



## **Module 2: Planning, Design, Appraisal and Implementation**

# **Financing Rural Transport Infrastructure**

**Session: 3.3**

**Part 1**

**Presentation: 3.3a**

# 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

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

This session

Session 3.3 Financing Rural Transport Infrastructure

# 1. Introduction

## Learning objectives

By the end of the session participants will be able to:

- ③ Explain the different ways in which local government and community roads and paths can be financed
- ③ Describe the implications of decentralisation and private sector involvement in rural transport infrastructure
- ③ Analyse a framework for improved finance of local roads and paths

# Session Overview

- ③ Symptoms of inadequate finance
- ③ A framework for reform
- ③ Financing local government roads
- ③ Establishing a planning framework and planning methods
- ③ Financing community roads and paths

# 1. Symptoms of inadequate finance

## Unclear responsibilities

- © Local communities often make **ad hoc** contributions to construction (esp. in labour)
- © But community contributions should not be mistaken for **commitment** to maintenance or assumption of **ownership** responsibilities

# Disintegration of the planning system

- ◎ Existing resources sub-optimally allocated
  - capital vs. maintenance expenditures
  - roads vs. simpler RTI improvements
- ◎ Capital and maintenance budgets are separate
- ◎ Capital budgets supported by donors and favoured by local politicians
- ◎ **Bias toward**
  - rehabilitation over maintenance
  - road works over footbridges and paths

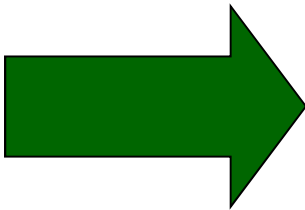
# Insufficient and uncertain maintenance funding

- ◎ Most governments allocate too little to maintain networks
- ◎ Lowest levels of network hardest hit (often 5-15 % of requirements)
- ◎ Unpredictable funding allocations
  - local government funds nearly always much less than budget estimates
    - impossible for local government to plan effectively



# Inadequate local capacity

## ⦿ Lack of incentive for local road staff



- high vacancy
- poor motivation
- under-qualified and indifferent staff
- unfilled positions

### 3. A framework for reform

- ◎ Effective decentralisation requires local level control of **fiscal** as well as **political** and **administrative** responsibilities
- ◎ Partial decentralization
  - only administrative responsibilities delegated
  - weak local governments and poor performance

# Financing

- ◎ Donors pay for most capital expenditures
- ◎ **But...** increasingly reluctant without maintenance arrangements

Who can provide sufficient and reliable funding for maintenance?

- must be **domestic** to ensure sustainability
- must involve **cost-sharing** arrangements
  - to create incentives for maintenance and to leverage scarce resources

## 4. Financing local government roads

### Financing maintenance

- ⌚ Requires steady and adequate flow of funds
  - without clear fund allocation schedules work programming is impossible
  - unit costs increase as contractors build payment delays into their costs

# Locally raised revenues

## ③ Local governments mobilize only modest revenues

- market and business taxes (main source)
- levies on property, local agriculture and building
- business projects: hotels, bars, transport services (often a drain)

## ③ What can be done to improve local revenue?

- stronger enforcement
- reliable local court system
- incentives to tax collectors
- local road-user charges (e.g. licenses)
- property tax

# Central-local fiscal transfers

- © Central government transfers main source of **domestic funding** for local government roads
- © **But...**(as Section 3.2 shows) commercially managed **road funds** more promising than central government budgets

# Cost-sharing for maintenance

- ◎ To leverage funds for road building and maintenance
- ◎ Matching grants
  - road users, central government or donors finance amounts proportional to that provided by the local government

# Comparative advantages of communities and government



## Group Activity

- A. *What sorts of resources and attributes do communities, local governments, and central governments bring to the financing of RTI?*
- B. *What are the comparative advantages of each of these levels?*



## 5. Establishing a planning framework and planning methods

### ③ Participatory Budgeting Process

- recurrent dialogue between local constituents and local government
- sets contributions to both capital and maintenance requirements
- compels local government and constituents to determine whether they can afford new investments

③ Plan forwarded to provincial regional or central road authority to be weighed against others

- ③ Local constituents are faced with a budget constraint
  - must chose between technical standards and coverage
- ③ Constituents are encouraged to raise additional resources to cover maintenance

## 6. Financing community roads and paths

How do we **empower** and **encourage** communities to claim responsibility for orphaned roads and paths?

# Cost-sharing arrangements

- ③ Financial **incentive** for communities to organize themselves
- ③ Expand the **revenue base**
- ③ Verify demand and improve allocative **efficiency**
- ③ Cost-sharing arrangements can be both **formal** and **informal**

# Technical and managerial advice

## 🌀 Communities require advice on contract management and procurement

- keeping proper accounts
- strengthen village organization structures

## 🌀 Community involvement in procurement

- enhances sustainability
- investment spent in the local economy
- generates local employment and opportunities
- increases local capacity and know-how

# Key aspects of financing community roads and paths

Donors

Communities

Government and road funds

# Donor financing of investments

- ◎ Donors finance most rural infrastructure
- ◎ Donors should
  - allow communities to choose types of investments they want
  - encourage cost-sharing
- ◎ Donors should promote Social and Community Rural Infrastructure Funds (see Section 3.3c)

# Community financing of investment and maintenance

- ⊙ Despite poverty, communities often raise resources to partly finance high-priority investments
- ⊙ Community investment can be
  - cash
  - locally available materials
  - labour



# Government and road fund financing of maintenance

- ⦿ Road funds have potential to provide partial financing to community roads and paths
- ⦿ Community road fund cost-sharing arrangements should be formalised and given proper technical oversight

# Planning community roads and paths

🌀 For communities to plan effectively they require training in

- communication skills
- identifying local priorities

🌀 Need for outreach workers

- to present local needs and priorities to local road agency staff
- to communicate agency plans and proposals to villagers in accessible terms

# Conclusions

- ③ **Sustainable financial framework** for RTI must be built on
  - coherent financial arrangements
  - collaboration among government, communities, and the private sector
- ③ **Private ownership** of roads is
  - highly cost-effective and efficient
  - ... especially at the lowest level of the network
- ③ **Devolving ownership** to small-scale farmers, (the largest private sector group in most developing countries), will increase efficiency and bring more roads under regular maintenance