

Rural Transport Training Materials

Module 3:

Management and Financing

General Road Management Issues

Managing roads like a business - not like a
bureaucracy

Session 3.2

Part 1

Presentation 3.2a



The World Bank



DFID Department for
International
Development



theIDLgroup 

The Training Modules

Module 1. Policies and Strategies

Module 2. Planning, Design, Appraisal and Implementation

This Module

Module 3. Management and Financing

Module 4. Rural Mobility

Module 5. Social and Environmental Issues

Module 3. Management and Financing

Session 3.1 Issues of local level management

This session

Session 3.2 General road management issues:
Managing roads like a business – not like
a bureaucracy

Session 3.3 Financing Rural Transport Infrastructure

1. Introduction

Learning Objectives

This session enables participants to:

- ③ Explain how to manage roads like a business, not like a bureaucracy
- ③ Describe the technical, policy and operational aspects of commercially managed road funds

Session Overview

- ③ The concept of the commercially managed road fund
- ③ Key elements of successful commercially managed road funds

Background

- © Realisation that roads systems are too large to be managed through a consolidated fund
- © Realisation that bureaucratic road management did not give road using public value for money

Why not move roads off-budget and make road users pay directly for road services they consume?

2. The concept of the 'commercially managed' road fund

First generation 'user-pays' road funds

- ⊙ Set up in post-war era to 'ring fence' road sector from vagaries of government budget process
- ⊙ Channelled certain taxes and charges to road sector
- ⊙ **But ...** these road funds were poorly designed and bureaucratic

New generation of commercially managed road funds

- ③ Differed from first generation in 3 ways:
 1. Drew on **experience** of operating conventional road funds
 2. Addressed **concerns** of Ministries of Finance and the IMF
 3. Combined **new financing mechanisms** with steps to ensure that the public gets **value-for-money**

Examples of commercially managed road funds

- ◎ Widespread but concentrated in developing or transitional economies
 - recently established road funds: Honduras, Guatemala, Lesotho, Namibia, Sierra Leone, Yemen and Zambia
 - restructured from existing first generation road funds: Ghana, Mozambique and South Africa
 - in the process of being set up: Armenia, Colombia, Georgia, Jordan and Surinam

To bring road sector into the market place:

⊙ Roads run on **fee-for-service** basis

- road users pay for roads and revenues used exclusively to finance the services they have paid for

⊙ Roads need to be **managed like a business**

- road spending depends on users' **willingness to pay**

Bureaucracy or business?



Group Activity

- A. *What are the benefits and weaknesses of bureaucratic road management?*
- B. *What are the benefits of market based road management?*
- C. *What might be the draw-backs of market based road management?*

3. **Key elements** of successful commercially managed road funds

A. Strategic

B. Technical & policy

B. Operational

A. Strategic elements

Scope of road fund: what does it finance?

- ⊙ Only national roads (e.g. South Africa and USA)
- ⊙ All expenditure on all public roads (national *and* local government roads)
- ⊙ Support local government roads through
 - Grants
 - Cost sharing
- ⊙ Grants preferred to cost sharing
 - Limited to what road fund can afford
 - Linked to local government performance

Type of legal basis

⊙ Commercially managed road funds by:

- Existing legislation
- Ministerial or presidential decree
- New legislation

⊙ New legislation preferred

- Firmer legal basis
- Separate public enterprise
- Revenue collected as road tariff
 - not government revenue
 - prevents diversion of funds or delayed release of funds

Type of oversight arrangements

Oversight boards

- © *Advise* the minister on management of the road fund
- © **Or...** manage the road fund directly

Successful oversight boards have following characteristics

- ◎ Independent chairperson and 9 -12 members
- ◎ Members (both government and private sector) have strong vested interest in well-managed roads
- ◎ Public minutes and meetings
- ◎ The board's TORs are published and explicit regarding:
 - winning public support for road spending
 - legitimate expenditure
 - management criteria
 - Relationship between board and Minister

Managing the road fund

- ◎ Most road funds administered separately from main road network
 - shared management can create conflicts of interest
- ◎ Few staff needed to manage road funds
 - New Zealand: 25-30
 - South Africa 10-12
 - Ghana 3

What does the road fund finance?

⊙ Routine and periodic maintenance

- Often legislated that maintenance has first claim
- In some countries (e.g. much of Latin America) funds can *only* go to road maintenance

⊙ Road safety

⊙ Administration

⊙ Road rehabilitation (once maintenance demands satisfied)

B. Technical and policy elements

Dividing funds between different road agencies

⊙ How to allocate funds to local government roads?

- by formula
- by need

Allocating funds by formula

- ◎ Funds first divided by different types of road agency: main, urban, rural
 - fair share for each
 - each type has different criteria for establishing priorities
 - provides guideline for spending plans
- ◎ Then funds allocated to specific road agencies within each group
 - each agency competes for resources
 - or... divided according to network and traffic characteristics

Allocating funds by need

- © Road management system (e.g. New Zealand)
 - all road agencies prepare standard road maintenance and investment programs on the basis of cost-benefit analysis
 - audited by national road fund board
 - local roads financed on a cost-share basis (50%)

Sources of revenues

⊙ Confined to road user charges

- vehicle license fees
- supplementary heavy vehicle fees
- international transit fees
- gasoline and diesel fuel levy
- overloading fines
- charges imposed to internalize the costs of road congestion (parking charges, cordon charges, etc.)

Adjusting the road tariff

- © How to set road tariff so that it keeps pace with inflation and generates sufficient revenue to meet expenditure requirements?
 - like railways
 - through government's tax-making powers

Adjusting the road tariff...

© Like railway tariffs:

- road fund board assess amount required
- assess user's willingness to pay
- set rate accordingly & publish in government gazette

© Through government taxing powers:

- board recommends tariffs to minister of finance
- tariffs included in annual budget statement

Adjusting the road tariff...

- © New road funds tariffs raised gradually over a period of 3 to 5 years
 - board can show results to its constituents before further increases in the road tariff
 - outreach programs can demonstrate value-for-money to tariff payers

How non-road users are exempted from paying the fuel levy

- ⊙ Large non-road users (mining companies, power stations etc.) can be exempted
- ⊙ Smaller non-road users (e.g. farmers)
 - colouring non-transport diesel (difficult to administer)
 - non-transport users present fuel invoices for rebates (difficult to administer)
 - compensating non-transport users for having to pay fuel levy (simpler to administer)

How funds are disbursed to each road agency

- ③ Disbursement procedures to strengthen financial discipline
 - direct disbursement of funds and *ex post* audit
 - or... approve work then reimburse when complete
 - or... pay contractors directly, after work completed according to specification

C. Operational questions

Day-to-day management

- ③ **Collect revenues** and manage cash balances (often under contract)
- ③ Establish **procedures** for withdrawing funds from the road fund
- ③ **Oversee** use of funds
- ③ **Prevent unauthorized** withdrawals from the road fund

Financial rules and regulations

- ③ Purpose of the road fund
- ③ Cost-sharing arrangements
- ③ Fund disbursement methods
- ③ Organizational terms of reference
- ③ Procedures for board membership and resignation
- ③ Board meeting arrangements

Financial rules and regulations

- ③ Sub-committee and co-opted member appointment
- ③ Board member and Executive Secretary functions
- ③ Role and composition of secretariat
- ③ Procedures for fund division
- ③ Procedures for withdrawing funds
- ③ Annual reports and accounts
- ③ Ministerial powers in relation to road fund

Auditing arrangements

- ⊙ Are Records of third parties responsible for collecting the revenues accurate?
- ⊙ Are payments made supported by documentation?
- ⊙ Are payments made for approved purposes?
- ⊙ Was work carried out according to specification?
- ⊙ Are bank account transactions and balances accurate?
- ⊙ Are internal control procedures adequate?
- ⊙ Are accounts, files, records and reports adequate?

Commercial Road Funding in a developing country context



Group Discussion

- A. *What are the technical, financial and political constraints to rural transport for developing/in transition countries?*
- B. *What aspects of commercially managed road funds enable them to address these constraints?*

Conclusion

- © Commercially managed road funds have made a major contribution towards sustainable road financing

Roads should be brought into the market place and run as public utilities with the power to set their own tariffs