Road Sector Reform Review
Summary of the Meeting Held on 8 November 2001

Introduction

Attempts towards the restructuring of the Namibian transport sector can be traced back to before Namibian Independence, when the Government in exile launched an initiative to review the South West African/Namibian transport and communications sectors in preparation for Independence. Consequent to this, the Swedish International Development Authority (as it was then known) commissioned the so-called "Blue Book" on "Transport and Communications in Namibia", which was released on the date of Independence, 21 March 1990. The reform of the road sector in particular can be said to have gained focus with the adoption by Cabinet in October 1994 of the "White Paper on Transport Policy". At this time, the MWTC2000 Project for the restructuring of the Ministry of Works, Transport and Communication was established with financial assistance from the Swedish Government through Sida. Through this project, the road sector reform on 1 April 2000 culminated in the establishment of three state-owned enterprises, the first two of which were created out of the restructured Department of Transport of the Ministry of Works, Transport and Communication, which until then was responsible for the management, construction and maintenance of the national road network:

- the Roads Authority, to manage the national road network such as to achieve a safe and efficient road transport sector
- the Roads Contractor Company, to construct and maintain roads
- the Road Fund Administration, to manage the road user charging system and a Road Fund into which road use charges are to be paid, with a view to achieve a safe and efficient road transport sector.

The Minister of Works, Transport and Communication is, however, still directly concerned with the efficiency and safety of the operational aspects of the road sector, specifically, vehicle operations and the national road network. This aspect is dealt with in the establishing legislation of the Roads Authority and the Roads Contractor Company, which regulates the relationship between the Minister and the respective entities.

To assist him in meeting his responsibilities regarding the road transport sector, the Minister initiated the Road Sector Reform Review, which aimed at reviewing the reform aims and objectives, the progress made by the three new entities in achieving the potential benefits of the road sector reform, and determining the remaining challenges for the future.

Structure of the Meeting

The meeting was divided into four parts. The first part consisted of the formal opening sessions which included presentations by the Hon. Deputy Minister of Finance, the Hon. Minister of Works, Transport & Communications and a representative from the Swedish International Development Cooperation Agency (Sida). The second part was a presentation session where speakers provided a progress report on their role in the ongoing road sector reform program, including a presentation by a representative of the road transport industry. The third part consisted of a wide ranging discussion of progress achieved, obstacles encountered and potential ways forward. This led naturally to the fourth part which attempted to summarise the consensus reached and the decisions required to ensure that the reform process continued on course. The meeting was finally closed by the Deputy Permanent Secretary of Works, Transport & Communications. The meeting was animated by an official Moderator and he has added his own views on necessary Next Steps at the end of this summary.

Presentation Session

This part of the meeting focussed on the responsibilities and functions assigned to each of the new road sector agencies, an evaluation of their performance to date, constraints hampering implementation of the reform program and other implementation issues. It included presentations by the Ministry of Mines and Energy (though not a formal part of the reform process, this Ministry plays a key role in regulating fuel prices), the Road Fund Administration (RFA), the Roads Authority (RA), the Road Contractor Company (RCC) and the Road Using Community (represented by the Chairman of the Namibian Road Transport Association). An additional presentation was made by the RA to illustrate their new Road Management System which they are developing to enable them to more systematically estimate sustainable maintenance requirements. Copies of all speeches and presentations have been included in the Proceedings.

Review Session

This part of the meeting was opened by the Moderator who wished to draw the attention of the participants to two characteristics of the reform process which appeared to him to raise questions, at least when compared with similar reform programs in other countries. The first related to the structure of the boards of the three new road sector agencies, while the second related to a potential “missing link” between the RFA, on the one hand, and the RA and RCC on the other.

The moderator emphasised that it was important to have strong boards, containing the right members and with a harmonious relationship with the CEO (in most countries, the board appoints the CEO). A strong board guides the work of the agency, protects it from unwarranted interference, brings in new ideas, links the agency to a network of new contacts, and helps to win the support of key interest groups. The Moderator illustrated his concern about the Namibian board structures by way of example. He compared a dysfunctional board in UK, with two highly effective boards in New Zealand, and then spoke generally about board structures elsewhere in the world. In the UK, the Highways Agency board consists of the Permanent Secretary as chairman, one member of his staff, two staff members from the Highways Agency and two outsiders (currently consultants). All are appointed by the Permanent Secretary and the workings of the board are covered by the Official Secrets Act. The narrow membership of the board, and the way members are appointed, undermines its credibility and makes it virtually impossible for the board to win public support.

In contrast, the boards of Transit New Zealand (TNZ) and Transfund (their road fund) work extremely well. TNZ has 8 board members including a partner in an accounting firm (chairman), a retired senior partner from an accounting firm (vice chairman), the CEO of TNZ, a management consultant, an industrialist, a businessman (who is also an elected member of local government), an agriculturist and someone from academia. The strong representation from the business community has enabled this board to turn TNZ into a highly motivated commercial business. The board of Transfund is smaller. It consists of 5 members including two board members from TNZ (a historical legacy from the days when TNZ managed the road fund), a representative of local government, the chairman of the NZ Road Transport Authority and someone from academia. Though small, this board brings together some of the key people who are able to win public support for the road fund and its charging system.

In other countries, the boards typically include representatives of central government (e.g., ministries of finance, local government, transport, etc.), business (often in the form of someone nominated by the Chamber of Commerce), the road transport industry, the professions, farmers and local government. Compared to these, the boards in Namibia are short on members (all five members need to be appointed, rather than only 3 or 4 as at present) and they would benefit by including members with backgrounds in business/commerce and the road transport industry.

In relation to the "missing link" between the RFA and the RA + RCC, the Moderator suggested that it might be unrealistic to assume that the RA could develop a unique optimal plan which the RFA would then be required to fund. The reason was quite simple. The RFA represented the customer (the road user), while the RA (together with the RCC) represented the supplier who was expected to provide the road user (the customer) with what they wanted and were willing to pay for at a price they could afford. In a market-based system these two entities – the customer and the supplier -- lived together in a state of dynamic tension. This is what business people refer to as "market discipline" which is the primary factor which motivates managers to cut waste, improve performance and allocate resources efficiently. In other words, it denies that there is a unique optimal plan. The optimal plan is dependent, among other things, on the service standards chosen, the length of the designated road network and its classification, and the unit costs of undertaking road works. The latter was particularly important in Namibia, since experience in other countries had shown that there was extensive scope for cutting costs through competition, outsourcing, introduction of long term, area wide, performance specified contracts, and even transferring ownership of selected low volume roads to local roads associations (as in Sweden, where 2/3rds of the road network is owned, operated and maintained by private roads associations).

The key was thus to accept that the relationship between the RFA and RA+RCC needed to be transformed – using the procedures spelled out in section 19 (2) of the RFA Act – from a passive obligation to raise the level of funds defined by the RA's optimal plan, into a dynamic relationship where both parties put pressure on each other to develop cost effective road programs and attempted to "sell" the required level of road user charges to the public. Among other things, this would require an effective outreach program where both the RFA and the RA attempted to explain to the public the nature of the road program, the benefits it offered them and the consequent justification for the proposed level of road user charges. It was worth noting that fuel levies were typically between US$0.08 and US$0.10 per litre in other countries (just over US$0.07 per litre for petrol in New Zealand), with US$0.10 per litre typically representing the maximum levy that the public appeared willing to pay (only Japan and Latvia have petrol levies of US$0.12, with levies of zero and US$0.07 per litre respectively on diesel). Fuel prices in Namibia are also low by world standards – within the EU prices of US$0.90 and US$1.00 are common – although they are also low in neighbouring countries (e.g., Botswana, South Africa and Zimbabwe) and this makes it difficult to raise overall fuel prices in Namibia without encouraging fuel smuggling.

These opening observations were followed by a wide ranging discussion about the performance of the three new road sector agencies. During the course of these discussions participants expressed themselves generally satisfied with progress achieved thus far, but also recognised that the institutional framework required further work to ensure it would deliver the expected benefits at the end of the 3-year transition period.

Summary

This part of the meeting attempted to capture the main conclusions and recommendations emerging from the review session. It was divided into three parts dealing respectively with the RFA, RA and RCC.

Road Fund Administration

The most important matters on which a broad consensus was reached under this heading were as follows:

- The RFA needs to become a more proactive entity. It needs to urgently frame the rules and principles to be applied and followed by the RA and other approved road authorities under section 19(2) of the RFA Act. These need to be designed to impose some form of market discipline on the RA and other road authorities to facilitate preparation of an “affordable” road program without, in the long term, violating the efficiency principle. The RFA also needs to become much more active in explaining to road users why it is worth paying for the road program and what benefits they will receive in return for these payments.
- The RFA needs to clarify the rules and principles underlying its view of optimal funding levels. It needs to look at the size of the affordable network (including the scope for reducing it by reclassifying roads and/or transferring responsibility for some roads to other entities under cost-sharing arrangements), the levels of service associated with each road class, and the unit costs of road works and their expected trend over time.
- To assist with this transformation, it is recommended that the two vacancies on the RFA board be filled as soon as possible, perhaps with people representing the business community (e.g., one person nominated by the Chamber of Commerce) and another nominated by the road transport industry. At those meetings where user charges are discussed, it may also be wise to invite an observer from the Ministry of Mines & Energy to attend.
- In consultation with the RA, the RFA should develop a public outreach program to make the public more aware of the work of the RFA, to explain the relationship between road user charges and road funding levels, and to explain the need for additional revenues to support the annual road program. For example, it should make the public aware that a one cent/km *reduction* in maintenance financed through a fuel levy actually *increases* fuel costs by 5.1 cent/km (with the IRI of the road rising from 3.6 to 7.9).
- The concept of weight-distance charges, to replace the current levy on diesel fuel, needs to be further investigated to ensure that the system is appropriate and can be enforced in Namibia. It was suggested that a small team should visit New Zealand to

study the potential for using weight-distance charges in Namibia and to formulate recommendations.

- Work should continue to find better ways of exempting off-road usage of diesel. The US Federal Highway Administration should be consulted to find out how well the current dying system is working in the US and whether any lessons learned might be transferable to Namibia. However, no final decision should be taken until a decision has been taken on weight-distance charges.
- Consultations should be held with the Ministry of Finance and other concerned parties to see whether the income from the fuel levy can be insulated from the effects of inflation. Since the levy is specified in the legislation as a specific charge on petrol and diesel, adjustments for inflation would have to be done by way of indexing. Each year the levy would then be automatically adjusted in line with the Retail Price Index (or similar price index) to maintain its real value.
- The RFA should monitor all revenues attributable to the road fund to ensure that levels of evasion and avoidance are kept to a minimum. Particular attention should focus on license fees and international transit fees.
- The RFA also needs to start looking into the way in which road safety is financed in Namibia to ensure that funds are not only allocated to deal with deficiencies in road infrastructure. Equal attention needs to be paid to vehicles and to road user behaviour.
- Finally, any funds allocated for enforcement – both for road safety as well as for axle-weight enforcement – should be subject to some form of contractual agreement with the enforcement agencies which specifies what outputs the RFA expects to get in return for its financial support.

Roads Authority

The main issues on which consensus was reached under this heading were as follows:

- The RA is an institution which is expected to manage the road network along commercial lines. Subject to section 16 of the RA Act, it is expected to recognise its role as a service supplier and to deliver a safe and efficient road service to its customers (i.e., the road users). This task would be facilitated by filling the empty position on the board with someone with a strong background in business and by mobilising a public outreach program. The public outreach activities should be done in collaboration with the RFA and need to explain to the public what the RA does and its role in meeting the public's needs for safe, efficient and cost effective mobility.
- The efforts to develop a systematic Road Management System were commended, since this will enable the RA to develop a more systematic road program, to adapt to any budgetary constraints and to demonstrate the impact of these constraints on the level of service delivered to the road user.
- The benchmarking exercise was also commended. It will enable the RA to define where it started from and how well it was progressing towards its agreed targets. Among other things, it will enable the RA to monitor the costs of periodic maintenance and new works carried out by private contractors, the costs of maintenance undertaken by small scale private contractors and the maintenance undertaken by the RCC.

- The RA needs to revisit its optimal maintenance program. It needs to review the balance of spending on paved roads versus gravel roads, to review road classifications with a view to possible downgrading of selected roads, and to explore – perhaps via a pilot program – the scope for introducing some of the newer innovative methods for procuring maintenance services. The implications of the optimal program for the level of road user charges also needs to be more clearly spelled out. Some countries do this by way of "scenario analysis" where they show how changes in road user charges and the size of the road budget affect the resultant service levels delivered to road users. This makes it easier for the public to balance the proposed service levels against their costs in terms of road user charges.
- Road safety needs to start receiving more attention. In this connection, the RA needs to work closely with other concerned institutions to ensure that road safety interventions do not only focus on improving road infrastructure. They must give equal weight to vehicles and road users, and that means dealing with issues like driver training and licensing, vehicle inspection, enforcement of traffic rules and regulations, school road safety education programs, emergency medical services, etc.
- Finally, the RA needs to play its part in the enforcement process, particularly with regard to vehicle weight and dimension regulations.

Roads Contractor Company

The main issues on which consensus was reached under this heading were as follows:

- The RCC was progressing towards its planned objectives, but more slowly than expected. This represented a major problem, since the road users had agreed in good faith to bear a significant part of the adjustment costs during the three year transition period, but were strongly opposed to continuing this support for a further 2 years, or longer. Unless this issue is dealt with in a timely fashion, it threatens to very negatively affect the entire reform process.
- According to the RCC management, the prime reason for the slow progress is related to the substantial public service obligations transferred to the RCC at its inception. Of the 2,200 staff transferred, it is estimated that about 700 are surplus to requirements. This not only represents a major (unproductive) overhead, but also undermines the RCC's capacity to operate commercially. There was strong feeling that the commercial road maintenance side of the RCC business should be separated from its public service obligations. Government should then be asked to re-visit the public service obligations with a view to finding alternative employment for that part of the business (perhaps on some type of public works projects) and financing these activities out of general tax revenues, rather than through road user charges.
- In the context of the problems posed by excessive staff, lack of commercial orientation, outdated equipment and lower than expected revenue from the RA, the RCC needed to take an aggressive commercial approach to its business. In that connection, three things were suggested. First, that the two vacancies on the board be filled with candidates with a strong commercial and/or construction industry background. Second, that possible diversification into other business areas be accompanied by creation of a separate entity within RCC with an exclusive focus on the road maintenance business. Third, that RCC again re-visit the idea of selling off its plant and equipment to a third party and leasing/hiring it back on a commercial

basis. This could free up working capital and increase reliability. It was also one of the suggestions included in the original consultant's report.

- Meanwhile, RCC management should continue to concentrate on the ongoing restructuring and right sizing of the business. This process, combined with the potential solution to the issue of RCC's public service obligations, should enable it to meet the target of being fully competitive with private sector contractors at the end of the 3-year transition period.
- It may also be desirable to start preparing 1-2 small demonstration projects utilising performance based specifications. They could be restricted to 2-3 year contract periods and might cover routine maintenance only. Since these contracts include built-in penalty clauses for non-performance, they might help to further strengthen the work force's understanding of market discipline.

Next Steps

Four issues have emerged from the above review which need to be acted upon with some urgency to ensure that the process of road sector reform succeeds. They are listed below in order of their importance.

(i) According to the RCC management, the difficulties being experienced by the RCC as a result of the public service obligations transferred to it at the time of its inception (i.e., the transfer of about 700 staff in excess of its needs), have become a major drain on performance. This not only affects its capacity to become fully competitive at the end of the 3-year transition period, but is also hampering attempts to develop the company's commercial orientation. Since the issues of optimal budgets – and their relationship to the underlying unit costs of maintenance work – emerged as a key issue, it is essential for the RCC to emerge as a fully competitive contractor at the end of the 3-year transition period. Unless this issue is resolved as a matter of urgency, it threatens to very negatively affect the entire reform process. It is recommended that the Minister raise the issue with Cabinet with a view to permitting RCC to separate the commercial business from its public service obligations. Government would then need to seek alternative employment for these staff (perhaps on some type of public works projects), whose work would need to be financed out of general tax revenues, rather than through road user charges.

(ii) The RFA needs to become a more proactive entity. It needs to urgently frame the rules and principles to be followed and applied by the RA and other approved road authorities. It needs to impose some form of market discipline on the RA and the other road authorities to ensure they find better and more cost effective ways of undertaking maintenance. In addition, the RFA needs to become much more active in explaining to road users why it is worth paying for roads and what benefits they will receive in return for their road spending.

(iii) Both the RFA and the RA need to re-visit the principles underlying the definition of optimal funding levels. Therefore the RA and RFA need to look at the size of the affordable network (including the scope for reducing it by reclassifying roads and/or transferring responsibility to other entities under cost-sharing arrangements), the service levels associated with each road class and the unit costs of road works and their expected trend over time. It should also review, as a potential example of good practice, the procedure used in New Zealand where maintenance is treated as the first charge on the road fund, while the B/C ratio for capital works is regularly adjusted to balance the total demand for funds against the realities of the total revenues available from road user charges. The RA, also needs to review the balance of spending on paved roads versus gravel roads, to also review road classifications with a view to possible downgrading of selected roads, and to explore – perhaps via a pilot program – the scope for introducing some of the newer innovative methods for procuring maintenance services under performance based specifications.

(iv) Finally, the vacancies on all three boards need to be filled with carefully selected persons to strengthen the boards and make them better suited to the tasks at hand. The RFA would benefit through the addition of one person representing the business community (e.g., one person nominated by the Chamber of Commerce) and one person nominated by the road transport industry. The RA would benefit from the appointment of someone with a good knowledge of public relations. Finally, the RCC would benefit by filling the two current vacancies with candidates with a strong commercial and/or construction industry background.