

Boosting Mass Transit through Entrepreneurship

Going beyond Subsidies to Reduce the Public Transport Funding Gap

Daniel Pulido and Irene Portabales

Most of the world's urban mass transit systems cannot cover operating costs, let alone capital expenses, through farebox revenues. On average, 25% of metro operating expenditures are not funded by farebox income. With limited public subsidies, as well as obstacles to raising fares and political sensitivities to road user taxes, metro systems have been increasingly pursuing income from commercial activities connected with their operations. Metro systems that earn commercial income—such as from advertising, naming rights, and especially real estate activities—are making inroads in their operating deficits. Commercial revenue in some systems is nearing 20% of fare revenue. Although reforms of transit financing structures remain high on the policy agenda, a review of ancillary income streams of metro systems around the world shows that a more entrepreneurial approach to tapping their commercial potential can help them narrow their funding gap.



25%

The average share of all metro system operating expenses unfunded by farebox revenue

Lots of Infrastructure, Great Potential

The number of cities with a commuter rail system, or metro, continues to grow. Today, metro systems comprise about 9,000 transit stations and 11,000 kilometers of rail line. These facilities represent an enormous opportunity for the owners and operators to generate income from their associated commercial potential, including advertising, space leasing, and real estate development.

There are no approaches to raising commercial revenues that are valid for all cases. Each system must develop the business models and commercial revenue streams and that best fit their infrastructures.

Recent experience

Commercial activity by metro systems is concentrated in advanced economies, with many of the

most lucrative in Asia. But systems in the developing world are increasingly looking at ways to increase their nontariff revenues. Most initiatives are executed in collaboration with the private sector or other transport systems.

Advertising

Advertising on urban rail systems is widespread, but some initiatives show that it has a larger potential. The Mexico City government has announced a renegotiation of its contract with a private advertising management company to increase revenue from more than 70,000 advertising spaces.

A new generation of advertising technology—a series of synchronized in-tunnel video display panels—is now in several systems and will soon be launched in Madrid for revenue estimated at \$500,000 per year.

Leasing of Commercial Space

Underpricing may also be a feature of space rentals. Franchising consultants say that the Rio de Janeiro and São Paulo metros have been leasing commercial space at 30% to 60% below shopping center rates. In response to such concerns, the state of São Paulo pushed to increase the share of nonfare revenue in the business model for the city's Line 6.

Naming Rights

Dubai's transit authority has earned more than \$540 million since 2010 from the sale of naming rights for 13 metro stations and from leasing retail space inside its stations. The authority says the revenues cover 60% of the network's operating costs, and it aims to have the revenues fully cover costs by 2017. A similar deal in Mumbai for 12 stations will raise \$250,000 to \$1 million per year for five years.

In some cases, naming rights include amenities for passengers, such as remodeling a station or the supply of mobile phone coverage or free Wi-Fi.

Merchandising

The merchandising potential of a metro is exemplified by the London Underground's logo and "Mind the Gap" slogan. The London Transport Museum earns about \$4 million annually from the sale of official merchandise. The Madrid metro has started selling branded merchandise, and a private company has started selling goods in the São Paulo metro with logos licensed by the transit system.

Consulting Services and Technology Sales

Operators in the developing world are now entering the consultancy and technology licensing markets. Delhi's metro system is advising other systems in India. Santiago's system is helping the Panama City system evaluate business opportunities, and it also licensed its fare card technology for use there. Some systems are selling access to their tunnels for the placement of fiber-optic cable.

Land Value Capture

Placement of transit stations greatly increases the value of the surrounding land, much of it owned by the transit authority. The authority may tax the private

users of that land, but other methods of capturing the rise in value often provide far greater returns. These methods include selling or leasing the land, charging developers for the right to build taller buildings, and participating in urban redevelopment projects.

For rail operators in Tokyo (Tokyu) and Hong Kong (MTR), the profit contribution of property and commercial developments exceeds that of transit operations.

The strategy has been hard to replicate in the developing world, although in Latin America, São Paulo sold additional construction rights (known as CEPACs) to private developers, to mobilize about \$100 million for Line 4 of the city metro.

The Broader Agenda

Experience shows that transit agencies in developing countries can become more entrepreneurial. For example, nonfare revenues of Santiago's metro are 17% of fare revenues, higher than the average of 5–6% for Brazil and Mexico.

A metro system's potential to mobilize commercial revenue can be enlarged through the development of business plans and strategic partnerships with the private sector.

Going further, however, will depend on making commercial activity a part of transit system planning from the beginning, embedding it in the mission and objectives of the transit agency. The revenues will not be immediate, especially on new metro systems, but they can become a steady and significant long-term source of income if handled appropriately.

Even then, tapping into commercial revenue sources will not be the last stop on the journey to financial stability for many of the developing world's metro systems. Closing the gap between farebox revenues and system expenses will certainly require the implementation of more comprehensive reforms of urban transport institutions, tariffs, and financing.

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