

# Financing road asset management. Is tolling the solution?

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# Tolling is one of the tools available to deal with some policy objectives

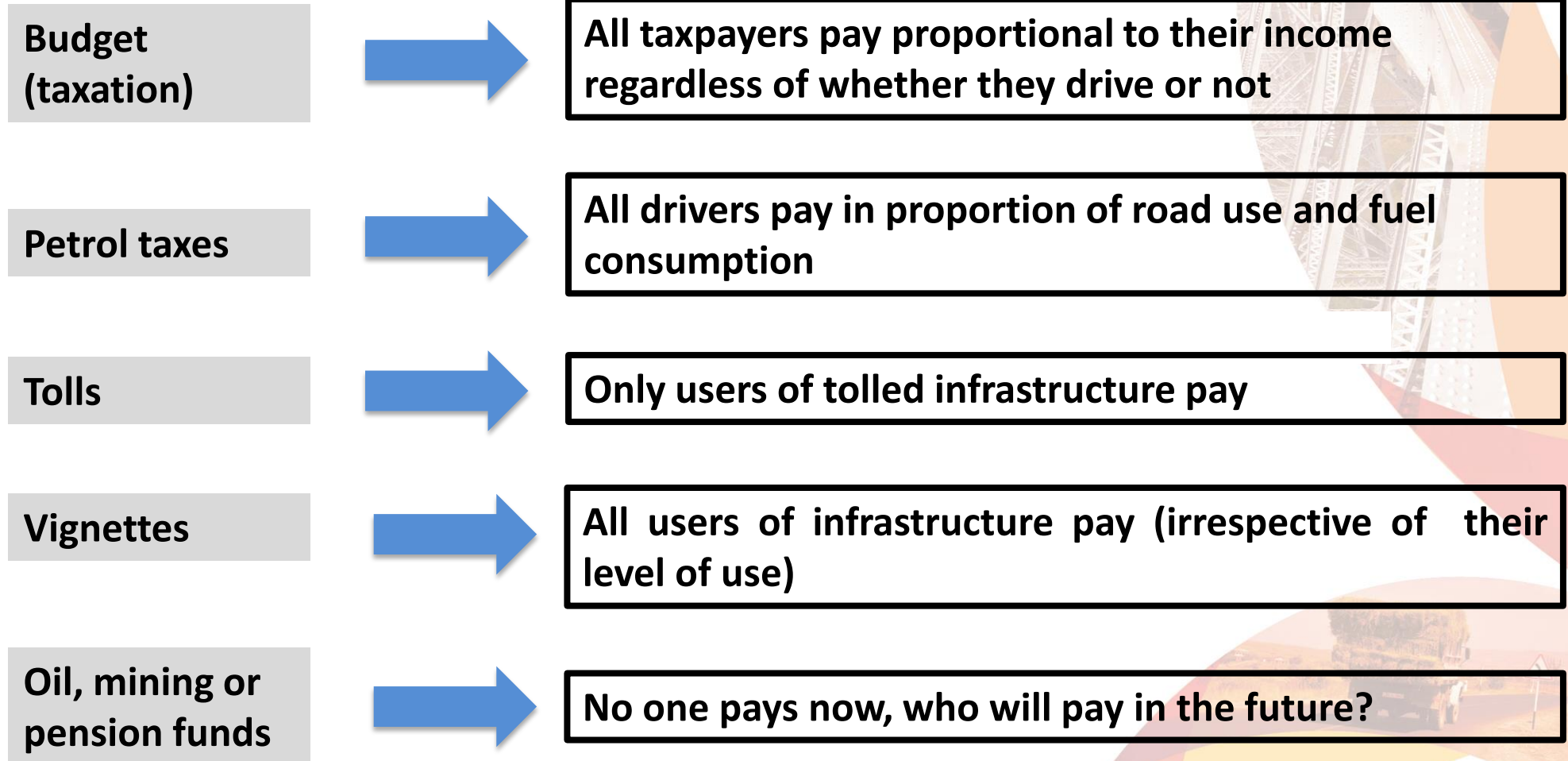
## Possible policy objectives sought

- Overcome a shortage of funding for new roads
- Overcome debt or budget deficit ceilings.
- Incorporate a more commercial and user oriented approach to road management.
- Improve road safety
- Bring know-how and modernize construction and operations procedures (sometimes including the transfer of staff from the public to the private sector)
- Promote the emergence of national construction/operation conglomerates

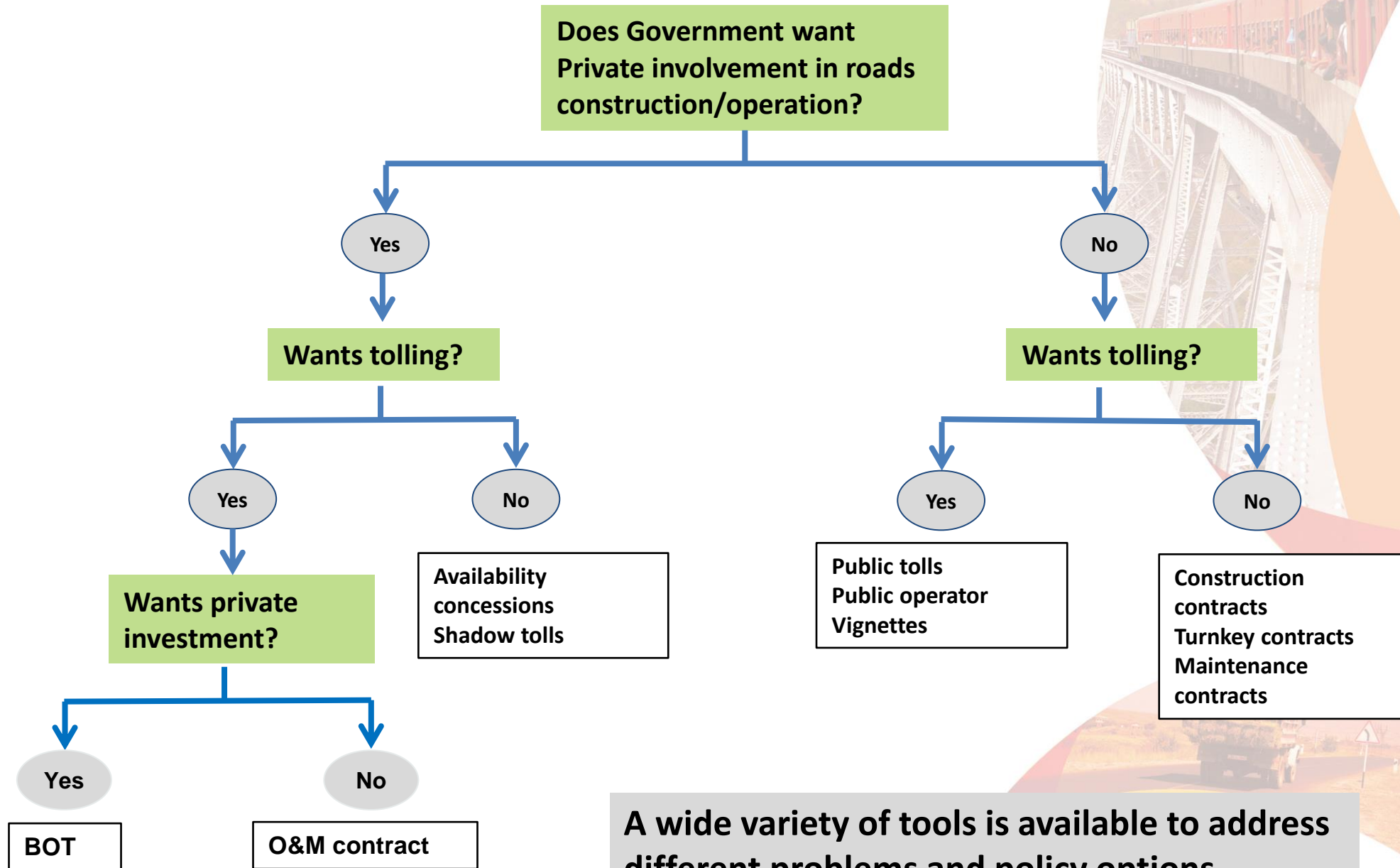
## Example: situation in a CAREC country

- Road Fund can sustain less than 60% of the funds required to rehabilitate and maintain roads in the next ten years.
- Maintenance performed by National Roads Authority in-house: 10,155 staff in 2011.
- Secondary and local network in very poor condition, specially in remote and mountain areas

# Where the money for road maintenance should come from?



# PPP and tolls decision tree



**A wide variety of tools is available to address different problems and policy options**

# Seven questions that governments should ask themselves before introducing PPPs/tolling ... and associated homework to do

1 Is government prepared to assume the political challenges that typically involve tolling?

Stakeholders dialogue

2 Does PPP/tolling add more value than other alternatives?

Value for money assessment

3 Will there be enough demand?

Demand forecasts

4 Are there potential private partners operating or interested in the country?

Market studies

5 Is legal and regulatory framework appropriate to enable PPP and/or tolling

Regulatory reform

6 Are risks borne all stakeholders, including hidden liabilities well identified and understood?

Risk allocation

7 Has government appropriate capabilities for technical monitoring and regulation?

Capacity building

# Factors that influence toll revenues

Type of user  
(professional/personal)



Ratio time/cost more relevant for professionals

Purpose of trip  
(work, leisure, visiting  
relatives/friends)



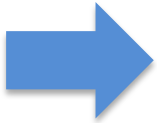
Time less relevant for leisure and personal trips

Frequency of trips



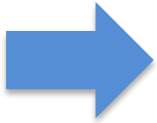
Commuters use the same road everyday. They are very sensitive to the time savings/cost ratio.

Familiarity and social  
acceptance of tolling



Tolls easier to introduce if citizens are already familiar with paying for infrastructure. Urbanites generally more familiar

Level of income of user



In countries with high social imbalances, willingness to pay is concentrated in the top end which reduces drastically the customer base

Existence /convenience  
of alternative free roads



When alternative exists and provides similar level of service, users will abandon tolled infrastructure

# Many topics have to be assessed in legislation and regulation to enable the introduction of PPP / tolls

## General framework topics

Concession permitted

Possibility to Delegate Public Services

Concept of tolls for road users and their nature

Exclusivity and non-compete clauses

Specific legislation governing infrastructure management contracts

## Road-specific legislation topics

Definition of motorway

Alternative free road

Other road-related issues

## Other sector-specific topics

Land property

Coordination of Government bodies for planning and project approval

Procurement

Foreign investment regulations

Foreign exchange regulations

Company regulation issues

Insolvency and bankruptcy regulations

Government support

Tax related issues

Accounting standards.

Labour regulations

Environmental regulations

Renegotiation, amendment and termination of contracts

“Force majeure”

Handover at the end of concession

Dispute resolution

Intellectual and industrial property

Tort regulations

# Different approaches across the World

Country	Strengths	Weaknesses
<b>Spain, France</b>	<ul style="list-style-type: none"> <li>• Widespread use of PPPs to dramatically improve highway network</li> <li>• Emergence of private world players in infrastructure management (Abertis, Ferrovial, Vinci, etc...)</li> </ul>	<ul style="list-style-type: none"> <li>• Continuous renegotiations of contracts.</li> <li>• Lack of consistent national strategy in Spain led to regional disparities and grievances (tolled and free network). Too optimistic forecasts led to renegotiations and bankruptcies.</li> </ul>
<b>Portugal</b>	<ul style="list-style-type: none"> <li>• Substantial improvement of highway network using shadow tolls funded by European Union.</li> </ul>	<ul style="list-style-type: none"> <li>• Government overreached its financial capacity and was obliged to transform them into direct tolls.</li> </ul>
<b>Germany and other European countries</b>	<ul style="list-style-type: none"> <li>• Use of time-based vignettes. Typically only for heavy vehicles and on main network.</li> <li>• Fare segmentation according to emissions.</li> <li>• Direct tolls only for specific infrastructure (e.g. tunnels under the Alps).</li> </ul>	<ul style="list-style-type: none"> <li>• Deviation of traffic to secondary network.</li> <li>• Little capacity to manage traffic flows.</li> <li>• Complaints from neighboring countries.</li> </ul>
<b>Colombia and much of LATAM</b>	<ul style="list-style-type: none"> <li>• Widespread introduction of O&amp;M concessions (maintenance tolls) has brought improved standards of service in new and existing network</li> </ul>	<ul style="list-style-type: none"> <li>• Poor institutional framework. Regulatory complexity and sometimes little transparency in public procurement.</li> <li>• Usually implemented as ad-hoc approaches.</li> </ul>
<b>Morocco, Tunisia</b>	<ul style="list-style-type: none"> <li>• Development of a good motorway network using a public sector operator, expected to be privatized in the future.</li> </ul>	<ul style="list-style-type: none"> <li>• A public operator brings more flexibility than the roads administration but it is still prone to poor management and political interference.</li> <li>• Toll fares artificially low for political reasons, which makes the business little attractive to the private sector.</li> </ul>
<b>USA</b>	<ul style="list-style-type: none"> <li>• Use of bond market to fund infrastructure through public undertakings</li> </ul>	<ul style="list-style-type: none"> <li>• Public reluctance to private operated toll roads.</li> </ul>
<b>Russia</b>	<ul style="list-style-type: none"> <li>• Adoption of a PPP friendly legal framework.</li> </ul>	<ul style="list-style-type: none"> <li>• But many regulation issues still poorly addressed and investors still perceive high risks.</li> </ul>

- **The “user pays” principle is becoming mainstream in ever more countries.**
- **Tolls (in whatever form) will be increasingly be used as a price mechanism to offset the environmental and congestion externalities of road transport and to promote “smart mobility” patterns (i.e. higher toll fares at peak hours, lower fares to energy-efficient or green vehicles, etc.).**



# Opportunities and challenges for CAREC countries

CAREC includes a variety of different countries (e.g. densely/sparsely populated, medium income/low income, central planning/Anglo-Saxon liberal heritage, etc.) that will require different approaches to the introduction of PPPs in the roads sector and tolls.



- But for sure the classic approach to roads construction and management will be challenged as countries will need expand and maintain an vast network.

Most CAREC countries expect significant GDP growth in the future that will translate in higher levels of motorization and mobility.



- But since there is little and no experience in PPPs and tolling, first experiences should be introduced first in corridors clearly defined and with sufficient traffic flows to generate stable revenue streams and manageable uncertainties.
- It is of the utmost importance that the first schemes are successful in order to build confidence among national and international investors as well as among citizens.

Governments are increasingly more open to the concept of private provision of services and infrastructure.



- But the introduction of PPPs and tolling is neither a quick shortcut to reduce to the minimum the governments responsibilities regarding road assets, nor easy operations.
- It requires strong political will and a well prepared and mature public administration.

**It is recommended that any toll strategy adopted at national level do not add unnecessary hindrance to international transport across borders of CAREC countries**

# The way ahead

Build a coherent policy for the roads sector setting clear objectives and priorities



Adapt legal and regulatory framework to implement PPP and/or tolling



Identify the PPP/tolling options best suited to respond to the identified objectives



Build capacities in government to deal with the complexities of PPP/tolls



Use tolling as a price mechanism towards a smart mobility