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Financing of Road Maintenance

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Structure of Presentation

- *Introduction and Overview
- *The Problem
- *The Diagnostic
- *The Four Building Blocks
- *Examples of Promising Practice
- *The Way Forward
- *Conclusion

Introduction and Overview (I)

- *The viewpoint of the presentation
- - Roads as a Business
- - Necessity of institutional reforms
- - Funding cannot be raised in isolation

- * But there are alternative viewpoints ...

Introduction and Overview (II)

- Elements of road sector commercialization;
- - create an « arm 's length » road agency
- - introduce an explicit road tariff
- - deposit tariff proceeds into a dedicated road fund
- - establish a secretariat to manage road fund

The Problem (I)

- Growing importance of road transport
- Expansion of public road network
- but ...
- Management of network has not kept pace -
-- traffic congestion
- Financing of maintenance has not kept pace
--- backlog

The Problem (II)

- Road replacement cost over US\$500 billion
- US\$43 billion of this capital eroded, that 's
- 15% global, but 33% in Africa alone
- US\$5 billion per year needed to arrest decline
- US\$5 billion more to start to improve networks

The Diagnostic (I)

- Costs of poor road management and inadequate financing borne by road users
- Output and incomes suffer due to poor access and high transport costs
- US\$1 deferred maintenance means US\$2-3 higher VOC
- India US\$4 billion higher VOC

The Diagnostic (II)

- But ...
- Substantial underexploited opportunities to increase domestic resource mobilization for road maintenance
- And ...
- Increase mobilization can go hand in hand with appropriate allocation and more efficient expenditure

The Four Building Blocks

- * Clarifying Responsibility
- * Creating Ownership
- * Stabilizing road financing
- * Strengthening road management

Clarifying Responsibility

- Create a consistent organizational framework with clearly assigned responsibility for managing different parts of the network - including traffic and regulation

Creating Ownership

- Secure the active participation of road users who have a major interest in assuring secure and stable road maintenance funding

Stabilizing Road Financing

- Develop a framework and modalities to ensure flow of funds to maintenance that is predictable and sufficient , as well as stable and secure

Strengthening Road Management

- Set in place the prerequisites for the creation of a businesslike agency or agencies to manage the road network

Examples of Promising Practice

- Zambia
- Malawi
- Latvia
- New Zealand

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Case of Zambia

- Road Fund (fuel levy) since 1993
- National Roads Board since 1994
- 40% of network maintenance can be financed - before it was 15%
- Further increases of Road Fund resources in doubt
- Arm 's length road agency not created

Case of Malawi

- National Roads Authority established 1997
- Road Fund established 1997
- Arm 's length road agency (CRA) included as a first step in NRA
- Maintenance of about half the network covered by 1998/99
- Full network maintenance financed within 5 years

Case of Latvia

- Government road administration restructured
- State Road Fund Advisory Board created in 1994
- Road Fund resourced from excise duties and vehicle taxes
- Pre 1990 levels of maintenance expenditure regained by 1997.

Case of New Zealand (I)

- Road Fund since 1953 but reformed twice in recent times.
- Road Fund managed by Transfund since 1996
- Arm 's length road agency (Transit NZ) and local authorities execute works
- Maintenance funding from excise taxes, weight-distance charges and motor vehicle licenses

Case of New Zealand (II)

- Model features of New Zealand case
- Transfund run as a business
- Stable source of revenues
- Revenues are predictable and easy to collect
- Stable revenues permit long range planning
- Long range planning helps ensure road users get value for money

The Way Forward

- Building road administration capacity
- Building local construction industry capacity
- Establishing criteria for allocation of Road Fund revenue
- Managing expectations regarding maintenance expenditure and financing
- Safeguarding, then growing, the resource base of the Road Fund

Conclusion

- Substantial opportunities for learning from experience
- Body of knowledge on implementation of reforms set to grow
- Promising practice will then become best practice
- Role for regional economic organizations in developing standards and prototypes