

# **INTERNATIONAL SEMINAR ON ROAD FINANCING AND INVESTMENT**

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## **ROAD FUND MANAGEMENT: BEST PRACTICES**

**PRESENTED BY**

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# OVERVIEW

- BACKGROUND
- ROAD FUND BOARD ESTABLISHMENT
- COMPANY CONCEPT
- FINANCING
- ANNUAL WORK PROGRAMME
- FUND RECEIPTS, DISBURSEMENTS AND RELEASES
- PERFORMANCE AGREEMENTS
- REPORTING SYSTEMS
- TECHNICAL COMPLIANCE
- FOLLOW UP ON FINDINGS
- REPORTING TO SHAREHOLDERS
- CHALLENGES

# 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**