there are reserves in the contract management process** and should be used, and that on-track competition is still a privilege of a minor part of the passenger market.



Instead of conclusion



The East is where everything is germinate and the west where it mature. Because of this, entrepreneurs are more likely to be born in the southeast, and those who harvest fruits in the northwest

"Chronology of the Six Kingdoms", Records of the Grand Historian