

C 1.2 FINANCING ROAD SYSTEM INVESTMENT

The core conclusions of the three working groups have been confirmed by the panel discussions. There is a fundamental linkage between organizational trends towards corporatization and unbundling policy making, transport management, financing strategies, cost management and procurement strategies, in particular public private partnerships (PPPs). Moreover the challenge is no longer to provide road infrastructure but rather transport services.

The shortage of financial resources implies a need for more efficient road asset management and financial procurement. It is also the reason why PPPs and user charging seems to be a solution to bring new money. Nevertheless user charging and financial strategies are only a partial solution. Another alternative in the drive for efficiency is corporatization of road developments with an arms length relationship, leading to increased transparency.

Several conclusions can be derived from this examination.

- There continues to be significant gaps in revenues versus country needs.
- Financial procurement strategies used by different organizational structures are heavily dependent upon a country's objectives in road transport and the road system that it is trying to support.
- There is increasing use of tolls and user charges, but there is still a fundamental role for taxes, especially earmarked taxes.
- Cost management for road system management is a tool for efficient application of funds for maintenance, operations and investments. The use of asset management systems, including accounting and valuation of assets, should be an essential element of cost management.
- For effective cost management it is essential to recognize the responsibilities of the organizations and the network (main, regional, local etc.) they controlled.
- Long term contracts, including PPPs, can be effective tools to assist countries in the procurement of finance and provision of road infrastructure and services. For effective long term agreements, performance based contracts, which predefine service outputs and remuneration, should be adopted.
- Private sector participation is useful to the extent that it serves to overcome possible inefficiencies of traditional procurement of finance and provision of road infrastructure and services. It can overcome budgeting and resource constraints and bring innovative delivery of infrastructure and services.
- The additional costs of private borrowings must be offset by efficiency gains. Alternatives for the provision of road infrastructure and services must not be made on a strict policy basis only, rather on the basis of effective value for money.
- In considering the drivers for PPP, it is important to balance the needs that occur between public and private interests. The public interest also needs to be protected through a strong legal and regulatory framework that encourages transparency and accountability.
- Solid policy, legal and regulatory frameworks are essential to guide the use of PPPs and can assist in ensuring that projects are implemented on the basis of specific principles of good governance.

- The allocation of risk remains a major challenge that can be addressed through a clear understanding of roles, the implications of those responsibilities and a willingness to have an equitable distribution of risk.
- The new financial procurement strategies, including corporatization, that are being adopted, create new governance challenges. Appropriate competences are required in both the public and private sectors and the necessary expertise might take a long time to develop.
- There is an essential role for government no matter what model is employed. In devolving or outsourcing the financing and provision of road infrastructure and services, government must strike a balance between the pursuit of new efficiencies and the need to oversee the maintenance and the development of key public assets. The role of government remains key, what ever model is adopted.

Some of the areas for continued research are:

- The continuing difficulties in finding necessary funding resources to build and maintain road infrastructure encourages further study of alternative financing options.
- Some have noted there is a decline in private sector investment for transport. The truth of this premise should be determined and if it is occurring, what are the factors behind this issue.
- Regional, rural and local roads are not able to attract sufficient private finance. These roads very often cannot be effectively tolled. A review should be made on how these roads can be funded.
- How willing is the political sector to move completely to a user pays environment? In all parts of the world, insufficient maintenance and investment in the road system are being impacted by increasing levels of traffic. Some countries are going to off-budget financing and others are moving towards user pays principle. An examination of the political and institutional issues from the perspective of various countries could provide additional input on this issue.
- New long term contracts invariably will require changes from time to time due to new government regulations, standards etc. A study of appropriate compensation mechanisms for the private sector partners which protect the public interest should be explored.
- Cost management systems for minimising budget overruns of individual infrastructure investment projects

Financing road system investment will continue to have importance for all countries as they strive to obtain economic sustainability, continued vitality and strength. Adequate funding is necessary to invest, maintain and operate a network that serves the needs of a country. There can be a mixture of financial procurement strategies including long term contracts and public private partnerships to meet this need. Without clear objectives, understanding risks and realistic expectations, the drive to sustainability will continue to be a difficult one.

TC 1.2 worked in co-operation with OECD/ECMT (European Conference of Ministers of Transport) Transport Research Centre Working Group on "Transport Infrastructure Investment, Funding Future Needs". The OECD/ECMT report "Transport Infrastructure Investment: Options for Investment" will be published in a near future.