

An affordable low-cost transport solution to meet the inter urban transport needs of the poor

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Transport modes

- Rural and urban transport for the poor are now recognized by the World Bank as legitimate transport needs;
- But not inter-urban transport, where there is a perception that competition and market forces have taken care of any problems
- While mostly true, this not always the case

Remote areas in low-income countries

- Some sparsely populated, low income countries – in Sub-Saharan Africa and Central Asia - cannot afford to build or maintain national road networks to bring remote communities into their market economy;
- Unless something is done for these regions, they will remain based on subsistence agriculture. The least cost solution for them might be in air transport

A Case study of Mongolia

- Mongolia has the lowest population density of any country other than Greenland. More than half its population live in the capital, many as resettled nomads;
- But there remain a few towns of more than 10,000 population that are more than 1,000km from the capital.
- With only 3 million people and a per capita income of less than U\$500, it is not feasible to build or maintain roads to connect these towns to the capital.

Inter-urban passenger fares

- When Mongolia was effectively a satellite of the USSR, subsidized domestic aviation connected all towns to the capital and provided access to its administrative, education and health facilities.
- With the withdrawal of the subsidy, domestic aviation fares increased to levels that are now unaffordable to most Mongolians.
- To reach the capital is now a three day journey in a four wheel drive bus across the steppes on unmade roads. The fare of about U\$80 for a return trip is equivalent to more than one month's salary for a resident of these towns.

A Proposal

- As a contribution to the World Bank transport policy for Mongolia, it was proposed that domestic airlines be asked to provide a minimum number of low-cost fares (25% higher than the bus fare) from the remote towns, as a condition of their being given the right to operate the routes.
- The low fares would be cross subsidized by relatively high average fares, with tourists paying the highest rates. We determined that the airlines could be profitable with the proposed fare structure and market operating costs and frequencies.

A rejection?

The proposal as such was rejected. The arguments against it were :

- that the scheme would not work (too susceptible to corruption);
- that it was interference with the market that would offer low fares if there was a demand for them ;
- that the subsidies might end up being a cost to the government;
- that subsidies for inter urban transport are against the policy of the World Bank.

There are currently two domestic airlines operating in Mongolia. The lowest return fare from either of them (U\$220) is equivalent to almost three monthly salaries . The Transport Strategy now says:

“Consider subsidized concessions for certain remote routes if deemed socially necessary.... Concessions would be awarded to the operator requiring the least amount of subsidy for the desired level of service.”

Conclusion

- Affordability of services is still not high on the World Bank agenda;
- There is still a widespread belief that market has all the solutions to services for the poor;
- We need to think of innovative solutions to and convince Country Economists and Country Directors that sometimes subsidies are needed provide affordable transport services to poor communities.