

GROSS COST CONTRACT V/S NET COST CONTRACT:

WHAT SHOULD INDIAN CITIES OPT FOR?

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ABSTRACT

India's urban transport sector has realized the significance of engagement of private players in operating city bus services. Urban Local Bodies (ULBs) confront perennial problems such as productive inefficiencies, capacity shortages, financial constraints and so on and hence the private participation in the operation of city bus services in the form of Gross Cost Contract (GCC) or Net Cost Contract (NCC) becomes inevitable.

Unlike privatization, where the ownership of assets is permanently transferred to private players, the GCC and NCC routes are considered as better alternatives because the ownership rights remain jointly with government and private player and operation are regulated substantially by the government. ULBs preferred NCC as it relieved ULBs from making any payments to the bus operators. However, the sustainability of NCCs started to be questioned when the profitability of the bus services was not achievable and frequent route changes and service quality went for a toss. This brought in GCC, wherein the ULBs paid the bus operator on per kilometer basis and hence ULBs assuming the revenue risk.

This paper analyzes the challenges associated with City bus operations and the instrumentality of GCC and NCC in overcoming city bus operation challenges. It highlights some shortfalls of GCC and NCC and recommends measures that could make them more marketable.

KEYWORDS: Gross Cost Contract, Net Cost Contract, Bus Services, Urban Local Bodies