Africa Transport Technical Notes

Sub-Saharan Africa Transport Policy Program (SSATP) Road Management Initiative (RMI)
UNECA and The World Bank

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Road Sector Reform: A Tale of Two Countries (Part 2) Burkina Faso: Deliberate Evolution

Unlike Ghana, Burkina Faso's institutional reforms are relatively recent. By the end of the 1980s, about 80 percent of Burkina's road network of 12,500 kilometers was in poor condition. In 1990, the Government, together with donors, began to look into ways of redressing this situation. A feasibility study completed in 1991 was followed by sensitization workshops designed to create awareness among all stakeholders of the situation and proposed remedies. This deliberate inclusion of stakeholders in designing the evolving reform was an obvious contrast to reforms in other countries. In 1992, the government entered into an agreement with IDA under the Transportation Sector Adjustment Program (PASEC-T). The most important components of the Program were new construction and maintenance, with the weight of sector reforms falling under the maintenance component .

Road Maintenance

The maintenance program is designed to maintain and rehabilitate 9,047 kilometers of roads. Most of the routine maintenance will be carried out by private contractors. The government has deliberately chosen to have most of this work carried out by small- and medium-sized enterprises (petites et moyennes entreprises, or PMEs). To facilitate the development of small- and medium-sized enterprise-based routine maintenance, the government relinquished control of its equipment pool in 1988 to an autonomous corporation, the Societe de Location du Materiel (SLM).

The restructured Public Works Department now has responsibility for planning and scheduling annual maintenance operations, and administering and supervising works carried out by small- and medium-sized enterprises. As a complement to its other reforms, the government has instituted external technical and financial auditing of road maintenance work, and initiated measures that simplify the procurement and disbursement procedures. These reforms are expected to enhance an enabling environment for the evolution of an efficient road maintenance system.

This note, Part 2 of 3, is based on a dissemination report prepared by Sam Mwamburi Mwale for a study tour undertaken by a Kenyan delegation to Burkina Faso and Ghana in June 1996. Mr. Mwale is a policy analyst with the Policy Research Group in Nairobi.

This series is intended to share information about issues raised in various SSATP reports. The views expressed in the paper, and in this note, are those of the author, and do not necessarily reflect the opinions of the World Bank Group,UNECA, or any of the RMI stakeholders.

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The equipment plant pool

Although the SLM is still owned by the government, its incorporation, registered under the Companies' Act, was the first step towards privatization of the equipment sector. The Cabinet has decided to sell 75 percent of its stock to bidders, while retaining 25 percent. Most of SLM's clients, particularly the small- and medium-sized enterprises, want to purchase stakes in the firm. Should this happen, the SLM will be an enterprise largely owned by its most important stakeholders, the small- and medium-sized enterprises.

> **SLM is a commercial enterprise in all respects, except for its contract to maintain government holdings... Both the government and private sector lease equipment from SLM at commercial rates and conditions... Its operational and capital costs are covered by revenues from leasing out its own equipment.**

The SLM's formation was catalyzed by two factors, the apparent inability of the Public Works Equipment Service to fulfill its mandate, and the proposed privatization of road maintenance arising from policy and institutional reforms under PASEC-T. The SLM was capitalized with a total of US$ 1,465,000 comprising an initial equipment loan (in-kind) of US$ 835,000, and working capital of US$ 630,000. It is expected to repay this loan over a period of ten years beginning in 1997. SLM pays a 45 percent corporate tax like any other private firm. The only concession made to the SLM is that the government will not charge interest on the loan assumed for its capitalization. Turnover has been growing from US$ 1,012,000 in 1993 to US$ 1,534,000 in 1995, and their net profits, US$ 42,000 in 1993, increased to US$ 124,000 in 1995.

Creating a convincing corporate character

SLM is a commercial enterprise in all respects, except for its contract to maintain government holdings. SLM's directors are all government appointees from the ministries of public works, finance, industry and trade, and transport. Both the government and private sector lease equipment from SLM at commercial rates and conditions. SLM may purchase equipment and spare parts from either government inventories or private firms. Its operational and capital costs are covered by revenues from leasing out its own equipment. To ensure wider national reach, it has two field branches, with each branch fully equipped and capable of all but the most extensive repair works.

Although one-third of the staff are former civil servants, they are not seconded, but rather, hired like the rest of the staff on five-year contracts, with only their seniority and benefits transferred from the civil service. Former civil servants receive a 20 percent increase in their pay upon joining SLM, following a rigorous and competitive interviewing process. The organization is lean, with only eleven officers (the Director General, Technical Director and nine other staff) in administration, sales and marketing. The rest of the staff are drivers and technicians. SLM has a free hand in hiring and firing on competitive terms with little government interference. The entire organization in its make up, presentation and operations is geared to operate like a private firm, so as to not appear as merely an extension of a government department.

In spite of, or perhaps because of this, SLM has not cornered the entire market. In fact, it faces competition from government equipment pools that exist in other government agencies, and from the army. These pools also have heavy equipment suitable for civil works. SLM's greatest obstacle is the age of its equipment, which ranges between five to fifteen years old.

To ensure that client downtime on its leased equipment is minimized, SLM has instituted field service teams. Its plans for the replacement of this equipment are constrained by financial resources. Nevertheless, SLM has found innovative ways to purchase equipment within these constraints, as it did when it purchased two used bulldozers from the government at the conclusion of a Canadian-funded agricultural project. In the coming years, the SLM intends to buy new equipment from its own resources to replace its aging stock.

As part of the PASEC-T reforms, the contracting procedures of the government have been streamlined for greater effectiveness. As the main equipment lease supplier to the government, the SLM is a direct beneficiary of these reforms. Once works contracts are awarded by the government, the regional directors hire the necessary equipment from SLM or other equipment hire firms. The SLM's equipment is provided with an operator and fuel. Upon completion of the tasks specified in the contract, the bill from the regional office, together with the necessary paperwork, are sent to the accountant at the directorate's headquarters, who then pays SLM the amount due. According to SLM's management, public service clients have been as reliable in making payments as have private sector clients.

Assistance to small- and medium-sized enterprises development

The SLM's lease agreements with small- and medium-sized enterprises require three signatories, including the government agency, the contractor (client) and SLM. The client pays the full cost of transporting the equipment to site. To reduce movement costs, the client is directed to hire equipment from the nearest branch office. Debt collection from small- and medium-sized enterprises has not been a problem, particularly since clients can be taken to a court of law by the SLM if necessary.

Prior to the inauguration of the PASEC-T program, there were virtually no small- and medium-sized enterprises in Burkina Faso. The establishment of the SLM is largely responsible for their emergence in the road and other heavy construction and maintenance works sector. Between the SLM and the small- and medium-sized enterprises, a considerable proportion of the former public works establishment has been deployed by the private sector. Anecdotal evidence suggests that many owners of the small- and medium-sized enterprises have employed foremen and general labor who, as former civil servants, have strong links within the newly created equipment and works sector. In some ways, the impressive growth in small- and medium-sized enterprises has softened the strain of layoffs in the face of restructuring following institutional reforms.

Because most small- and medium-sized enterprises are characterized by under-capitalization and under-staffing, most lease equipment and operators from the SLM. This relationship provides a window of opportunity for the SLM to assist in capacity-building among these enterprises. With some modification, the current manned-equipment lease scheme could provide informal but cost-effective on-the-job training for private sector drivers and technicians as they learn by doing.

SLM could also dispose of older, but still useful, equipment by entering into lease-purchase agreements with interested small- and medium-sized enterprises. The government and donors might fund the implementation of an equipment purchasing scheme to these enterprises similar to that which exists in Ghana. The SLM could be contracted to provide equipment maintenance to the small- and medium-sized enterprises, together with staff training during a four-year repayment period.

Ensuring accountability

All contracted work is extensively audited, from both a technical and financial standpoint. In addition to the auditing carried out by the Office of Contracts Administration and by internal auditors, external auditors are frequently retained. Under the credit terms between Burkina Faso and IDA, all project accounts covering routine maintenance budgets are to be audited twice each year, as of June 30 and December 31.

The financial audit consists of all tests and checks considered necessary by professional auditors to express an opinion of the soundness of the project's financial statements. It is carried out by an external audit firm, which examines the accuracy and completeness of the end of calendar year financial statements. The findings and recommendations from these audits are not only taken seriously by the government, but are often acted upon or implemented.

In addition to the conventional financial audits, there are twice-yearly technical audits done by a local consulting road engineer, with assistance from an international expert. The audit is done on a sample basis, and on selected works. A typical audit will consist of samplings, field visits, testing results, additional documentary evidence, and other tests and checks necessary for arriving at a professional opinion regarding the quality and quantity of works performed over the past six months.

With audits costing only about 2 percent of the total costs, the benefits far outweigh the costs. The benefits of these audits arise from their effect of ensuring that work is carried out to the proscribed quality and quantity intended, and that funds are spent in an appropriate and accountable manner. If permanently institutionalized, with their costs built into the program, the auditing exercise will more than pay its own way.

Road Management Initiative

The RMI was launched in 1988 by the United Nations Economic Commission for Africa (UNECA) and the World Bank, under the auspices of the Sub-Saharan Africa Transport Policy Program (SSATP). The countries taking part in the RMI are Cameroon, Kenya, Madagascar, Rwanda, Tanzania, Uganda, Zambia, and Zimbabwe. Others receiving assistance from the program include Benin, Ethiopia, Ghana, Lesotho, Malawi, Mozambique, and Togo. RMI is administered by the World Bank's Africa Region, and is co-financed with the governments of Denmark, France, Germany, Japan, the Netherlands, Sweden, Switzerland, and the European Union. France, Japan and Norway provide senior staff members to work on the Program.

Are the reforms delivering the results?
The continued use of force account on periodic maintenance and rehabilitation work is due mainly to the lack of sufficient capacity among the small- and medium-sized enterprises. This view is supported by a survey, carried out by the government, that indicates that most respondents have neither the capital, equipment, nor technical personnel to meet the basic pre-qualification for contract work. It will probably take several years before the larger and more competent enterprises are able to meet this demand.

For the present, small- and medium-sized enterprises have proven their superiority in doing routine maintenance more efficiently than force account, due to their flexibility in location, resources, and mobilization. By ceding routine maintenance to these enterprises, the government is making a wise resource allocation decision. As they accumulate both experience and capital, the competent enterprises will probably begin to bid in the demanding area of maintenance and rehabilitation.

For both force account and contract maintenance, the procedural and payment reforms have proved beneficial. The reforms have reduced the time between the call for bids and the time of contract award from three months to one month. Similarly, payment certificates can be honored in less than a week for amounts less than CFAF 1 million, and one month for those exceeding that amount. The faster contract process and the prompt payments are a significant boost to public and private sector road maintenance efficiency.