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· Establishing an Adequate
· and Stable Flow of Funds
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African Best-Practice



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Establishing an Adequate and Stable Flow of Funds

- Propositions
 - Road assets in SSA are deteriorating at an alarming rate
 - Economic rates of return for expenditures in road maintenance and restoration are above 35%
 - Additional revenue needs to be allocated to road expenditures

: Establishing an Adequate and Stable Flow of Funds

- What are the typical sources of funding?
 - General government revenue
 - Insufficient and erratic
 - Private finance
 - Requires tolling, or any guaranteed revenue, and is unattractive below 3,500 ADT
 - Specific user charges
 - Cost-effective to collect but difficult to secure for road expenditures

· Establishing an Adequate and Stable Flow of Funds

- How to mobilize additional revenue by charging for road use ?
 - Most charges should be related to the road damage imposed by users
 - Dominated by fuel levy
 - Road users should be willing to pay
 - But...
 - ...Users' willingness to pay...
 - ...is related to the benefits they derive from the charges they pay...

Establishing an Adequate and Stable Flow of Funds

- Are road users willing to pay ?
 - They know the cost...
 - For each one dollar not spent in road maintenance vehicle operating costs increase by two to three dollars
 - ...But they want to perceive the benefit
 - Improved road condition

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Establishing an Adequate and Stable Flow of Funds

- How to mobilize the support of road users ?
 - Introduce a road tariff, thus generating additional revenue
 - Ensure that this revenue is allocated to road expenditures
 - Empower road users in the management of revenues and expenditures

• Establishing an Adequate and Stable Flow of Funds

- How to ensure dedicate funding mechanisms ?
 - The conventional answer has been through the establishment of road funds...
 - ...but conventional road funds have not met their objective ...
 - ...to provide a regular and stable flow of funds to meet expenditure requirements

Establishing an Adequate and Stable Flow of Funds

- What are the usual problems ?
 - Funds are raided and revenues are diverted
 - Flow of funds remain erratic
 - Funds are less than requirements
 - Funds are not managed efficiently

Establishing an Adequate and Stable Flow of Funds

- Why are funds raided and diverted ?
 - MOF claims ownership of all taxes
 - Charges are collected by government but not deposited into the Road Fund
 - No definition of qualifying expenditures
 - Weak oversight which permits revenues to be diverted

Establishing an Adequate and Stable Flow of Funds

- Why is the flow of funds erratic ?
 - Revenue relies on allocations from the general budget
 - Long delays between collection of funds and deposit into road account
 - Withdrawal procedures are unduly cumbersome

Establishing an Adequate and Stable Flow of Funds

- Why are revenues below expenditure requirements ?
 - Revenues do not cover all qualifying expenditures
 - No mechanism to diffuse public hostility to increase road user charges
 - Inappropriate arrangements for allocating revenues to main, urban, and rural roads

Establishing an Adequate and Stable Flow of Funds

- Why is management not efficient ?
 - No effective oversight mechanism
 - Inappropriate financial management
 - Poor procedures for disbursing and certifying payments
 - No effective financial and technical auditing

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Establishing an Adequate and Stable Flow of Funds

- How to avoid raids and diversion
 - Clearly separate road tariff from taxes
 - Deposit funds directly into road account
 - Ensure a strong and representative board with an effective secretariat and a director appointed by the board
 - Undertake outreach/publicity campaign

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Establishing an Adequate and Stable Flow of Funds

- How to ensure a stable flow of funds
 - All qualifying expenditures covered by revenues
 - Revenues collected at the source
 - Direct deposit into bank account
 - Simple withdrawal procedures

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- # Establishing an Adequate and Stable Flow of Funds

- How to ensure that revenues meet expenditure requirements
 - Representative Board regularly decides on road tariff level
 - Expenditures focus on fully meeting the requirements of a core network
 - Cost-sharing arrangements for funding the remaining of the network

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Establishing an Adequate and Stable Flow of Funds

- How to improve managerial efficiency
 - Road users and other business interests represented in the Board
 - Use of commercial accounting systems
 - Disburse against major tender work only after certification
 - Independent financial and technical auditing

• Establishing an Adequate and Stable Flow of Funds

- How to make it happen
 - Foster a private/public partnership in sector management
 - Consider proceeds from the road tariff as road revenue rather than general tax revenue
 - Separate funding and purchasing from executing functions
 - Match road revenue with absorptive capacity
 - Ensure independent performance auditing (technical and financial)
 - Approve enabling legislation