Restructuring Highway Agencies
The FinnRa Case: Options for Africa?
by Lauri Ojala and Esko Sirvio

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-

The purpose of this series is to share information on studies carried out by or of interest to the SSATP. The opinions expressed in the studies are those of the authors and do not necessarily reflect the views of the World Bank or any of its affiliated organizations.

For information on these notes, contact Julie Wagshal in the Africa Region of the World Bank, Washington, DC. Internet address: jwagshal@worldbank.org.
As of 1996, FinnrBa 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 pre-conditions for competition.

Box 1: MOTC’s Performance Targets for FinnRaa in 1998

As of 1996, FinnrBa 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 pre-conditions for competition.

The targets for FinnrBa’s production entity in 1996 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, FinnrBa’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 customer 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 personnel satisfaction.

Within FinnrBa, 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 FinnrBa’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 FinnrBa 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 environmentally-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 FinnrBa 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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicle stock (million)</td>
<td>0.8</td>
<td>1.1</td>
<td>1.3</td>
<td>1.7</td>
<td>2.2</td>
<td>2.2</td>
<td>2.2</td>
</tr>
<tr>
<td>Vehicle km (billions) *</td>
<td>12.4</td>
<td>16.7</td>
<td>18.1</td>
<td>21.6</td>
<td>27.9</td>
<td>27.2</td>
<td>28.2</td>
</tr>
<tr>
<td>Injury accidents *</td>
<td>5,697</td>
<td>4,768</td>
<td>4,128</td>
<td>4,252</td>
<td>4,333</td>
<td>3,492</td>
<td>3,112</td>
</tr>
<tr>
<td>FinnRa personnel</td>
<td>21,925</td>
<td>18,083</td>
<td>15,102</td>
<td>13,200</td>
<td>10,777</td>
<td>8,071</td>
<td>6,855</td>
</tr>
<tr>
<td>FinnRa expenditure **</td>
<td>6,477</td>
<td>5,259</td>
<td>5,591</td>
<td>5,679</td>
<td>5,034</td>
<td>5,199</td>
<td>4,522</td>
</tr>
</tbody>
</table>

* on public roads  ** in billion Finnish M. at 1997 prices

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1000 vehicle km * / employee</td>
<td>566</td>
<td>924</td>
<td>1,199</td>
<td>1,636</td>
<td>2,589</td>
<td>3,370</td>
<td>4,114</td>
</tr>
<tr>
<td>Injury accidents/ billion vehicle km *</td>
<td>459</td>
<td>286</td>
<td>228</td>
<td>197</td>
<td>155</td>
<td>128</td>
<td>110</td>
</tr>
<tr>
<td>Expenditure */vehicle km **</td>
<td>522</td>
<td>315</td>
<td>309</td>
<td>263</td>
<td>180</td>
<td>191</td>
<td>160</td>
</tr>
</tbody>
</table>

* 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

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

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.