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South African Road Federation

THE IMPACT OF THE FINANCIAL CRISIS ON TRANSPORT FUNDING POLICIES

by

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THREE QUESTIONS

The title of the presentation, as suggested by DBSA raises three questions:

- How is infrastructure expansion, and in this context transport infrastructure, to be financed?
- Source of funds – who is eventually going to pay, the public or the private sector? In other words, is there space for private sector participation?
- Issues of the inter-sectoral and inter-regional allocation of transport funds

PERTINENT FACTORS IN POLICY DECISIONS

1. Need to ensure allocative efficiency (between modes and regions)
2. Consideration of the distinctive characteristics of transport infrastructure:
 - High capital intensity
 - Externalities, sometimes of a significant level
 - Displays elements of a natural monopoly
 - They are location specific investments
3. As funding is a strategic priority for transport, there is a need for a long-term funding philosophy/strategy on the issue

TRANSPORT INFRASTRUCTURE FINANCING POLICY IMPERATIVES

Most recent transport policy WP states, in respect of infrastructure financing:

- “financing approaches do not have to be consistent across the whole spectrum of infrastructure and operations”
- “continual attention will be given to justifying greater appropriations from the Exchequer, and where appropriate and possible, infrastructure will be funded through user charges and/or private sector involvement”

MSA states:

- “Infrastructure funded through direct and indirect user charges will provide the framework for sustainability

USER CHARGING/LOAN FINANCING

A much debated issue, but the approach does promote:

- Inter-generational equity
- Allocative efficiency (through the “benefit principle”)
- Macroeconomic stabilisation

Application is more appropriate for ‘economic’ than ‘social’ infrastructure

A SUSTAINABLE LAND TRANSPORT INFRASTRUCTURE FUNDING STRATEGY

Objective is to:

- Improve strategic and financial management for transport
- Provide a foundation for present and future delivery of transport infrastructure
- Optimise allocation and use of scarce financial resources within transport
- Promote realistic and rational planning for transport

SOME PROBLEMS TO BE ADDRESSED

SOCIAL

- **Inadequate commuter rail system**
- **Lack of adequate public safety because of poor infrastructure**
- **Poor accessibility**
- **Externalities – pollution, noise etc.**
- **Discomfort – e.g. commuters**

ECONOMIC

- **High excess road user costs**
- **Imbalance in use of resources**
- **Weakening of ability to compete in global economy**
- **Inability of rail to satisfy ‘general freight needs’**
- **Restriction on development**

FURTHER PROBLEMS TO BE ADDRESSED

- Unco-ordinated funding arrangements – unimodal approach
- Inadequate coordination between funding and planning
- Inappropriate institutional arrangements, e.g., dominant role of Transnet outside of DoT, proliferation of RAs, etc
- Slow rate of capacity development
- Lack of progress with full development of MTAs

ELEMENTS OF LAND TRANSPORT FINANCING STRATEGY

- Must be congruent with broad government economic and fiscal policy
- Should support overall government goals as well as transport objectives
- Various sources should be tapped
- Strategy should address short, medium and long term requirements
- All three tiers of government to be brought into financial planning system

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- Must be rational, appropriate and affordable
- Integrated “project based” thrust, as opposed to current “modal based” funding
- Aim for stability and consistency in financial plans
- Must be holistic and comprehensive
- Must be data driven.

DETERMINATION OF FINANCIAL NEEDS

Some knowledge on roads needs exists, but little on broader transport funding requirements

Needs determination must relate to appropriate needs – not a shopping list

Funding must follow clearly defined functions

To do so we need :

- System performance data
- Inventory of transport infrastructure facilities
- System demand

Problem of backlog and funding gap

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Problem of rational comparison of needs across modes

Problem of accurate determination of current funding flows

Problem of comparison of social vs. economic needs across system

Resolution of issue – is transport a basic right or a commercial good?

Critical low level of investment across entire transport sector (MSA) – but government has signalled intent to address this

APPROACHES TO DEVELOPING STRATEGY

- Low “total system cost” approach – spend more at the outset to reduce costs in the future
- Whilst long term strategy must embrace a modally integrated approach, focus on road funding initially. Better roads are associated with better transport and roads carry by far the major portion of freight traffic.
- Institutional reform and capacity development are an essential element of the system

IMPORTANCE OF INSTITUTIONAL ARRANGEMENTS

- Multiplicity of institutions/authorities involved in transport financing negates integrated and rational approach to planning
- Efficient and **competent** MTAs essential to the strategy
- Problem of optimal use of funds and delivery at second tier government level
- Doubt whether room exists for 3 levels of government with responsibilities for transport – does not occur elsewhere, SA at odds with world practice
- Currently - institutional and fiscal fragmentation
 - diversity in approach

REASONS SUPPORTING INTEGRATED APPROACH

- Transport systems becoming increasingly sophisticated
- Funding theory not as simple as in earlier times
 - Externalities
 - Excess user costs
 - Return on investment considerations
 - System performance models
- Modal influence extends beyond modes
- Land use planning influences transport demand

OPTIONS FOR A FUNDING MECHANISM

- Maintain status-quo
- Create modal based funding mechanisms as in the USA
- On-budget conditional grant for specific projects (as an interim measure) – this enables transport policy at other levels to be influenced
- Off-budget dedicated transport fund – long term measure
- Modal based fund – allows for tight ring-fencing
- General transport fund – allows for ‘cross funding’

“Intermodalism and integration in transport requires guidance and promoting – in the absence of adequate market signals, funding becomes the “invisible hand”

PHASING OF IMPLEMENTATION OF THE SYSTEM

Phase funding strategy to cater for pressing current needs and changing environment

- Short term – address current needs and restore normality
- Medium term – based on developmental planning (NDP)
- Long term – broad generic strategy

STRATEGY DEVELOPMENT

Phase 1

- Data acquisition
- Resource audit
- Needs quantification
- Research

Phase 2

- Investigate sources of revenue
- Analyse role of private sector
- Address institutional delivery system
- Formulate revised funding policy

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Phase 3

- Consolidate results of phases 1 and 2
- Create mandate
- Define policies/programmes
- Prioritise investment flows
- Commence funding projects in pilot scheme

MONITORING OF EXPENDITURE

An essential element of funding strategy

Reasons for :

- Policy objectives do not always equate to policy outcomes
- Transparency
- Cost effectiveness of expenditure needs measuring
- Efficiency of expenditure needs determining

Process will need to be developed – probably based on KPIs

SUMMARY

The funding strategy must:

- Be aimed at optimising use of resources at least cost
- Be based on an integrated approach – across modes and authorities
- Take cognisance of the ‘politics of the budget’
- Improve social and economic conditions
- Be supplemented by sound institutional arrangements and adequate professional expertise
- Be based on a determination of rational and appropriate needs

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- Fairly and soundly allocate resources across modes and regions
- Be defensible and transparent
- Enable the Department of Transport to play the leading role in the whole sector, including rail

But most of all, BE DRIVEN BY DECISIVE LEADERSHIP!!







