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ROAD FUND MANAGEMENT: BEST PRACTICES

PRESENTED BY

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BACKGROUND

- Studies undertaken in late 1980s, indicated that lack of maintenance was eroding road asset value in developing countries and in particular in Sub-Saharan Africa (SSA).
- The study identified that:
 - Lack of maintenance was not rooted in technical matters but was political and institutional.
 - There was need for change and for effectiveness, the changes needed to be rooted in firm awareness at the highest level of government, of the importance of road maintenance.

FOUR BASIC BUILDING BLOCKS

- The study recommended four basic building blocks of reforms to effect the changes.
 - Create ownership by involving road users in managing road maintenance
 - Secure a sustainable and secure source of financing.
 - Clarify responsibility by identifying who is responsibility for what part of the network.
 - Strengthen management of roads by providing effective systems, procedures and accountability.
- The vehicle for change was the RMI

CREATING OWNERSHIP

- The manner in which a Road Fund Board (RFB) is created is critical to its success.
- Two methods have been adopted;
 - Legislation.
 - A presidential or ministerial declaration.
- Legislation is recommended.
- It entrenches the RFB within the government structure.
- Declarations create weak RFBs that are easily infiltrated and whose decisions can be ignored.

THE COMPANY CONCEPT

- Shareholders
 - Stakeholders
 - Road users (both motorized and non-motorized)
- Managers
 - Road Fund Boards
 - Or Road Funds
- Implementors
 - Road agencies.

FINANCING

- The most appropriate and sustainable source of financing is the Road Maintenance Levy Fund.
- Most SSA countries that embraced reforms set up RMLFs almost immediately. This was done through legislation.
- RMLF normally includes:
 - A charge against petroleum products purchased; Transit Toll charges; Heavy goods vehicle distance covered charges; Overloading fines; Licensing fees
- It is recommended that as many sources of financing be identified and tapped.
- In Kenya, agricultural cess is part of the KRBF.

ANNUAL WORK PROGRAMMES

- RFBs are Funding Agencies (similar to WB, EU, ADB, KfW, DANIDA, SIDA, BADEA, etc).
- On that premise, they must endeavor to fund a multi-year work programme that is;
 - realistic, practical, and can be delivered efficiently, effectively and within the planned time frame.
- In SSA, most of the multi-year time frames coincide with the MTEF.
- The RFB must undertake Technical Compliance, Financial and Performance audits to ensure value for money is obtained.

AWP PREPARATIONS cont...(2)

- For adequate preparations, appropriate lead time is required.
- A one year lead time in preparation of the AWP should be factored into the Act.
- Road Agencies should be presented with ceilings a year prior to undertaking works.
- The time provides adequate discussions between the RFB and Road agencies.

AWP PREPARATIONS cont...(3)

- The RFB **MUST** approve the AWP.
- The Government **MUST** adopt the AWP through the signature of the Minister for Finance.
- Once AWP is approved, it should change only once, during supplementary review.
- The procedure for change must be properly set up, with clear audit trails.
- This is important for auditing purposes.

RFB RECEIPTS

- Fund receipt collection method is critical for success.
- Collecting agency is normally the revenue authority.
- Once collected, funds are either channelled directly to the RFB or through exchequer issues (MOF).
- Direct channelling of funds to the RFB is most appropriate.
- RFB should fight to ensure this method prevails.

RFB RECEIPTS cont...

- RFB must create mechanisms for confirming receipt figures from the revenue authorities.
- The RFB must keep a register of marketers.
- RFB **MUST** receive petroleum sales figures from marketers.
- These sales figures also indicating the RMLF deductions must be compared to the revenue received from the collecting agency.
- RMLF receipts are collected continuously.

FUND DISBURSEMENTS

- Disbursements take place therefore, only when funds are available.
- Disbursements criteria to road agencies should be contained in the Act.
- In Kenya it is monthly.
- Preferably, it should be quarterly.
- This would provide enough time for RFB management to undertake core activities of following up on value for money.

FUND RELEASES

- Annually, a disbursement schedule which reflects the proposed disbursements is developed and should be approved by the RFB.
- On approval of fund disbursements, releases can be effected.
- A key punitive measure that can be applied is withholding of release of funds.
- Road agencies that are not compliant should be aware of this punitive measure.

FUND RELEASES cont...

- Shareholder must be informed regularly (quarterly if possible) of fund releases to road agencies.
- If releases are withheld, shareholders should be informed of the reason through the media.
- Such communication creates the support needed from shareholders.

PERFORMANCE AGREEMENT

- A Performance Agreement (PA) should be signed between the RFB and road agencies.
- The PA outlines;
 - the relationship between the RFB and the road agency,
 - indicates the expectations of the RFB in terms of delivery of works by the road agency, for funds received,
 - includes punitive measures that should be applied if the road agency is non-compliant.
- The basic objective of the PA is to tie funding to delivery of the approved AWP.

REPORTING SYSTEMS

- Core functions of the RFBs are different from those of road agencies.
- A RFB reporting system should contain
 - The GIS/RICS of the road network,
 - The Fund management subsystem,
 - Annual Work Programme subsystem,
 - Complaints register subsystem,
 - Internal Management sub-system.
- Standard road agency reporting systems (PMS, HDM4, Design, etc) could be provided primarily to enable checks be undertaken.

TECHNICAL COMPLIANCE, PERFORMANCE AND FINANCIAL AUDITS

- All shareholders require that value for money is achieved.
- This can only be ascertained through;
 - Technical compliance (physical verifications) – TC,
 - Performance (against agreed AWP) – P,
 - Financial Audits (financial discipline) – FA.
- RFB are not audit firms.
- RFB must continuously review progress of works on a sampling basis.

TC, P and FA cont...(2)

- Results of the review must be communicated to shareholders.
- Due to complexity of the AWP and its size, RFB should utilize services of consultants.
- TC, P and FA are recent services introduced into ‘conventional engineering consultancy services’
- TOR for these services must be very clear.

TC, P and FA cont...(3)

- The Consultancies should be joint ventures between 'Engineering Consultancy and Financial Audit' firms.
- Most of the consultancies are in the process of learning how to undertake the services.
- Entry and exit meetings are very crucial in these TC, P and F Audits.
- The auditee must provide all the requested information without fail.

TC, P and FA cont...(4)

- Results presented during the exit meeting must be mutually acceptable.
- Results of the TC, P and FA must be communicated in terms of loss of funds and in terms of poor workmanship.
- A matrix of corrective action is developed to be responded to by the Auditee
- If responses are not satisfactory, the recommendations for surcharging the auditee must be forwarded.

TC, P and FA cont...(5)

- A register of complaints must be developed.
- It records observations on poor workmanship or fund misuse from road users and shareholders.
- This should be encouraged for ad-hoc audits to be undertaken.
- The RFB must make every effort to address as many complaints as possible.

FOLLOW UP ON FINDINGS

- Findings obtained from TC, P and FAs should be followed to logical conclusions.
- Road agencies must realize that the RFB is determined to obtain value for money.
- It is the constitutional responsibility of the Controller and Auditor General (CAG) to undertake audits.
- Their responsibility covers the entire Government, is widespread and not very thorough.

FOLLOW UP ON FINDINGS cont...

- TC, P and FA findings can be shared with CAG.
- Shareholders must be informed of the measures taken to mitigate against loss of funds and poor workmanship.
- Very specific charges must be presented, to ensure auditees realize the seriousness of the RFB.
- Most Governments have a long investigative procedures which include court cases before charges can be effected.

REPORTING TO SHAREHOLDERS

- The complexity of the AWP requires that the proposed budget for each road is indicated.
- For a large fund like in Kenya, these are a lot of roads.
- The AWP is printed in the media.
- All shareholders will connect with a road they are familiar with.

REPORTING TO SHAREHOLDERS cont...

- It is recommended that a bi-annual report on funds spent on each road be printed.
- Reported use of funds and performance achieved can be placed on the RFB website.
- Shareholders must be informed of the presence of this information and asked to review it for confirmation.
- Their review involves them in monitoring usage of funds and performance achieved and placing complaints if information is not correct.

CHALLENGES

- What is in place? A Road Fund Board or a Road Fund?
- If a Road Fund, then its purpose can be reduced to being a conduit for funds.
- Which is the most appropriate arrangements?
- It is preferable that there be a Road Fund Board, with similar mandates to any funding agency.
- In most cases, this arrangement depends on the champions of change. What was their experience and which model did they adopt?

CHALLENGES cont...(2)

- What are the mandates contained in the instrument of establishment?
- These mandates can be quite challenging.
- Acceptability: A RFB is a new introduction to most SSA Governments that interferes with the status quo.
- Road agencies tend to fight a RFB span of control.
- RFB must fight to make themselves relevant.

CHALLENGES cont...(3)

- There are no clear guidelines on the size of a RFB in terms of management staffing.
- If the RFB mandates have to be realised, then size of a RFB can be relatively large.
- Road Fund Board members must be fully conversant with the RFB mandates and their roles.
- It is important that they be inducted into their roles.

CHALLENGES cont...(4)

- Attending the Senior Road Executive Programme is a plus.
- Must be exposed to Corporate Governance.
- Must be ready to quit if there is too much pressure to bend to political whims.
- Must not be afraid of representatives from public offices.
- Political interference must be resisted by all means.

CHALLENGES cont...(5)

- Management must be well versed with the RFB mandates and limitations.
- Rules, Regulations, Procedures and Guidelines for road agencies should be developed.
- Stakeholders must deliberate on this adequately and once adopted, the rules must be gazetted.
- The RFB must enforce the gazetted rules.
- Continuous communication with shareholders through the media is crucial to success and acceptability.

CHALLENGES cont...(6)

- Funds for maintenance in SSA are still in short supply.
- To continue receiving support, the shareholder needs to be assured that value for money is being achieved.
- Every effort must be made to finalize reforms in the four basic building blocks
- The most difficult being the establishment of autonomous road agencies.

CHALLENGES cont...(7)

- Ensuring provision of clear enforceable PAs between RFBs and implementing agencies.
- Lack of adequate capacities at the middle level management.
- Lack of adequate capacities at managerial levels in districts and at HQs.
- Lack of adequate capacities within Local Authorities (supervision and undertaking of works).
- Lack of adequate capacities of Consultants and Contractors (both large and small)

IMPROVING SHAREHOLDER CONFIDENCE

- For most SSA countries, backlog maintenance is still a big challenge.
- For the next 5 – 10 years, funds for maintenance will continue to be in short supply.
- An elaborate multi-year (5 years) RSIP is crucial in tackling the backlog maintenance and prioritizing road entry into the AWP.
- Source of funds such as raising bonds or use of other instruments of financing can be investigated and if appropriate adopted.

IMP. SHAREHOLDER CONFIDENCE cont(2)

- Stakeholders such as Development Partners need to be brought on board in all matters.
- The RSIP is appropriate for seeking extra funding for the roads contained in the AWP.
- Continuous exposure of expenditures and achievements create confidence in shareholders.
- Informing shareholders of punitive measures taken against road agencies that are not compliant is also important.

IMP. SHAREHOLDER CONFIDENCE cont(3)

- With confident shareholders, it is possible to raise extra financing.
- The funding arrangements must be clearly outlined in establishment documents between RFB, Road agencies and Ministries of Finance.
- A clear difference between Exchequer issues and RMLF as direct funding to RFB must be established to avoid overlap and grey areas.
- The RMLF is a road user charge and must be treated as such.

**THANK YOU VERY MUCH
FOR YOUR ATTENTION**