GOVERNMENT OF THE REPUBLIC OF NAMIBIA

MINISTRY OF WORKS, TRANSPORT AND COMMUNICATION

THE NAMIBIAN ROAD SECTOR REFORM

Background, Structure and Philosophy

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The Namibian Road Sector Reform
Background, Structure and Philosophy

-Executive Summary -

On April 2000, the Namibian road sector underwent fundamental change. At the same time about 2 500 persons who previously had been employed in the Namibian civil service were transferred to their new work places in three new road sector organisations, the Road Fund Administration (RFA), the Roads Authority (RA) and the Roads Contractor Company (RCC).

Some of the notable aspects of the reform are:

1. The road sector is now fully self-financed by way of road user charges. The self-financing system, which comprises the Road User Charging System and the Road Fund, is administered by the RFA, an autonomous state agency under the Ministry of Finance

2. The national road network is now managed by the RA, a state agency with considerable autonomy under the Ministry of Works, Transport and Communication.

3. All road works will in the future be procured subject to competitive bidding procedures, but during a three-year period the State-owned RCC will have almost exclusive rights to do maintenance work on the national road network.

The Namibian Road Sector Reform is one of the most far-reaching reforms of its kind ever undertaken. This paper aims at giving a background to the reform, to outline the structure of the new road sector after implementation of the reform, and to present the philosophy behind the new arrangements.

Background

At Independence from South Africa in 1990, Namibia was bestowed with a good - albeit regionally imbalanced - road network. One of the main challenges facing independent Namibia was to continue to maintain and develop the road network in an environment where limited public revenue resources had to be distributed to numerous new priorities. South Africa, moreover, had left behind inappropriate institutional arrangements in the public sector. The challenge confronting independent Namibia was therefore to come up with new arrangements, which would make it possible to operate the road sector efficiently and on a self-sustained basis in the future.

Work on reforming the road sector focused initially on road taxation and road funding. These issues were at that time seen as fundamental in order to secure adequate future funding levels, required to be able to preserve the existing road network, and also to finance additional road works to eliminate regional imbalances and provide better connections to other neighbouring countries.

However, with time the scope of the reform work was enlarged. By 1995 it had become clear that in order to achieve any meaningful reform it would be necessary to fully restructure the road sector including both the institutional and financing arrangements. In that year, Cabinet also gave its approval for undertaking such a comprehensive reform.

The Philosophy

The ultimate aim of the Road Sector Reform is to increase efficiency in the road sector. The reform is based on the premise that the best way of accomplishing this is by delegating the responsibility for road management to an autonomous organisation, subject to the requirement that this organisation manage the road network in terms of the principle of economic efficiency. The assumption made is that the economic efficiency criterion is the operational objective that is best able to satisfy the demands of the road sector community.

Why then not vest all decisions in the organisation responsible for road management, i.e. also decisions related to road user charges, in the road management organisation? The short answer is that it would vest too much power in one organisation. The Namibian solution has therefore been to alongside the road manager, i.e. the RA, establish the RFA. The role of the RFA is to serve as a regulator. To ensure that it is effective in this role, it has been given the power, subject to certain principles, to set the road user charges and to approve all expenditures from road user charges deposited into the Road Fund.

The third new organisation, the RCC is not an intrinsic part of the new institutional structure. The establishment of the RCC is seen as a stepping-stone towards allowing all road works to be performed subject to competition, and was seen as necessary for two reasons, viz. to secure (i) work for the about 2 200 persons previously employed by the Ministry of Works, Transport and Communication's force account units; and (ii) continuity in the road maintenance activities, which previously were carried out almost exclusively by these force account units.

Governance

The RFA and RA have to operate subject to a governance regime which is set out in the two acts establishing these organisations, whilst the RCC is established in terms of the Companies Act.

Control of the RFA and RA is effected in three ways, i.e. by the relevant minister, by the Auditor General, and by the road user community. The main instruments to be used by the ministers are the Performance Statements and the Annual Reports on the Performance Statement. The Performance Statement sets out the strategies, principles and policies which the RFA and RA intend to pursue in order to achieve the objectives and other provisions of the legislation.

The public, in general, and the road user community, in particular, are given a significant role in the supervision of the RFA and RA. The legislation makes consultation by the RA and RFA obligatory. In addition, all the main documents are public documents. Given that road users will be paying for the roads, they will have a strong incentive to monitor performance, and the legislation ensures that adequate information will be made available to allow them to act as informed guardians of the system.

The Road User Charging System

A main purpose of the road user charging system is to ensure the financing of the expenditures incurred for and by the road sector. The revenues will not have to yield a return on investments made and do not have to cover historical costs.

The road user charges must, on the other hand, cover the expenditures to be incurred when undertaking justified new investments in the road network. In this respect the Namibian Road Fund differs from road funds in many other countries. The motives for the full cost recovery approach in Namibia include that it is deemed possible to mobilise investment financing directly from the road users and that this way of financing is believed to be the most effective one in order to actually implement economically justified projects.

Two other main rules apply to the setting of the road user charges, viz. efficiency and equity. The efficiency criterion implies that the road user charges shall be set so as to cover marginal costs, and the equity principle may in terms of the wording of the legislation be interpreted to imply that fixed costs not recovered through marginal-cost based principles are to be recovered in proportion to the benefits that road users derive from the road system.

The road user charging policy now being implemented also aims at providing for an even playing field between road and rail transport. New arrangements in the rail sector - which have been implemented recently - thus relieve the rail operator from having to recover historical costs or to attain a return on the capital invested in rail infrastructure. The aim is hence to impose a marginal-cost related charging system on both modes of transport.

'Non-efficient' Roads

Namibia is a large country and a considerable part of the population lives in rural areas, which in addition tend to be in the outlying areas of the country. It may be feared that the Road Sector Reform could result in a deterioration of the maintenance of the existing rural roads and also make it more difficult to provide better roads in rural areas on account of that vehicle traffic can be expected to be thin in these areas. Good road maintenance and upgraded roads might thus not be justified there in terms of the efficiency criterion to be applied by the RFA and RA. This may be seen as a threat to the poor people of Namibia, and ultimately as a political threat to the whole system.

The legislation provides for safeguards in this regard. The Minister responsible for Transport may thus issue regulations with regard to minimum maintenance standards of the road network, e.g. in order to ensure that they are safe but also that adequate accessibility is provided for in and to all parts of the country. Once such regulations have been published, they will have to be respected by the RFA, i.e. it is obliged to make available the monies needed to ensure that maintenance can be carried out to ensure that the minimum standards are met.

As concerns the provision of new or upgraded roads, the legislation provides for a cost-sharing arrangement for those projects which are not justified on economic grounds in that the RFA can finance a part of such a project provided that the balance of the funds is made available under an appropriation from the government's budget. It is also envisaged that donor involvement in the road sector will primarily be directed towards funding 'non-economic' roads, e.g. roads built by labour-based techniques, in the future. An implication of the Road Sector Reform is that Namibia has now put in place a sustainable arrangement for the operations of the road sector in that it can be adequately managed with the financial, industrial and human resources available in the country. Donor assistance to the road sector should therefore, and in line with the increased attention being paid by donors to the poverty dimension, be directed towards supporting the development of roads in rural and outlying areas of Namibia.

The Namibian Road Sector Reform
Background, Structure and Philosophy

1. Introduction

On the 1 April 2000, the Namibian road sector underwent fundamental change. A new system for managing the national road network, and for financing the road system was introduced. At the same time about 2 500 persons who previously had been employed in the Namibian civil service were transferred to their new work places in three new road sector organisations, the Road Fund Administration, the Roads Authority and the Roads Contractor Company.

The implementation of the Road Sector Reform marked the end of a 10-year effort to set up the road sector on more robust principles to ensure the sustainability of the Namibian road system as well as its future balanced development.

Some of the notable aspects of the reform are:

1. The road sector is now fully self-financed by way of road user charges; the road system comprises all the roads and streets[1] in the country, the road traffic police, the road traffic inspectors, road traffic safety promotion, and other activities directly related to the road sector. The self-financing system, which comprises the Road User Charging System and the Road Fund, is administered by the Road Fund Administration (RFA), an autonomous state agency under the Ministry of Finance.

2. The national road network is managed by the Roads Authority (RA), a state agency with considerable autonomy under the Ministry of Works, Transport and Communication.

3. All road works will in the future be procured subject to competitive bidding procedures, but during a three-year period the State-owned Roads Contractor Company (RCC) will have almost exclusive rights to do maintenance work on the national road network. The Roads Contractor Company has been formed from those units in the Department of Transport which previously were involved in road maintenance and minor road construction activities.

The Namibian Road Sector Reform is one of the most far-reaching reforms of its kind ever undertaken. It is to a considerable extent modelled on the road sector arrangements to be found in New Zealand, but in certain respects takes the developments in that country further and to its logical conclusion. This paper aims at giving a background to the reform, to outline the structure of the new road sector after implementation of the reform, and to present the philosophy behind the new arrangements.

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[1] Only the traffic related maintenance of local authority roads is financed by the Road Fund. Other activities related to the road sector such as traffic law enforcement, etc. will be funded to the extent that the relevant activity is regarded as benefiting road users.

2. Background

Namibia has one of Africa's best road networks. It is extensive, of high standard, and generally well maintained. Against that background, it may seem paradoxical that Namibia would wish to redo in a fundamental way the institutional arrangements in the road sector.

The explanation may be found in the specific historical, geographical and political circumstances, which have shaped Namibia of today. The road sector was to a very large extent built during the 1970s and until the mid-1980s, i.e. during a period when Namibia was ruled by South Africa, and infrastructure development, including roads, was influenced by a desire to strengthen the ties between Namibia and South Africa and to promote the policy of Apartheid. It was a period when the government of South Africa benefited from high tax revenues, and the public sector was used as a main instrument of development, primarily then in order to promote the interests of white people.

At Independence from South Africa in 1990, Namibia was therefore bestowed not only with a good - albeit regionally imbalanced - road network. It also took over a very large - and centralised - state apparatus as reflected by the facts that about 40% of the state budget was spent on salaries of civil servants and that public expenditure made up about 50% of GDP, very high figures for a developing country. The role of the state was also reflected in the condition that the new Ministry of Works, Transport and Communication, which was formed at independence from three of the pre-independence administrations set up by the South Africa, had in total 8 500 employees. It was the largest employer in a country with - at that time - a population of some 1.6 million people.

During the period leading up to Independence, SWAPO, which was then the recognised liberation movement and which is now the dominant political force in the country, commissioned a study on transport and communications. The study, resulting in the report *Transport and Communications for Namibia*, was prepared with the assistance of Sida, the Swedish aid agency. The conclusion drawn on the basis of that study was that one of the main challenges facing independent Namibia was the heritage left behind by South Africa in the form of obsolete transport and communications policies and inappropriate institutional arrangements in the public sector. The message was clear: The transport and communications sectors must be reformed, otherwise Namibia would run the risk of ending up in the same quagmire as so many other countries in Africa.

Namibia opted for reforming its transport and communications sectors. Having received assistance from Sweden, a process was initiated which is still ongoing, ultimately with the purpose of liberalising policies in the transport and communications sectors and restructuring the Ministry of Works, Transport and Communication. The responsibility for the restructuring efforts is today vested in a special project in the Ministry, the MWTC2000 Project, which aims at transferring out all non-core activities from the Ministry and to state-owned operational entities, as well as increasing private sector provision of goods and services - required by government - through competitive procedures.

The largest of these efforts to date has been the Road Sector Reform. Work on this reform was initiated already in late 1990 in response to recommendations made in the *Study on Transport and Communications for Namibia*. The initial work focused on road taxation, and road funding. These issues were at that time seen as fundamental in order to secure adequate future funding levels, required to be able to preserve the existing road network, and also to finance additional road works to eliminate regional imbalances and provide better connections to other neighbouring countries but South Africa, i.e. the road connections which had been neglected in the period of South African rule. The focus of this effort was influenced by the growing insight at that time of the very serious economic consequences of inadequate appropriations to the road sector, commonly to be observed not only in other countries in Africa but also elsewhere in the World.

However, with time the scope of the reform work was enlarged. By 1995 it had become clear that in order to achieve any meaningful reform it would be necessary to fully restructure the road sector including both the institutional and financing arrangements. In that year, Cabinet also gave its approval for undertaking such a comprehensive reform. It was then that the actual work on implementing the comprehensive reform was commenced.

3. The New Structure

The three new organisations, which comprise the core of the Road Sector Reform, have been established in terms of three separate laws, viz. the Road Fund Administration Act, the Roads Authority Act and the Roads Contractor Company Act. One reason for this is that the three institutions fall under different Ministers. The Minister responsible for the RFA is the Minister of Finance, the Minister responsible for the RA is the Minister of Works, Transport and Communication whilst the RCC falls under a Minister designated as the "Shareholding Minister". Another, more important, reason is to clearly separate the road funding function, which is regulatory in nature, from the road management function, which is operational in nature, as explained below.

Some of the features of the three new independent organisational entities established by the three acts are as follows:

The RFA has the task of managing the Road User Charging System and the Road Fund "with a view to achieving a safe and economically efficient road sector". The Act defines the "road user charging system" as being an independent system to regulate road funding to be based on the principles of economic efficiency and full cost recovery.

The board of directors of the RFA is appointed by the Minister of Finance in consultation with the Minister responsible for Transport, and is essentially autonomous when making decisions about the level of road user charges. The RFA furthermore has autonomous powers to approve requests for the financing of road and road-related projects and programmes with monies from the Road Fund. The decisions by the RFA on both revenue resources and expenditure commitments are detailed in a five year business plan to be made available every year. The business plan, *inter alia,* identifies the allocations for the coming year, but also entails certain commitments for the four years thereafter to ensure long-term stability of the financing of road and road-related projects and programmes. The RFA has powers to monitor and ensure that the RA and other recipient authorities efficiently use funding allocations.

The RA is responsible for managing the national road network. This includes planning, procurement of road works and supervision. The RA has been formed from those units in the Department of Transport in the Ministry Works, Transport and Communication, which previously were involved with planning, design, procurement and supervision.

The RA may not itself undertake physical work relating to road construction and maintenance. All work must be let on contract subject to tendering, with the exception of work to be given to the Roads Contractor Company during the first three years of its existence. The Minister responsible for Transport appoints the board of directors. The Minister may prescribe minimum standards and measures for the management of the national road network to achieve a safe road system or to e.g. ensure basic accessibility to all parts of the country.

The RCC is a Companies Act company. The Shareholding Minister, who is designated by the President, appoints the board. During an initial phase, the Minister responsible for Transport will serve as the Shareholding Minister.

4. The Philosophy

The ultimate aim of the Road Sector Reform is to increase efficiency in the road sector. The main instruments being used to this end are:

- a legal framework which allows the road sector to work on the basis of principles adhered to in the private sector, including with respect to procurement of goods and services and terms and conditions for employees;

- competition between private sector providers as far as possible for the provision of services which can suitably be subjected to competition;

- secured long time financing by way of road user charges dedicated to road use, including related areas required to ensure the proper functioning of the road sector, i.e. road traffic control and road safety;

- extensive delegation of responsibility for making decisions on the level of road user charges, the allocation of funds from the Road Fund, and on most other operational matters in the sector, subject to a regime for enforcing accountability based on transparency; and

- decisions by the RFA on the setting of road user charges and the allocation of monies have to be framed on the basis of economic efficiency.

The Road Planner, the Regulator and the Contractor

The starting point for explaining the raison d'être of the new institutional structure is the assumption that the road sector shall be self-financed in order to secure adequate resources and the long-term sustainability of the network. Self-financing should, however, not be seen as a motive for managing the road sector in terms of a commercial objective, i.e. to let decisions be guided by a financial profit objective. In fact, there are a number of motives suggesting that such an objective would not be appropriate for determining levels of road user charges and how to allocate resources for road maintenance and construction. There is a need to take a wider view, and ensure that those who work on behalf of the road sector also take into account all or all potential road users and other parties directly affected by the road sector (i.e. the road sector community).

The Road Sector Reform is based on the premise that the best way of accomplishing this is by delegating the responsibility for road management to an autonomous organisation, subject to the requirement that this organisation manage the road network in terms of the principle of economic efficiency. The assumption made is that the economic efficiency criterion is the operational objective that is best able to satisfy the demands of the road sector community. In this way the role of the road manager is made clear in that he must at all times find solutions which, in general, are deemed as acceptable to the road user community. It has to be remembered that if self-financing is taken as given, then it will become much more important to ensure 'consumer satisfaction' than when the road sector is financed from general tax revenues.

Why then not vest all decisions in the organisation responsible for road management, i.e. also decisions related to road user charges, in the road management organisation? The short answer is that it would vest too much power in one organisation. Although the members of the road user community - given that they are themselves paying for the roads - will exert some control on the road manager, the road users are poorly organised, and besides represent diverse - and at times conflicting - interests. The road user community is, in other words, too weak to serve as an effective countervailing power.

The Namibian solution has therefore been to alongside the road manager, i.e. the Roads Authority, establish the Road Fund Administration. The role of the RFA is to serve as a regulator. To ensure that it is effective in this role, it has been given the power to set the road user charges so that the road manager has little influence over the revenue side. In addition, as the RFA must approve all expenditures from road user charges deposited into the Road Fund, the road manager is effectively limited to focusing on managing the sector so as to satisfy road users. The focus of the regulator is to ensure that the manager follows the rules of the game, and on mobilising the funds required to pay for the agreed road services.

The duality of this institutional arrangement is reinforced by that the RA falls under the Ministry of Works, Transport and Communication, whilst the RFA falls under the Ministry of Finance. A way of looking at the reform is hence that the road management functions - which previously were the responsibility of the Ministry of Works, Transport and Communication - have now been delegated by that Ministry to the RA, whilst the funding and taxation functions - which used to be managed by Ministry of Finance - have been delegated by that Ministry to the RFA.

The RFA is a small organisation with about 10 employees, whilst the RA has about 250 employees. Against this background and the powers vested in the RFA, is there not a risk of conflict resulting in a breakdown? This may appear as a real threat in particular when considering that measurement of the objective 'economic efficiency' - which applies equally to the RFA and RA - is difficult and ambiguous.

The main instrument to prevent such conflict is the rules which the RFA have to issue regarding the procedures to be applied by the RA (and other approved authorities) in preparing its annual and long-term plans. The whole operational process is thus driven by set procedures in order to make the efficiency concept operational. The idea is that as long as the stipulated procedures are actually applied, the RFA is obliged to approve plans prepared by the Roads Authority, and hence requests for money. The RFA may therefore not arbitrarily decide that a particular project or programme proposed by the RA is or is not warranted. If the RA has adhered to the stipulated procedures, and the outcome of this process suggests that the proposed project and programme may be expected to be compatible with economic efficiency, then the request must be approved by the RFA. Should the situation arise that the RFA feels that projects and programmes proposed by the RA are not appropriate, although they have been prepared on the basis of the stipulated procedures, then the proper - and only possible - action is to initiate a review of the rules with a view to examine the need for a change in the procedures. Should, nevertheless, a conflict arise, the legislation contains a dispute resolution mechanism.

Of course, a further motivation for the existence of the RFA is that the Road Fund is not only used to fund the activities of the RA, but also the activities of other approved authorities, such as local authorities managing their own roads. Also these authorities will have to abide by the rules issued by the RFA in order to qualify for funding.

The third new organisation, the RCC is not an intrinsic part of the new institutional structure. Whilst being central to the reform process, the RCC is seen as a stepping-stone towards allowing all road works to be performed subject to competition.

The establishment of the RCC was seen as necessary for two reasons, viz. to secure (i) work for the about 2 200 persons previously employed by the Ministry of Works, Transport and Communication's force account units; and (ii) continuity in the road maintenance activities, which previously were carried out almost exclusively by these force account units. In the medium term it is expected that the RCC will develop into becoming an ordinary type of contractor, engaged also outside the road sector, and it may also be partially privatised. It is also expected that some employees of the RCC will later resign in order to establish their own small companies providing maintenance services.

Governance

The RFA and RA have to operate subject to a governance regime which is set out in the two acts establishing these organisations, whilst the RCC is established in terms of the Companies Act, and hence must abide by the governance regime applicable to such entities (although the RCC Act provides for some modifications in this regard).

Control of the RFA and RA is effected in three ways, i.e. by the relevant minister, by the Auditor General, and by the road user community. Financial reporting by the two entities follows principles applying to any private sector company, and auditing is undertaken by private sector auditors in terms of internationally recognised standards. However, in addition the auditing process has to be carried out under the supervision of the Auditor General.

The main instruments to be used by the Ministers, in addition to any possible report by the Auditor General on the financial statements and accounts, comprise the Performance Statements and the Annual Reports on the Performance Statement. Both the RFA and RA prepare a Performance Statement to be approved by their respective minister. The Performance Statement sets out the strategies, principles and policies which the RFA and RA intend to pursue in order to achieve the objectives and other provisions of the legislation.

The public, in general, and the road user community, in particular, are given a significant role in the supervision of the RFA and RA. The legislation makes consultation obligatory on part of the Roads Authority before it finalises its budget to be submitted to the RFA, and other authorities which may be funded by the Road Fund can also be requested to undertake consultation with affected parties when preparing their budgets. Likewise, before the RFA finalises its budget - its business plan - it has to consult with external parties. Consultation regarding the proposed business plan does not only concern allocation of monies, but also the revenues including proposed levels of road user charges. Bodies that will have to be consulted in this regard include, *inter alia*, the organisations, which represent the road user community. In addition, all the main documents, including the RFA's business plan, the Performance Statements, all annual reports and the so-called Procedures Agreement[2], which sets out the systems to be used by the RA for quality control of planning and expenditures, as well as for administrative purposes and tendering, are public documents.

The laws do not provide for any formal means for enforcing accountability with respect to performance. However, given that road users will be paying for the roads, they will have a strong incentive to monitor performance, and the legislation now ensures that adequate information will be made available to allow them to act as informed guardians of the system.

The Road User Charging System

A main purpose of the road user charging system is to ensure the financing of the expenditures incurred for and by the road sector provided that they comply with the economic efficiency criterion. The revenues will not have to yield a return on investments made and do not have to cover historical costs, with one exception. The Road Fund will take over the servicing of loans used to finance road investments prior to the reform and incurred by the Government.

There is no requirement that revenues have to balance expenditure on a year-by-year basis; the balancing requirement applies in a longer perspective. The RFA may borrow to meet short and medium term needs if this would be compatible with its overall objective, i.e. economic efficiency. The RFA may also establish a reserve fund to ensure liquidity and promote stability in the rates of road user charges.

The road user charges must, on the other hand, cover the expenditures to be incurred when undertaking justified new investments in the road network (and this is also the reason for the reference to 'full' cost recovery in the legislation). In this respect the Namibian Road Fund differs from road funds in many other countries. The motives for the full cost recovery approach in Namibia include that it is deemed possible to mobilise investment financing directly from the road users and that this way of financing is believed to be the most effective one in order to actually implement economically justified projects. In addition, the road network is already well developed so that new investments made in one part of the network cannot be expected to give rise to opposition from road users and people in other parts of the country. It is, however, recognised that for this approach to function well it will be necessary for the RA to develop - transparent - long term plans and to maintain an active dialogue with the road user community; there will also be a need for the RA to actively plan for road projects which are not economically justified, but seen as important to improve accessibility in outlying areas of the country, with a view to being able to mobilise (partial) financing from either the Ministry of Finance or donors for their implementation; see further below.

[2] The Procedures Agreement is an agreement between the RA and RFA.

Two other main rules apply to the setting of the road user charges, viz. efficiency and equity. The efficiency criterion implies that the road user charges shall be set so as to cover marginal costs, and the equity principle may in terms of the wording of the legislation be interpreted to imply that fixed costs not recovered through marginal-cost based principles are to be recovered in proportion to the benefits that road users derive from the road system, which suggests that the road user charges mainly must be a function of distance plus weight (to reflect the road damaging effect).

The legislation identifies which types of charges may be viewed as road user charges, and the allowed charging instruments include, *inter alia*, charges on fuel, licence fees, entry fees on vehicles not registered in Namibia and weight-distance type of charges. Having taken into account the views of the Minister of Finance as well as those of other parties as the Minister may direct, the RFA board may make use of any of these charging instruments and set the level of the charges subject to the rules of the legislation. The Minister of Finance may issue further regulations with regard to the principles to be applied in the calculation and imposition of road user charges.

At present the road user charges consist of a charge on diesel and petrol and licence fees on vehicles; cross-border charges will also be implemented in the near future. The cross-border charges will only apply on heavy vehicles, but have to be paid by Namibian and foreign vehicle owners, and are the same for Namibian and foreign vehicles in order to comply with the non-discrimination requirement stated in the legislation. These charges may be seen as a kind of weight-distance charging system as they reflect the type of vehicle used and the distance that the vehicle has covered within Namibia and between the border and the place where the transport starts or ends. The cross-border charges will only apply to international operations and not to heavy vehicles in domestic Namibian traffic. The level of the cross-border charges will be set so as to ensure that the heavy vehicles pay their marginal costs having taken into account that these vehicles will also be paying through the road user charge on fuels.

The intention is to later introduce a full weight-distance charging system on all Namibian operators; foreign operators would continue to pay cross-border charges. Weight-distance charges are seen as fundamental in order to apply marginal-cost based pricing. However, to be able to do this Namibia first has to implement a new traffic information system, which is being done at present, and must also identify a tamper safe device to be installed on heavy vehicles in order to be able to measure distance.

The road user charging policy now being implemented also aims at providing for an even playing field between road and rail transport. The idea is to require both modes to pay the expenditures associated with the infrastructure required by each mode. New arrangements in the rail sector - which have been implemented recently - thus relieve the rail operator from having to recover historical costs or to attain a return on the capital invested in rail infrastructure. The aim is hence to impose a marginal-cost related charging system on both modes of transport.

'Non-efficient' Roads

Namibia is a large country and a considerable part of the population lives in rural areas, which in addition tend to be in the outlying areas of the country. It may be feared that the Road Sector Reform could result in a deterioration of the maintenance of the existing rural roads and also make it more difficult to provide better roads in rural areas on account of that vehicle traffic can be expected to be thin in these areas. Good road maintenance of and upgraded rural roads might thus not be justified there in terms of the efficiency criterion to be applied by the RFA and RA. This may be seen as a threat to the poor people of Namibia, and ultimately as a political threat to the whole system.

The legislation provides for safeguards in this regard. The Minister responsible for Transport may thus issue regulations with regard to minimum maintenance standards of the road network, e.g. in order to ensure that they are safe but also that adequate accessibility is provided for in and to all parts of the country. Once such regulations have been published, they will have to be respected by the RFA, i.e. it is obliged to make available the monies needed to ensure that maintenance can be carried out to ensure that the minimum standards are met. One of the roles of the Performance Statement for the Roads Authority is to allow the Minister responsible for Transport to monitor compliance with the set minimum maintenance standards.

The regulations to meet minimum safety and accessibility standards are currently being drafted. It will be one of the main challenges to the Road Sector Reform that functional and credible regulations can be put in place speedily. There is also a need to ensure that these regulations have a performance orientation so that they will not stifle innovation in how to undertake maintenance works, and will ensure that minimum standards with respect to road safety and maintenance can be attained cost-effectively.

As concerns the provision of new or upgraded roads, the legislation provides for a cost-sharing arrangement for those projects which are not justified on economic grounds in that the RFA can finance a part of such a project provided that the balance of the funds is made available under an appropriation from the government's budget. The legislation thus makes provision for road improvements - not justified on economic grounds - to be undertaken in the form of a 'public service obligation'. It is also to be noted that the fact that road user charges have been implemented does not prevent the Government from raising tax revenue from road users; in fact the fuel price in Namibia today not only reflects the road user charges but also revenue taxes set by Government.

The RA is obliged to manage road projects which will be implemented with partial or full public funding, provided that the Minister responsible for Transport issues a written directive to this effect. Once the project has been completed, the RA is obliged to maintain the new or upgraded road in terms of the regulations issued by the Minister responsible for Transport on minimum standards, and the costs associated therewith will have to be borne by the Road Fund.

It is envisaged that donor involvement in the road sector in the future will primarily be directed towards funding or supporting the funding of 'non-economic' roads, for example roads to built with labour-based techniques. An implication of the Road Sector Reform is that Namibia has now put in place a sustainable arrangement for the operations of the road sector in that it can be adequately managed with the financial, industrial and human resources available in the country. Donor assistance to the road sector should therefore, and in line with the increased attention being paid by donors to the poverty dimension, be directed towards supporting the development of roads in rural and outlying areas of Namibia.

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