

June 15, 1999 Article for Commonwealth Magazine Rail Service and Poverty

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The World Bank's mission has been to aid the world's poorer countries to increase their economic strength. At first, the Bank's focus was on assisting the countries of Western Europe to recover from the devastation of World War Two. As the recovery progressed, the Bank's assistance was re-targeted to developing countries.

As experience grew, the Bank developed three agencies, depending on the wealth of the client country and the nature of the investment. The original International Bank for Reconstruction and Development (IBRD) focuses on developing countries with higher levels of income per capita (most of Latin America and Eastern Europe, for example). The International Development Association (IDA) deals with the poorer countries (most of Africa and South Asia). The International Finance Corporation (IFC) invests along with the private sector in all countries.

In recent years, however, the Bank has realized that just lending to poorer countries does not always guarantee that the poorer people in those countries will be the beneficiaries. Partly because of the income distribution characteristics of the country, and partly because of the specific impacts of individual loans, there are investments that benefit the country overall but have only limited impacts on the poorest citizens. As a result, the Bank has begun to assess lending both for its overall impact and for its benefits for specific groups (the poor and women, for example) within the overall population. In this context, it is fair to ask what kind of benefits railway lending actually does offer, and to which segments of the population.

We start with the broader impacts of rail service on the economy because these must be positive or the issue of the impact on target populations will not be reached. These broader impacts have long been recognized, including reduced transport costs and environmental protection. Efficient railways, properly managed, can clearly reduce transport costs to the economy, providing critical and effective linkages to the increasingly globalizing economy in which developing economies must compete. All developing economies wishing to take advantage of the global economy must be effectively connected, and this requires good transport, including rail. Transport costs are also critical to the poor because unnecessarily high costs of transport translate directly into more expensive bread and milk – inefficient railways can literally take food from the mouths of the hungry.

Put another way, poorly operated railways can **subtract** value from the economy. For example, the deficits of the old state railway of Argentina, Ferrocarriles Argentinos (FA), actually consumed nearly one percent of Gross Domestic Product (GDP) while offering poor service at high prices. FA was actually **impoverishing** the Argentine population, including the poorest citizens. Most of the Latin American economies have now reduced the impoverishing burden of their railways (through concessioning to the private sector

for operation), but there are still many railways in the rest of the developing (and developed) world in which the national railway deficit is a sizeable part of GDP and for which the cost of rail operations clearly exceeds the benefits.

Railways also offer benefits beyond the cost of transport. Railways can operate with high energy efficiency, which means that, under the right circumstances, railways can produce transport while generating less CO₂ than other modes of transport: thus railways can be “greenhouse” friendly. Railways can be electrically powered, permitting them to operate in urban areas while emitting less air pollution than cars and buses and yielding cleaner air in polluted areas. Railways can also carry enormous numbers of passengers in a very restricted space, even underground, facilitating the development of urban spaces that are both efficient and livable. Again, though, the emphasis is on *can*, and not necessarily *do*: poorly designed or ineffectively operated railways can actually increase pollution or congestion.

From the broader perspective, then, there are immediate and potentially positive links between railways and poverty. Efficient transport service increases national wealth, creating jobs for all, and low cost transport makes the goods consumed by the poor more affordable. Effectively designed and operated transport can improve the quality of the environment not only for all of us (the greenhouse effect) but also specifically for the poor who disproportionately live in the crowded and polluted urban areas. Economies **do** need good rail service; but, aside from the obvious (but unfortunately often ignored) generalized effects of high transport cost and low efficiency on the poor, why do the **poor** need rail services, and for what purposes? If we are targeting the poor in assistance to poorer countries, what components should receive particular attention?

The urban and rural poor (just like the wealthy) need to travel to visit friends and family. In fact, the two largest passenger railways (India and China) are in developing countries, and they carry 40 percent of the world's rail passenger traffic between them (see Box 1). Developing railways in total carry about 70 percent of the world's passenger service. Clearly we can show that the world's poor countries, and the poor people in them, have demonstrated that they need intercity railway passenger services – a fact which Box 2 drives home. Because the poor usually cannot afford air transport or private autos, and because buses are often operated on unsafe highways, many of the developing nations view rail passenger service as an essential tool in strengthening families and sustaining national culture.

The urban poor are particularly dependent on rail passenger services in some metropolitan areas. Box 3 compares the ridership on the suburban passenger systems in a number of the world's larger cities: it shows that passenger volume on some of the developing railway suburban systems is fully the equal, and in some cases greater, than in most developed cities.

Boxes 4 and 5 deal with the issue that systems need to be effectively operated. These boxes show that riders on the Buenos Aires Metro and the Buenos Aires suburban systems had been falling for years under state management. Passengers were receiving dirty, slow, unreliable and unsafe service (for which many did not pay). Among other effects, this meant that the urban poor were being denied employment opportunities and

that they were spending too much of their time on trains to and from whatever jobs they could find. In the mid 1990s, the Government decided to concession the operation of the system to private operators on the basis of an imposed tariff low enough to permit the poor to travel and competition for minimum state support. The improvement was immediate and dramatic: in a very real sense, effective programs, including government support to private operators, was an important source of assistance to the urban poor. Box 6 shows what the poor are sometimes forced to do (for themselves) when government does not try to meet their transport needs effectively.

Regional rail passenger services are often critical to meeting the mobility needs of rural areas. Such rural services are often slow and make many stops: they carry people going to market, old people and students, baggage, light trade goods, animals, virtually everything that is part of the fabric of everyday life in small towns and rural groups. In many cases, rail is the only route available in isolated regions of countries.

Interestingly, the need for rural trains is not confined to developing countries. One of the results of the passenger rail franchising in the U.K. is that the urban and intercity franchises are growing rapidly and will soon be operating on a break-even basis or better. Within two years, it is likely that the entire Government support payments will be confined to regional and local franchises – the 500 million pound price tag for these services is based solely on social benefits. Amtrak in the United States operates many local trains, subsidized with a mix of local and Federal funds, for the same reason.

Allowing that railways can and do perform valuable urban and rural services for the poor and the needy, especially in developing countries, why are most developing railways money-losing economic challenges for their governments? There are two answers: lack of commercial orientation and management and imposed cross subsidies from freight to passenger.

The first of these has increasingly been addressed either by corporatizing the railway or (usually better) by concessioning the operation of the railway to the private sector. Over the past decade, about 37 countries have already concessioned or privatized at least 74 railway enterprises to the private sector (over 40 more concessions are in progress) with almost uniformly positive results. The poor, along with all others, have benefited strongly from lower costs, lower tariffs and better service (freight and passenger). The second – using high freight tariffs to subsidize passenger fares -- is prevalent in developing countries and has usually not worked as intended. The political desire to subsidize the poor without admitting it has led to poor passenger services while higher freight tariffs have caused a loss of rail freight market share to trucks. In the process, the poor, shippers and the economy suffer. The solution, direct and transparent subsidies for social services, works much better, as Argentine and British experience have shown.

Both the urban and rural poor have a common problem – their voice in the economy and in government is usually weak. This need not continue if governments and international institutions look carefully at development programs, including railways, to ensure that the needs of the poor form a significant part of development funding.

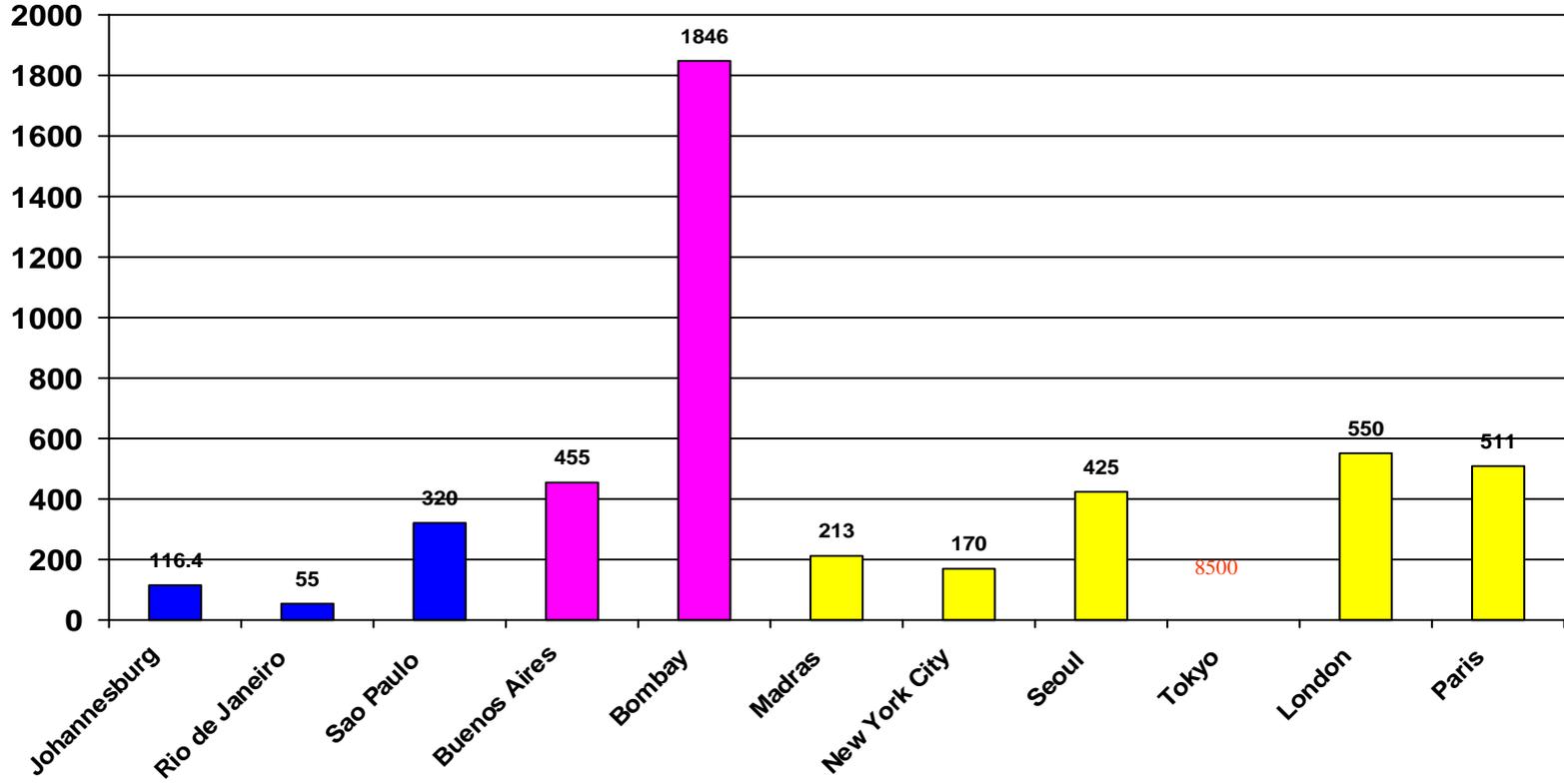
Box 1 The World's Rail Passenger Service (000,000 passenger-km in 1996)

	Passenger-Kilometers (000,000)	Percent of Passenger-Kilometers
India	357,013	20.1
China	354,261	19.9
Japan	248,993	14.0
Russia	168,679	9.5
Rest of W. Europe	68,107	3.8
Ukraine	63,752	3.6
Germany	60,514	3.4
France	55,311	3.1
Egypt	52,406	2.9
Italy	49,700	2.8
Rest of developing.Asia	42,849	2.4
Republic of Korea	29,292	1.6
United Kingdom	28,656	1.6
Rest of Central and East Eur.	27,963	1.6
Poland	20,960	1.2
Kazakhstan	20,507	1.2
Pakistan	19,100	1.1
Romania	18,355	1.0
Rest of Middle East	17,803	1.0
Latin America	17,204	1.0
Rest of CIS	16,079	0.9
All of Africa	14,242	0.8
US Commuter	11,135	0.6
Amtrak	8,314	0.5
Australia	4,904	0.3
Canada VIA	1,341	0.1
World Total	1,777,440	100.0
Developing Countries		69.8
Developed Countries		30.2

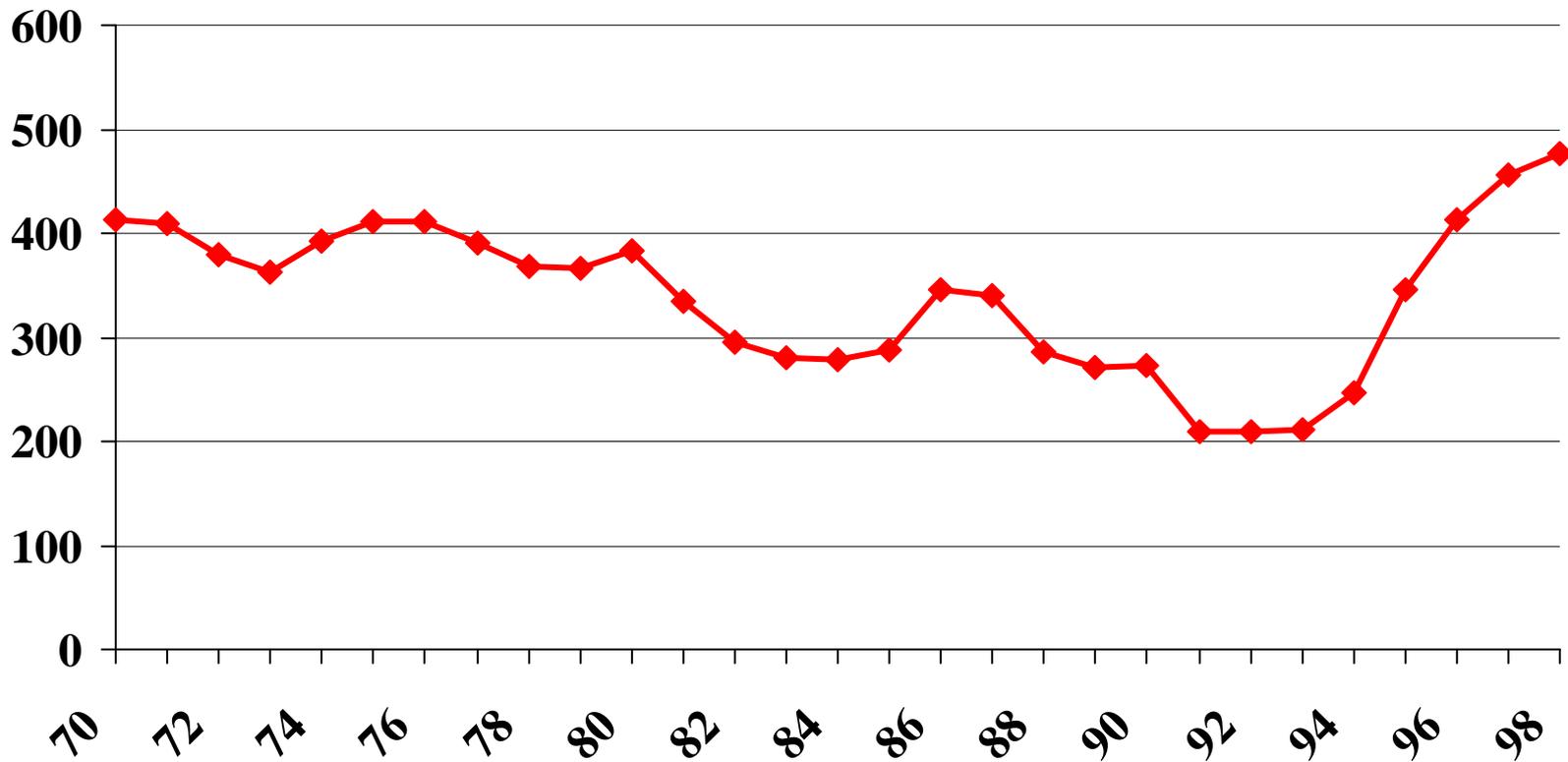


Box 2 --Revealed Demand for Basic Passenger Service

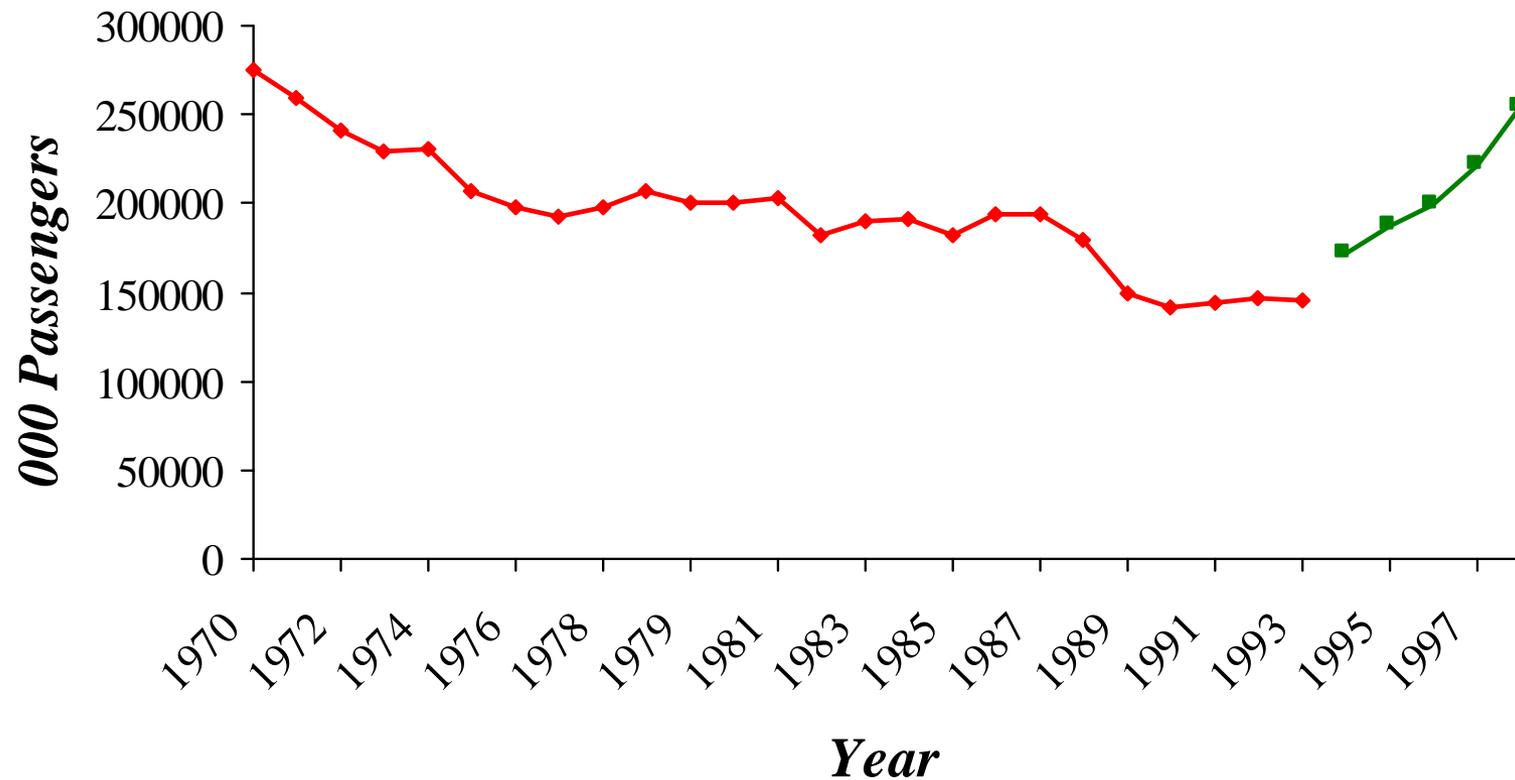
Box 3 -- Suburban Rail Systems- Million Passengers/Yr.



Box 4 Suburban Rail Passenger Traffic in Buenos Aires
(millions of passengers)



Box 5 Passengers on Buenos Aires Metro: 1970 to 1998



◆ Before Concessions **■ After Concessions**

Box 6 Rail Passenger (and Freight) Transport When Government Does not Provide it

