

Can public transport subsidies help the urban poor?



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The need to study the distributional impact of subsidies

- Urban transport systems need to be affordable to the poor and financially sustainable.
- To achieve the objective of affordability to the poor subsidies are provided in most cities
- Are subsidies effective? Do they reach the poor? What does the evidence say?

What does the evidence say?

- Few published studies measure the distributional impact of subsidies
- Recently, attempts have been made to measure affordability and compare it across cities
 - Carruthers, Dick and Saukar (2005)
- To fill the gap, TRISP resources were allocated to assess, empirically, the distributional impact of subsidies and produce recommendations on how to improve targeting

Cities selected for the first phase of this research project

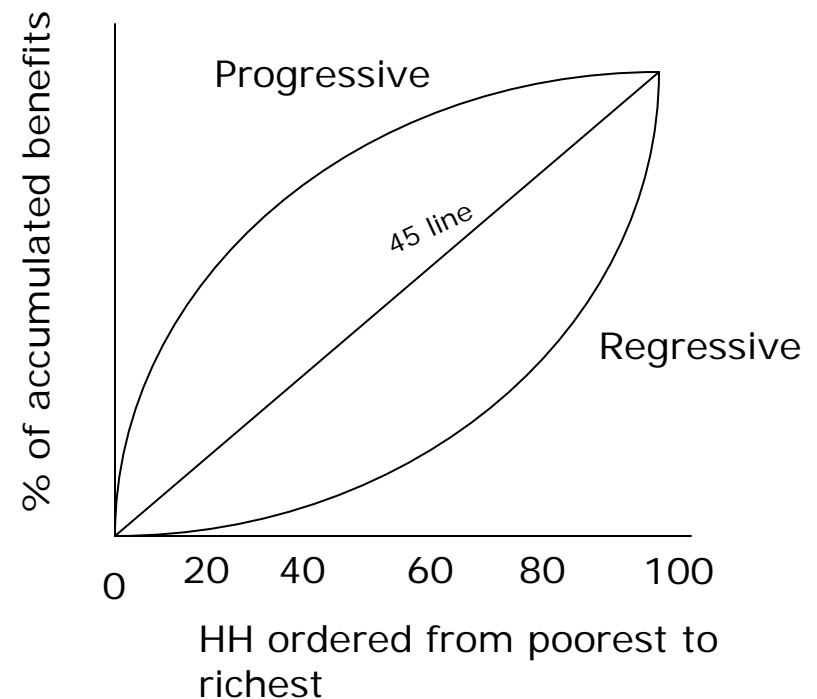
- Mumbai:
 - Very good dataset available from a WB project. Very high proportion of non-motorized trips
- Buenos Aires:
 - After the crises of 2001-2002 significant supply side subsidies have been implemented in a system previously financially sustainable
- Santiago de Chile:
 - Subsidies through monetary transfers to poor households
- Mexico:
 - Most populated city in the developing world. Substantial direct subsidies to urban transport companies
- Madrid:
 - One of the best examples of efficient urban transport system in developed countries.

Policy questions to be addressed

- ❑ Do subsidies contribute to improve affordability?
- ❑ Are cities following an adequate “due diligence” process when designing or changing subsidies?
- ❑ How to conduct a quantitative evaluation of different policy options to guarantee a pro-poor effect of subsidies?
- ❑ What lessons can we learn from other infrastructure services and apply them to urban transport?

A note on the methodology used

- ❑ Errors of exclusion: % poor households that do not benefit from subsidy.
- ❑ Errors of inclusion: % of non-poor households that benefit from subsidy.
- ❑ Materiality of subsidies
- ❑ Distribution of subsidies by income level

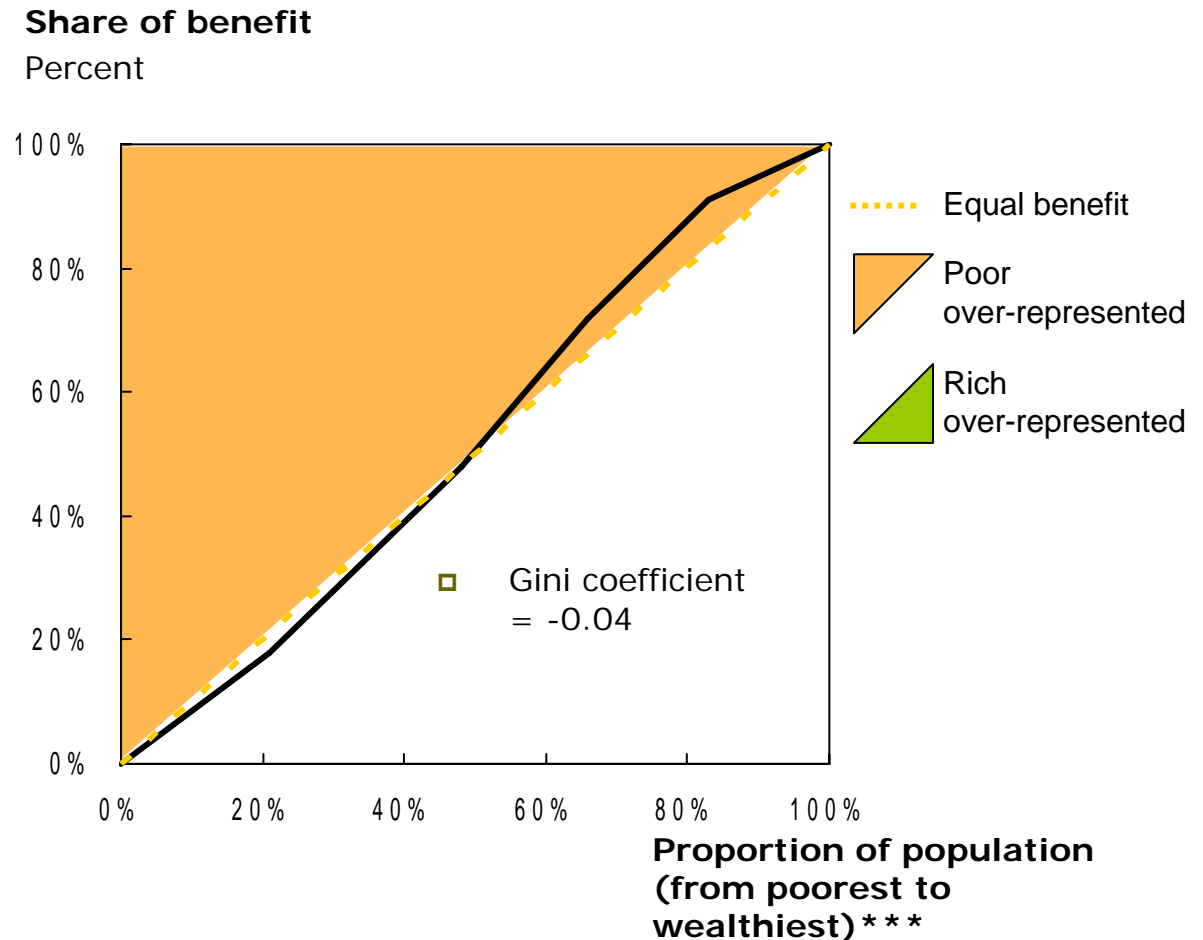


Mexico City Metro Example

Errors of inclusion and exclusion



Cumulative incidence distribution



* Defined as proportion of users with household per capita income of more than 2 minimum salaries

** Defined as proportion of traveling population with less than 2 minimum salaries that does not use a state-supported mode

*** Assuming 1994 O/D survey sample is representative of MCMA population

Challenges to conduct the quantitative impact analysis

- Availability of data turned out to be a significant constraint:
 - O/D studies are not updated frequently: Buenos Aires 1972, Mexico 1994
 - O/D studies do not usually include HH characteristics. Need to simulate or match databases
- Wide menu of subsidies
 - some of them hidden
- How to quantify capital costs subsidies?
 - Not accurate information about asset base
 - Uncovered accrued expenses

Main lessons from the case studies

- The vast majority of subsidies are NOT pro-poor
 - Supply side subsidies are regressive
 - Demand side subsidies perform better but tend to be regressive and present high errors of inclusion
- Access is the main barrier to reach the poor
 - Materiality of subsidies implies the poor can not afford shifting from walking to public motorized transport

Main lessons from the case studies (cont)

- Mean tested subsidy schemes seem to be the best option to increase affordability
 - But they are difficult to implement in developing countries
- Governments are not following an adequate due diligence process when setting up subsidies

Next steps

- Phase I: write a paper that summarizes the main findings of the case studies and provides guidelines to design pro-poor subsidies.
- Phase II (conditional on funding): diversify case studies by region, use a uniform methodology across cases and obtain more evidence to provide robustness to recommendations.

For comments, suggestions and ideas to improve this work

- Please send me an email or give me a call

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Thank you!!