



# Income Inequality, Social Inclusion and Mobility



Synopsis

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There is significant evidence across countries that lower-income populations tend to suffer more from restricted transport options, have lower quality transport services available to them and travel under worse conditions (safety, security, reliability, comfort). Broad evidence also suggests that the lack of, or poor access to, transport options is central to limitations on access to jobs, educational institutions, health facilities, social networks, etc., which in turn generates a “poverty trap”.

The forthcoming ITF Roundtable Report “Income Inequality, Social Inclusion and Mobility” examines mobility policies with a focus on evaluating their capacity to address transport-related exclusion of lower income groups. The report is based on the discussions at a Roundtable held in Paris in April 2016, which brought together 30 international experts, academics and policy makers, in the context of the OECD’s Centre for Opportunity and Equality platform. The report includes input papers written for the Roundtable as well as a synthesis of the debate which embeds the conclusions reached in the research literature.

### Findings and recommendations

Despite cross-country and cross-city differences, the following priorities were identified as universal for advancing the inclusive transport agenda. These include a) developing policies that are driven by improved data and analysis; b) co-ordinating housing and transport policies because of their indissociable relationship and their central role in peoples’ livelihood; and c) setting coherent pricing policies for each transport mode that support both sustainable mobility and social inclusion goals. In line with these overarching principles, the following actions are recognised as necessary:

#### Improving data and developing effective performance indicators

Authorities need to develop better performance indicators for quantifying and better understanding the nature of exclusion. Location-based accessibility indices and housing plus transport affordability indices have proven to be valuable tools. They improve understanding of transport poverty and its effects on social exclusion spatially and across population segments. They also have important potential for enabling land use, housing and transport authorities to set common goals and co-ordinate planning. While various programmes have started incorporating such indicators, going beyond occasional use to their systematic inclusion in transport, housing and land use policy frameworks will be vital.

#### Rethinking housing policies

Meeting housing demand is a central challenge for cities, especially during phases of high migration from rural areas, and in particular for the lowest income groups. Authorities often respond with a narrow approach, implementing policies that target the housing deficit as an isolated problem rather than formulating wider urban development policies that aim to ensure households have access to opportunities, goods and services. The result is the location of low income populations at a distance in places that are poorly connected to the main city and other areas concentrating employment.



Breaking this trend and the resulting exclusion requires housing, urban development and transport authorities to assess decisions with a comprehensive view of the impact of location, housing quality and transport options on livelihoods. Incorporating transport-related indicators (travel times and costs), particularly for reaching jobs, into housing quality definitions used in the design and evaluation of social and affordable housing programmes is particularly important.

### **Readjusting urban renewal and transit-oriented development strategies**

Urban renewal and transit-oriented development (TOD) strategies must be revisited with a focus on meeting social inclusion goals. This applies to cities with a large presence of informal settlements (notably in developing countries), but also to many others that aim at promoting economic development in areas that, although formally planned, remain deprived.

Urban renewal strategies need to shift away from clearing slums to a strong focus on seizing opportunities for rehabilitation, and offering the population the opportunity to choose between their present and alternative locations. Where TOD principles are central to urban renewal, these principles need to be adapted to the size, mobility characteristics and purchasing power of residents, especially low income residents. This is critical to choosing the type and combination of mass and feeder public transport services that will best serve door-to-door journeys and be affordable for the most vulnerable. The role of other low-cost and environmentally sustainable modes (bicycles, pedicabs, walking) should also be acknowledged in planning TOD projects. In particular, city planners should acknowledge how informal settlements have naturally yielded TOD characteristics adapted to the wants and needs of lower income residents. These settlements tend to have a street design that is tailored to high shares of walking and cycling, with mixed land use providing jobs (both formal and informal) for a diverse range of skills.

While TOD principles can make urban renewal more inclusive - notably by focusing on improving public transport and non-motorised mobility - the effect of increasing land and property values displaces the poor even where eviction is not part of the urban renewal strategy. To address this, it is essential to design and measure the performance of TOD projects in terms of equity and social inclusion. Examples of project characteristics that need to be evaluated are minimisation of displacement of the poor, delivery of mixed-income housing and creation of mixed land use development, including a mixed-skills job offering.

### **Mobilising increases in land value to deliver policy objectives**

Methods of financing that incorporate land value capture mechanisms have demonstrated significant potential for reducing the social inclusion challenge of TOD and urban renewal. Cities use diverse land value capture instruments. Bogotá's Metrovivienda programme, for example, has used land banking and mechanisms to recover urbanisation costs by capturing price increases resulting from the shift from rural to urban land. In London and other cities in the United Kingdom, contributions from developers are elicited via a tariff-based approach using Community Infrastructure Levies and tax increment financing. Authorities need to ensure that land value capture mechanisms channel part of future increases in the value of property directly to meeting policy objectives, including social inclusion goals. Where this is not the case, the measures could, on the contrary, accelerate the displacement of low-income populations.

Better regulation of speculation on future land prices is necessary for maximising benefits from land value capture tools. A mechanism that allows freezing prices at pre-project levels was critical in Metrovivienda's acquisition of land at low prices when using land banking. It continues to be central in the next phase, where Metrovivienda associates with local landowners instead of buying plots directly, since it avoids compensation claims at future land values from landowners that do not participate.

## **Making public transport subsidies efficient and financially sustainable**

Subsidising public transport services has a clear rationale in the light of social inclusion and equity considerations. While, theoretically, a superior solution would be to provide cash transfers for low-income households to use as they see fit, granting such transfers in a context where private modes are underpriced has had negative consequences; increasing, for example, motorcycle ownership and use and its related social costs (pollution, accidents). Thus many authorities have discarded cash transfers and focused strategies for delivering affordable transport services on subsidised public transport.

Given competing needs for public funds and the limited resources, public transport subsidy schemes need to put as little strain as possible on public finances. They need to ensure efficient resource allocation and make sure subsidies are effectively translated into livelihood improvements (which go beyond travel time savings). Targeted subsidies, as opposed to generalised support, are a better way of striking a balance between financial sustainability and service affordability. An increasing number of cities are building on the adoption of new technology, including smart cards, to put targeted subsidy schemes into effect. Bogotá, the capital of Colombia, is a good example for this.

Effectively targeting beneficiaries is vital to create value for money in decisions to grant subsidies. In this respect, building on existing expertise for identifying beneficiaries of poverty alleviation programmes, is more effective than developing separate approaches, especially where countries already have data-driven tools such as SISBEN (System for Selecting Beneficiaries of Social Spending) in Colombia. Continuously updating the data used and conducting impact analysis of programmes is necessary for readjusting and enhancing programmes to make sure they meet the objectives set. Developing communication and dissemination strategies tailored to the characteristics of potential beneficiaries (location, education level) is essential to effective delivery. Finally, measures to avoid fraud are central to the optimal use of resources.

Setting tariffs correctly is also critical to financial sustainability. This requires solid methodology for estimating both demand and the cost of operations. In the case of privately operated services, open, competitive tendering was seen as the most effective way to generate benchmark costs. Cities that are midway through bus reform and do not have the option of opening tendering (like Bogotá) should at least launch bidding among existing companies for this purpose. Tendering and bidding processes should be accompanied by strong public regulation to guarantee minimum quality and safety standards. More broadly, it is important to set contract terms that are long enough to allow service providers to recover investment, but short enough to enable authorities to progressively adjust terms as external conditions change, especially in rapidly developing cities.

Ensuring high density along public transport corridors and implementing adequate parking control are important for securing public transport ridership, and with this increasing fare box revenue. Nonetheless, major infrastructure investment and facilities for public transport (e.g. bus depots) need to be covered by funding sources other than fare box revenue and in the case of systems that are going through significant quality enhancements additional financing may also be necessary to cover part of the operating costs, especially where a large share of the population is poor.

## **Improving clarity on social issues linked to transport demand management**

Claims that transport demand management (TDM) policies are unfair, in particular as regards congestion pricing, are often at the core of public resistance and a resulting lack of political will for implementation. However, in most cases it is not clear what is meant by these policies being "fair" or "unfair", making it

hard to establish whether the argument is valid for discarding them and missing out on the benefits they could bring.

From a consumer perspective (taking into account changes in travel costs and times for different income groups), if TDM policies such as congestion charging were set with the aim of raising revenue and were found regressive, the case for unfairness would be valid, as with any other regressive tax. Congestion charging systems are in any case a very expensive way to raise revenue, and not recommended where this is the intention. However if TDM policies' main purpose is to correct pricing by better reflecting the social cost of driving, then the case for their unfairness is rather weak. In this case, judging price-correcting policies as unfair is equivalent to asserting that car users on low incomes have the right to subsidised car use. While governments need to ensure affordable transport, it does not need to be by car. Distributional aspects have long been discarded as a reason not to use similar corrective taxes (e.g. on carbon or petrol). Nevertheless, providing good quality transport alternatives to the car is central to ensuring that TDM policies are equitable and deliver their full potential.

A re-examination of analyses of congestion pricing in European cities in the context of cities in developing countries highlights interesting differences. On the one hand, these have significantly higher shares of population, and especially of lower income residents relying on public transport, than cities in developed countries. This means TDM policies are potentially not regressive overall, while congestion in central areas - largely caused by car drivers but importantly affecting public transport - is in itself very regressive. On the other hand, given the much more limited transport alternatives as well as the concentration of low income residents in poorly connected peripheries, identifying the extent to which the mobility of certain individuals will be hindered as a result of TDM policies is even more important in these cases.

## Priorities for future research and discussion

The Roundtable Report identifies a number of core issues for future research and discussion:

- Understanding the role, potential and limitations of shared vehicles for contributing to the reduction of social exclusion – in particular, analysing whether gains in productivity from this vehicle sharing through technology would allow provision of affordable services for lower income residents, or if subsidies would still be needed. This may have the potential to transform mobility if channelled with appropriate policy. Impacts on public transport ridership and the potential risk of increasing congestion should be analysed.
- Correcting policy biases and market distortions that favour car travel over more affordable modes.
- Attracting investment to programmes for the reduction of transport-related exclusion – in particular, exploring ways to a) improve and complement appraisal tools; b) calculate and add co-benefits to financial assessments; and c) shift financial and institutional resources from silo-structured to multi-sector programmes and projects.

Aligning the institutional and assessment frameworks with policy objectives for sustainable mobility and social inclusion is always central to delivery and often the Achilles' heel of policy implementation.

The input papers prepared for this Roundtable event are available online at: <http://www.itf-oecd.org/income-inequality-social-inclusion-mobility>

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