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## ROAD FUND FEATURES

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## A ROAD FINANCING PLAN

- The *Road Financing Plan* should include the amount required to maintain the road network in a stable long-term condition - and to undertake justified capital improvements (i.e., projects with an EIRR of more than 15%).
- Among other things, the *Road Financing Plan* should consider the scope for:
  - a) getting better use out of existing resources by, for example, contracting out more design and implementation work to the private sector (or exposing in-house work to competition from outside contractors);
  - b) bringing in the private sector to build, operate and transfer some roads under concession agreements.

## A COMMERCIALY-MANAGED ROAD FUND

- The required revenues are generated by a *Road Tariff* putting roads on a fee-for-service basis and depositing the proceeds into a commercially-managed *Road Fund* (user-pay concept or commercialization). Road users should be involved not only in the financing of the *Road Fund*, but also in its management. Road financing problems cannot be solved without the strong support of road users. This support cannot be won without ensuring that resources are used efficiently. This requires clearly defined managerial responsibilities and accountability.

## LEGAL STATUS OF A ROAD FUND

- Best practice is to set up a *Road Fund* under its own, separate legislation.
- If it is set up under existing legislation (like the Finance Act), or using simple decrees, there should be a sunset clause to determine when it should be regularized by passing basic legislation, or closed down.
- The legislative instrument opening the *Road Fund* should be supported by published financial regulations or procedures. These may either be published as legal regulations in the official Gazette, or published by the *Road Fund Board*.
- The legal document creating the *Road Fund* should state clearly which items the *Road Fund* can finance and should give some indication of relative priority. The usual priority ranking is:
  - a) maintenance;
  - b) cost of *Road Fund* administration;

- c) low cost/high impact road safety projects;
  - d) counterpart funding to donor-financed road rehabilitation projects;
  - e) counterpart funding to donor-financed minor road upgrading projects;
  - f) counterpart funding to donor-financed improvement projects.
- [Most non-maintenance items should have caps (individual as well as covering several items)].

## AN INDEPENDENT ROAD FUND AGENCY

- A *Road Fund* may finance trunk roads, provincial roads, urban roads, and the rural road network (including the unclassified roads) and thus have more than one *Implementing Road Agency* (including local governments). In that case, the *Road Fund* should be managed through a separate *Road Fund Agency* to avoid any conflicts of interest between *Implementing Road Agencies* and to channel funds in an even-handed way.
- The *Road Fund Agency* responsibilities are:
  - a) to collate the programs of the *Implementing Road Agencies*;
  - b) endorse them;
  - c) prepare and endorse the *Road Fund Budget*, which allocates funds to the approved programs;
  - d) endorse the resulting works contracts;
  - e) disburse funds after certification of work is done by consultants; and
  - f) hire independent auditors.

## THE ROAD FUND BOARD

- The *Road Fund* should have a representative *Road Fund Board*. Members should be in majority representatives of road users, be nominated by the constituencies they represent and elect an independent *Chairperson*.
- *Road Fund Board* responsibilities:
  - a) To recommend to the Minister of Finance, for inclusion in the Government's Annual or Supplementary Budget, the level of road user fees and road user charges

that constitute the *Road Tariff*. [In case of a Road Funds that has powers to set its own tariff within an annual Framework Agreement negotiated with the Ministry of Finance, replace 'recommend' with 'establish' ]

- b) To approve arrangements for collecting all the fees and charges assigned to the *Road Fund* and to minimize avoidance and evasion.
- c) To establish and publish the criteria used to allocate financing between the *Implementing Road Agencies*.
- d) To prepare the *Road Fund Budget* on the basis of elements prepared by the *Implementing Road Agencies* and approve it.
- e) To institute an integrated and coordinated approach to the planning of road works by establishing the form and content of the *Annual Road Program*.
- f) Establish procedures for disbursing funds for works forming part of the approved *Road Fund Budget* and approved *Annual Road Program*.

### THE ROAD FUND EXECUTIVE SECRETARY

- The *Road Fund Agency* should be managed by an *Executive Secretary* appointed by the *Road Fund Board* who should, in turn, appoint the staff. The *Road Fund Board* also appoints a *Road Fund Accountant*.
- The *Road Fund Agency* needs not employ more than 5 to 10 staff trained in planning and accounting

### A SEPARATE ROAD FUND BUDGET

- The *Road Fund* finances the *Road Fund Budget*. The *Road Fund Budget* should be held outside the Government Budget.
- The *Road Fund Board* approves the *Road Fund Budget*. The *Road Fund Budget* allocates funds to the *Implementing Road Agencies* and, for each agency, to individual budget categories (road classification and type: routine, periodic, rehabilitation, study).

### A ROAD TARIFF FOR ROAD USER CHARGES

- The road fund revenues are road user charges and should be collected using a simple *Road Tariff* consisting primarily of a fuel levy, vehicle license fees, a supplementary heavy vehicle fee, international transit fees and fines for overloading. Road, bridge and ferry tolls may also be included.

- The road fund revenues should NOT include other service fees and taxes such as vehicle registration fees, vehicle inspection fees, driving licenses fees or taxes on spare parts.

## GENERAL TAXES

- A fuel levy is also an attractive tax handle used to gather extra revenue for general taxation purposes. The *Road Tariff* should be separate from general taxes and additional to them. The *Road Tariff* should be designed to ensure it does not abstract tax revenues from other sectors. When the *Road Fund* is first setup, the existing budget allocations for roads should be converted into an equivalent *Road Tariff* (fuel levy) with all additional revenues coming from increased payments by road users. Extra spending on roads should thus be financed through extra payments by road users.
- The separation of the *Road Tariff* from taxes collected road users should aim at:
  - a) keeping intact revenues available to other sectors;
  - b) strengthening financial discipline;
  - c) increasing value for money;
  - d) better road maintenance.

## COLLECTING THE ROAD TARIFF (FINANCE ACT)

- The *Road Tariff* is collected under the Govt.'s tax making power as if road user charges were taxes.
- Road user charges should be collected under contract (including those collected by the customs).
- There should be streamlined procedures for transferring the funds into the *Road Fund*.
- The *Road Fund Account* should be held with a commercial bank.

## COLLECTING THE ROAD TARIFF (SEPARATE LEGISLATION)

- The *Road Fund Board* sets its own road user charges that constitute the *Road Tariff*.
- There is a framework agreement with the Minister of Finance which defines the broad parameters within which the *Road Tariff* is set.

- Road user charges are collected under contract.
- The funds are deposited directly into the *Road Fund Account*.

## ADJUSTING REVENUES

- There should be procedures for regularly raising and lowering the *Road Tariff*. Income flows should match expenditure flows with as little money as possible kept in the account.
- If the tariff is collected under the government's tax-making powers, the usual procedure is for the *Road Fund Board*, following consultation with their constituents, to recommend to the Minister of Finance, for inclusion in the Government's Annual or Supplementary budget, the level of road user fees and road user charges that constitute the *Road Tariff*. The Minister then includes them in the budget.
- When the *Road Fund Board* sets its own *Road Tariff*, the *Road Fund Board* normally decides on the revised tariff, following consultation with their constituents, submits it to the Government and, provided they make sense and are consistent with the Government's macro targets, the Government will publish the new *Road Tariff* in the Gazette.
- The *Road Fund Board* should have powers to borrow money (with permission from the Minister of Finance).

## TRUNK, PROVINCIAL, URBAN, AND RURAL ROADS

- There should be cost-sharing arrangements for local government and community roads. This helps to "stretch" the *Road Fund* resources and also helps to ensure that recipients only choose schemes to which they attach priority. Cost-sharing is typically at 50 percent, often adjusted to reflect affordability. At the community level, the arrangements should permit local contributions to be made by way of contributions in kind, e.g., through volunteer labor.
- Likewise, there should be a transparent mechanism for dividing funds between the *Road Implementing Agencies*. For maintenance, this is normally done in terms of "responsibility" as measured by indicators like road length, perhaps weighted to reflect differences in costs of maintenance. For capital works, EIRR criteria are normally used.
- The *Road Fund* is used primarily to finance routine and periodic maintenance of classified roads. The *Road Fund Budget* will also meet the costs of administering the *Road Fund Agency*. Once all road maintenance requirements have been met, the remaining funds shall be used exclusively to finance selected road safety projects, road

rehabilitation (not to exceed 20 percent of annual revenues) and minor improvements (not to exceed 15 percent of annual revenues).

- Classified trunk roads are fully funded by the *Road Fund Budget*, while roads under the jurisdiction of the local governments will be financed on a cost-sharing basis. The detailed basis of the cost-sharing arrangements will be decided by the *Road Fund Board*, published and revised from time to time. Local governments will be expected to contribute their share of the costs using revenues from rates and other local taxes. Individuals and communities living in areas with unclassified roads will also be entitled to receive funds for maintenance. Such groups will first have to register their interests in these roads, to form themselves into local roads committees, and agree on cost-sharing arrangements for maintaining these roads. Local roads committees may contribute their share of the costs in the form of materials, direct labor and/or cash.

## FINANCIAL DISCIPLINE

- There should be transparent, published, private-sector-style financial rules and regulations.
- The procedures used to disburse funds to the *Road Implementing Agencies* should be designed to strengthen financial discipline. There are three broad options. The *Road Fund* can:
  - a) pay contractors directly after certification that the work has been done according to specification;
  - b) reimburse the *Road Implementing Agency* after the work has been done and payment has been certified; or
  - c) operate a revolving fund and certify ex-post that withdrawals are in accordance with agreed regulations.
- Each check should be signed by two persons drawn from two panels:
  - d) Panel A includes the *Chairperson* of the *Road Fund Board* and the *Executive Secretary*.
  - e) Panel B includes the *Road Fund Accountant* and a designated accountant from the Ministry of Finance.

## INDEPENDENT AUDITS

- The *Road Fund* should be subject to regular technical and financial *Audits*.

- The technical *Audits* are done by independent private auditors appointed by the *Road Fund Board*. They should focus on whether the work formed part of an approved expenditure plan, was carried out according to specifications and whether the specifications were spelled out in sufficient detail to ensure good quality work.
- Financial *Audits* are done by independent private auditors appointed by the Auditor General.

## PLANNING, PROGRAMMING, IMPLEMENTATION

- Planning, programming and implementation of works are carried out by the respective *Road Implementing Agencies*. Each agency prepares and submits its planning and programming documents to the *Road Fund Board* as basic building blocks for the *Road Fund Budget* and the *Annual Road Program*. Each *Road Implementing Agency* implements its own program.

## ANNUAL REPORTS

- There should be *Annual Reports* submitted annually to the Government, made available to the public and laid before the Parliament.
- It should report on how the *Road Fund Budget* was executed and include the accounts and the auditors' reports. It should list the *Road Tariff*, the policies of the *Road Fund Board*, the work done during the year as well as the issues arising.