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Restructuring Highway Agencies The FinnRa Case: Options for Africa?

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The case of Finland illustrates how public management reforms can be successfully designed and implemented, leading to increased efficiency and improved service in road management. The process of reform in Finland has been gradual. It started in the 1970's and is still evolving.

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Until the late 1970s, the Finnish Road and Waterways Administration (RWA), under Finland's Ministry of Transportation and Communications (MOTC), operated as a highly centralized, monopolistic agency. The country's thirteen road management districts had little or no decision-making authority. Outsourcing construction works was limited, contracting maintenance services was rare, and RWA often implemented its road construction projects using in-house labor and rented machinery and vehicles. Following the oil crisis of 1974, public resources were constrained and road expenditure was targeted at maintenance rather than at new construction. Simultaneously, RWA's focus shifted to construction management (rather than actual execution of works) and to maintenance activities. Outsourcing of planning, design, and construction services became more prevalent. New, more user-friendly procurement procedures were introduced, facilitating the use of private small contractors. This trend continued through the 1980s, when individual road districts assumed the practice of slicing up the procurement of works into contracts small enough to allow small regional-based contractors to bid for them.

Reforms since the mid-1980s

The second stage of reform began in 1985 when the Committee on State-Owned Enterprises (SOEs) proposed that SOEs be given autonomy over decision-making and removed from the state budget, whereas their public service obligations should be financed fully by the state budget. These recommendations were approved as part of the SOE Act in early 1988. Within this reform process, Finland's force account-type Road and Waterways Administration (RWA) began evolving into a market-oriented road administration (FinnRA — the Finnish National Road Administration as renamed in 1990). Three imperatives have driven this reform process: the need to reduce the size of the public sector, competitive pressures arising from membership in the European Union, and the growing need to pursue environmental values while promoting economic development.

An amendment to the road administration laws in 1987 launched the reforms by delegating decision-making power to the country's thirteen road management districts. Until that time, all large-scale procurements were submitted to headquar-

Box 1: MOTC's Performance Targets for FinnRa in 1998

As of 1998, FinnrRa is operating as a government agency, with internally separated entities for road administration and production. For road administration, MOTC has set the following performance targets, which clearly reflect its role as a government authority:

1. **Traffic safety:** to have 45 fewer accidents resulting in personal injuries, and to improve the network for pedestrians and bicycles.
2. **Smooth traffic flow:** to increase the predictability of cargo traffic on main arteries, and to improve the road information network through advanced telematics.
3. **The condition of the road network:** The main roads shall be kept in current condition. The length of peripheral paved roads in bad condition may increase by no more than 200 km in 1998.
4. **Environment:** to continue implementing the environmental action program.
5. **Budget:** to reduce the personnel expenses by 2 percent.
6. **Organization**: to improve the process of tendering and the preconditions for competition.

The targets for Finnra's production entity in 1998 underline its role as a commercial-like entity:

1. **Competitiveness:** To improve competitiveness under fair business practices
2. **Economical targets**: to reduce the fixed costs by 2 percent.

Based on the MOTC targets shown above, Finnra's production entity has internally set the following operational and quantifiable targets for 1998 as follows:

- Economical targets: to reduce fixed cost by 2 percent, and to improve the accounting systems.
- Customers: to improve cutomer satisfaction, and to establish new customer relationships
- Efficiency: to develop process and teamwork practices, and to strive for competitive pricing
- Competencies: to enhance the core competencies, and to improve the personell satisfaction.

ters for final decisions. As part of the reform process, authority for procurement decisions was decentralized, which increased the use of private contractors in the road sector. Although there is still widespread use of force account in maintenance, this should change as FinnRA withdraws from being the dominant supplier.

Districts have been made responsible for preparing development plans and programs in coordination with local government councils, which make policy for regional development. Part of the money allocated to roads comes from the regional development funds, requiring constant cooperation between road management authorities and local governments with regard to transport projects and land use planning.

Throughout the 1990s, FinnRA has tried to adopt client-oriented operating principles and to apply commercial principles in defining goals and evaluating performance. The MOTC sets annual targets for FinnRA related to traffic safety, service quality, environmental issues, and operational cost effectiveness (Box 1). These changes have required FinnRA to strictly monitor fixed costs and enact structural changes. Consequently, the number of road management districts has been reduced from 13 to 9, and the number of field managers from 175 to 80. Recession in the construction industry in the mid-1990s and a supply surplus in the sector forced both FinnRA and private sector contractors to cut back on their costs while increasing efficiency. As a result, employment in the sector declined sharply from more than 40,000 people in the late 1980s to only 28,000 people in 1995. Although this change was gradual, it has moved labor groups to resist further restructuring efforts.

Within FinnRA, the newly empowered management and staff have focused on organizational development, including the development of a credible organizational vision and mission, upgrading of managerial skills, and a renewed focus on public relations. Since 1990, an effort has been made to improve FinnRA's image among users and other stakeholders through the use of a uniform corporate identity and the development of high-profile advertising and PR campaigns.

In addition, growing environmental awareness has brought about a complete change in the regulatory culture and a new approach to doing business in the road sector. For years, providing capacity for a steady increase in traffic volume was the main principle governing road management in Finland. The MOTC and FinnRA are now faced with the challenge of creating sustainable transport policies which encourage land use and transport demand to develop in a way that minimizes traffic flows while increasing the use of less infrastructure-intensive (and more environmental-friendly) alternatives, namely public transport. Obtaining road finance in this framework has become particularly challenging, since such financing is generally linked with traffic volume, while environmental policies place priority on reducing road flows.

Results of reform

Before the reform process began, the RWA's dual mission was to expand and upgrade Finland's road network, and generate employment. The restructured FinnRA is dealing with a more complex set of goals, ranging from traffic safety, environmental sustainability, and maintenance of the current network, to improving user satisfaction within its constrained budgetary resources (Table 1).

Table 1. Trends on the Finnish Road Sector Indicators 1970-1997

	1970	1975	1980	1985	1990	1995	1997
Vehicle stock (million)	0.8	1.1	1.3	1.7	2.2	2.2	2.2
Vehicle km (billions) *	12.4	16.7	18.1	21.6	27.9	27.2	28.2
Injury accidents *	5,697	4,768	4,128	4,252	4,333	3,492	3,112
FinnRa personel	21,925	18,083	15,102	13,200	10,777	8,071	6,855
FinnRa expenditure **	6,477	5,259	5,591	5,679	5,034	5,199	4,522
	* on public roads		** in billion Finnish M. at 1997 prices				

	1970	1975	1980	1985	1990	1995	1997
1000 vehicle km * / employee	566	924	1,199	1,636	2,589	3,370	4,114
Injury accidents/ billion vehicle km *	459	286	228	197	155	128	110
Expenditure */vehicle km **	522	315	309	263	180	191	160
	* on public roads		** in Finnish M. at 1997 prices				

Employment is no longer a goal of the administration, and as the state budget for road construction and maintenance gets tighter, funding sources such as shadow tolls and private sector participation are more common. FinnRA has also been allowed to provide chargeable services at market prices, mostly to municipalities, private road owners, and the railways, and has been granted greater budgetary autonomy for the use of carry-overs.

As part of this process, there have been profound changes in competition law, principles of public procurement, and in the legislation enabling the creation of state-owned enterprises (SOEs) and the commercialization of government agencies. The reforms have also resulted in significant budgetary savings, a more streamlined bureaucracy, increased decentralization, greater transparency in procurement, and a more strategic approach to change and reform.

Today, there is a functional market for road planning and construction in Finland, but the market for road maintenance is below its potential. The involvement of local private sector firms capable of carrying out large maintenance projects is still limited. As a result, FinnRA's share of the maintenance market is still very high at 77 percent. Given time, the reforms enacted in Finland should strengthen the private sector and increase its share of the market.

Future options

The Finnish Government has considered several models for further structural reform. Full privatization was not among these options; instead, the government has preferred the state-owned enterprise (SOE) or mixed enterprise approach, which allows the state to maintain ownership and control. This is consistent with the government's gradual approach towards reform. Three options for reform of road management have been considered in Finland:

- **Government agency:** FinnRA would remain a vertically integrated government agency under the supervision of MOTC.
- **Corporatization (SOE):** The entire FinnRA would be transformed into a user-financed SOE under a contractually based relationship with the government.
- **Unbundling production from regulation (ARA+SOE):** This model separates the regulatory from the service and maintenance function, creating an administrative road authority (ARA) and a service-producing SOE.

As seen in Table 2, the ARA+SOE model is likely to provide the best overall combination of benefits. The SOE model is likely to have the most beneficial fiscal impact, but this is more than offset by the reduction in user satisfaction and hampered competition. The business-as-usual model, where governmental agencies continue as unbundled entities do not deliver efficiency gains across the society compared to the ARA+SOE model.

The current direction for FinnRa was laid in May 1997 by the Council of State. FinnRa was formally kept as a government agency, but it was reorganized into separate entities for road administration and production. The MOTC and FinnRa management had been strongly in favor of a ARA+SOE model, but the staff was firmly against it. Also the private contractors were opposed to the imminent launch of the production-SOE, which would be the biggest civil construction firm in Finland. The decision was a compromise, which gives more time for FinnRa staff and management to

Table 2. Likely Impact of Restructuring Models

	Fiscal Impact	User Satisfaction	Impact on Competition
Govt Agency	**MARGINAL** Small internal efficiency gains	**INCREASED** Improving user orientation with stable charging	**MODERATE** Increased contracting-out of services and works
SOE	**SUBSTANTIAL** Potential for monopolistic pricing and reduced budgetary dependence	**REDUCED** Level of service unchanged, but increasing direct user charges	**NEGATIVE** Barriers to entry for private contractors and service providers
ARA + SOE	**MODERATE** Efficiency gains induced by competition	**INCREASED** Improving quality and faster implementation of works	**SUBSTANTIAL** Increased participation of private contractors and service providers in competition with SOE

find ways of improving its internal practices and efficiency while allowing for its eventual competitors to adjust their activities.

Conclusions and lessons

- Road management reform is a continuous process whose pace has to be set in the context of the harmonization of the interests of politicians, management, labor, and the private sector. Performing road agencies, such as FinnRA, can probably afford more time to restructure than inefficient agencies.
- Road sector reform is fostered by external fiscal, competitive and environmental pressures. International "peer pressure," particularly within the context of regional road associations, can also create awareness of the need for reform among sector managers. However, the implementation of reform requires management leadership, commitment to the goals, and a major participatory effort managed from within the road agency.
- From the beginning of the process, the road organization must develop a shared vision and strategy, and management must make timely decisions at key junctures. In addition, a wide availability of information and a deep staff involvement at all levels are critical to the success and sustainability of the process. Staff must believe that the reforms are being undertaken for them and by them.
- A road agency can competitively provide services to third parties, including local governments and the private sector, on a charge basis, hence generating revenue. However, these services can be more advantageously provided in the framework of pluri-annual contracts.

Road Management Initiative

The RMI was launched in 1988 by the United Nations Economic Commission for Africa (UNECA) and the World Bank, under the auspices of the Sub-Saharan Africa Transport Policy Program (SSATP). The countries taking part in the RMI are Cameroon, Kenya, Madagascar, Rwanda, Tanzania, Uganda, Zambia, and Zimbabwe. Others receiving assistance from the program include Angola, Benin, Ethiopia, Ghana, Lesotho, Malawi, Mozambique, and Togo. RMI is administered by the World Bank's Africa Region, and is co-financed with the governments of Denmark, France, Germany, Japan, the Netherlands, Sweden, Switzerland, and the European Union. France, Japan and Norway provide senior staff members to work on the Program.