Road Maintenance Financing in Sub-Saharan Africa: Reforms and progress towards second generation road funds

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Organization of Presentation

- Principles accepted – Criteria of 2G Road Funds
- Practice extended
- Outcomes to date
- Constraints encountered
- Challenges for Road Funds in Africa
Problematic

Thirteen years following the establishment of the first RF in SSA:

- Are road maintenance needs becoming more visible?
- Have we sustained more funding for road maintenance?
- Are we covering our maintenance needs?
- Are road funds managed according to “the user pay” and to second generation road funds principles?
- Are the available resources efficiently used – value for money?
- What needs to be done?
Why Road Funds?

1. Road management is a “big business” and requires huge revenues- traffic typically growing 1.5 to 2.0 times faster than GDP- faster than the government’s tax base- governments cannot easily finance large, global enterprises through government tax revenues;

2. Other competing needs usually place roads at a considerable disadvantage in the annual budget debate;

3. Time differences between budget and maintenance cycles can be significant;

4. Road users do not pay enough for the use of roads;

5. Traffic volumes are not high enough to establish and sustain road tolling.
1980s: Limits of 1st generation road funds

- Four standard difficulties:
  1. Road Fund does not receive all its revenues
  2. Funds used to pay for unauthorised items, or items not delivered to the road agency
  3. Poor records and weak financial management - some road funds cannot even be audited
  4. Unauthorized withdrawals ("raids") - revenue taken and used for other purposes

- Earmarking diverts revenue from other sectors
1990s: 2\textsuperscript{nd} G Road Funds 
Principles accepted (1)

- Priority to road maintenance 
- Raise road user charges 
- “User pay” principle - Need to involve road users 
- Road fund as a part of a move towards commercial management of roads 
- High standards of governance … 
  … leading to ..  
  “Second Generation” Road Fund seen as a valid, permanent solution
Principles accepted (2)

Features of the “Second Generation” Road Fund:

1. Sound legal basis – separate road fund administration, clear rules and regulations

2. Strong oversight – broad based private/public board

3. Agency which is a purchaser not a provider of road maintenance services
Principles accepted (3)
Features of the “Second Generation” Road Fund:

4. Sound financial management systems, lean efficient administrative structure

5. Regular technical and financial audits

6. Revenues coming from charges related to road use and channeled directly to the Road Fund bank account
Practice extended

27 Road Funds in SSA – 31 by end 2007
(Uganda, Senegal, Senegal, DRC and Burkina Faso)
C1: Sound legal basis?- (I)

- The second generation criteria are not always incorporated in the legislation

- A number of road funds were poorly designed and are far from meeting second generation road funds conditions and this partially explains numerous structural problems that undermine their performance

- While an increasing number of road funds now have considerable financial autonomy, there are a few which still have the majority of their revenues dependent on general taxation
C1: Sound legal basis?—(II)

• It is hardly mentioned in the reviewed legislations that the road funds should be responsible for the collection of funds revenues and rarely stated that the proceeds should be channeled directly to their bank accounts.

• Similarly, legislation of some road funds allows expenditure on other activities than road maintenance interventions (e.g. road rehabilitation and upgrading)

• Requirement for regular technical and financial audits is not always stated in the road fund legislation and cases where audits are a requirement but not budgeted for in the road fund expenditure.
C2: Strong and independent oversight board (I)?

- Average size of road fund boards is 12 members but this size varies from 5 members in Mozambique and Namibia to 24 in Republic of Congo.
- On only 12 road funds boards is the private sector representation in the majority.
- The board members have generally a weak understanding of second generation road funds principles, particularly among private sector representatives.
- In most cases, the chairperson of the board comes from the public sector and designated and appointed by the Parent Ministry.
C2: Strong and independent oversight board (II)?

Independence of Chairman versus Public Relations Effort

\[ R^2 = 0.7927 \]
C3: Agency which is a purchaser not a provider of road maintenance services

- Not always the case!– In a number of countries particularly in Anglophone Africa, the road fund board cumulates both oversight and executive powers. ...(Kenya, Zambia and Malawi)

- Not clear cut between RFs and RAs responsibilities

- Results … Conflict of interests

- Most countries are now reviewing their institutional arrangements to separate the financing from the management and implementation of road works (e.g. Malawi, Zambia and Kenya).
C4- Sound financial management systems, lean efficient administrative structure

- Secretariat's size varies from 6 (Niger) to 76 (Djibouti) staff – Average 19 staff – 17 without Djibouti
- Overheads: 5% percent of the total road funds budget (4% excluding Djibouti)
- Executive Secretary not always recruited through open competition – Hence impact on performance and autonomy of RFs
C5: Regular technical and financial audits

- **Financial**: funding arrangements are more transparent than in the past but still some interferences
- **Technical**: Disappointing results- maintenance works are not carried out in cost-effective ways
- Technical audit reports often land on a shelf. Occasionally discussed in stakeholders workshops, which lead to the development of action plans, but their implementation is not forthcoming
C6 : Revenues coming from charges related to road use and channeled directly to the Road Fund’s bank account ?
The diagram shows a scatter plot with two axes: % direct channeling on the y-axis and % revenues from RUC on the x-axis. The countries represented are Cameroun, Rwanda, Namibia, Ghana, Togo, Tchad, Guinea, Madagascar, Benin, Côte d'Ivoire, Mozambique, Tanzania, and Zambia. Each country is marked with a different symbol and color, allowing for easy identification. The x-axis range is from 0.0 to 1.0, while the y-axis range is from 0.0 to 1.0, indicating the percentage of revenues from RUC and the percentage of direct channeling, respectively.
Fuel levy/Road user charges (%) (Av. = 80% of RUC)
## Breakdown of Road User Charges (%)

<table>
<thead>
<tr>
<th>Country</th>
<th>Fuel Tolls</th>
<th>Transit license</th>
<th>Overloading</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chad</td>
<td>61</td>
<td>6.5</td>
<td>32</td>
<td>0.5</td>
</tr>
<tr>
<td>Benin</td>
<td>52</td>
<td>43</td>
<td>5</td>
<td>0</td>
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<tr>
<td>Namibia</td>
<td>75</td>
<td>0</td>
<td>5</td>
<td>20</td>
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<tr>
<td>Burundi</td>
<td>60</td>
<td>24</td>
<td>0</td>
<td>16</td>
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<tr>
<td>Lesotho</td>
<td>67</td>
<td>25</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>Mali</td>
<td>75</td>
<td>0</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td>Rwanda</td>
<td>62</td>
<td>2</td>
<td>36</td>
<td>0</td>
</tr>
</tbody>
</table>

- Source: RMI- Matrix, 2006
Level of fuel levy (in US cents/liter) (Av. 7 and 6 cents/liter) in 2006
Availability of funds (Av. = 2 months equiv.)
Average time for paying undisputed contractors bills (30 days)

![Bar chart showing the average time in days for paying undisputed contractors bills in various countries. Burundi has the highest average time, followed by Chad and CAR, with Ghana and Guinea tied for the second highest. Kenya has the shortest average time, followed by Madagascar, Malawi, Mali, Namibia, Rwanda, Togo, and Cameroun.]
Amount of maintenance work contracted out (Av. > 80%)
Coverage of routine and periodic maintenance needs (Av. = 65% routine and 54% periodic)
Some Indicators of Performance of “Second Generation” Road Funds in SSA

- 27 active road funds are in place – of which 9 established since 2000 and 7 in Francophone Africa
- 18 out of 27 are established by a law
- 12 with a board with private sector majority
- 14 road funds rely 80% or more on road user charges as revenues
- In nearly all cases, fuel levy is the principal means of raising road user charges
- Average fuel levy in US cents/liter is 8 and 7 for petrol and diesel respectively
- 11 road funds have their revenues channeled directly to their bank account
- Only about one third of road funds may now be meeting routine maintenance expenditure needs on a regular basis.

Source: RMI-Matrix, 2006
Outcome to date

- Overall, the road maintenance needs are becoming more visible

- Road funds have secured a more stable and predictable flow of funds for road maintenance but country progress varies widely

- More transparency in the management of funds

- Greater coordination between development partners – EU, AfDB and bilateral agencies…. 
Constraints Encountered

• A number of road funds need restructuring
• Fuel levy assessment and adjustment process
• Diversification to other road user charges
• Release of resources to the Road Fund – delays, leakages
• Efficiency of use of the available resources
Challenges for Road Funds in Africa (1)

FINANCIAL

• Ensure equitable distribution of user charges: Vehicle license fees - particular regard to heavy vehicles;
• Develop a communication strategy to negotiate road tariffs - Mobilize road users and stakeholders more effectively – influence decision-making
• Right sizing the network for road user financing
Challenges for Road Funds in Africa (2)

INSTITUTIONAL

• Road boards to play effectively their role and be accountable to road users
• Finance is not enough – a RF is a means to an end…
• Need for road management restructuring – to garner cost reductions that could be passed on to road users;
• Need to close the gap between road financing (RFs) and management (RAs) - Intermediate steps – Performance based contracts for road management and maintenance – requires stable of fund flows…
Road Agencies in SSA
AFERA (www.armfa.org)

- 26 member states:
  - Benin
  - Burundi
  - Cameroun
  - DRC
  - Côte d’Ivoire
  - Djibouti
  - Ethiopia
  - Gabon
  - Ghana
  - Guinée Conakry
  - Kenya
  - Lesotho
  - Madagascar
  - Malawi
  - Mali
  - Mozambique
  - Namibia
  - Niger
  - RCA
  - Rwanda
  - Tanzania
  - Chad
  - Togo
  - Zambia
  - Zimbabwe

www.armfa.org
http://www.worldbank.org/afr/ssatp
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Thank you