THE IMPACT OF THE FINANCIAL CRISIS ON TRANSPORT FUNDING POLICIES

by

Dr. Malcolm Mitchell
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
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

continued ...
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 defendable 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!!