CONTENTS

SUMMARIES OF OPERATING MODALITIES OF EXISTING AND PROPOSED ROAD FUNDS

1. Management of the Road Fund In Ghana .................................................................2

2. Managing the Road Fund in Zambia ....................................................................7

3. Review Of The Road Fund In Yemen .................................................................13
   1. Introduction ......................................................................................................13
   3. Issues Arising ..................................................................................................14

4. Framework for Setting up a new Road Fund in Lesotho ..................................16
   Introduction ......................................................................................................16
   Expenditures to be Financed ............................................................................16
   Source of Revenues ..........................................................................................16
   The Road Fund Board .....................................................................................17
   Management of the Road Fund ........................................................................17
SUMMARIES OF OPERATING MODALITIES OF EXISTING AND PROPOSED ROAD FUNDS

1. MANAGEMENT OF THE ROAD FUND IN GHANA  
(Prepared by Kavita Mathur, February 1999)

BACKGROUND

The total road network in Ghana is about 38,731 km. It is managed by three road agencies:

- **Ghana Highway Authority (GHA):** was established in 1974 as an autonomous highway authority. It is responsible for 14100 km of trunk roads.

- **Department of Feeder Roads (DFR):** was established in 1981 and is responsible for 21830 km of rural roads. Around 50 percent of the network is in maintainable condition. DFR has a head office in Accra and regional and district offices.

- **Department of Urban Roads (DUR):** is responsible for 2801 km of city roads in the urban area.

There are about 1428 km of Asphalt roads, 6298 km of bitumen surface roads, 19566 km gravel roads and rest of the network - 11439 km, is earth roads. About 40 percent of the network is in poor condition and requires rehabilitation. Roads carry 98 percent of freight and 97 percent of passenger traffic.

At the time independence in 1957, Ghana road network was in very good condition. In the 1960's the road budget declined and maintenance suffered. By the 70's, roads were breaking faster than they could be maintained. The road network was in very poor condition. During this period the roads were under Ministry of Works and Housing. In 1982 Ministry of Roads and Highways was created to (i) formulate road sector strategy and policy, (ii) co-ordinate and monitor performance of GHA, DFR and DUR, and (iii) improve the condition of roads. However, the creation of new organization did not solve the resource problem. In 1996, Ministry of Roads and Transport (MRT) was created. The Government objective is to clear the large backlog of maintenance on the road network while concurrently maintaining roads that have been rehabilitated and to put financing of maintenance on a sustainable basis. MRT does not have offices in the regions but operates through GHA and DFR, which has regional offices. There are ten regions and 110 districts.

ROAD FUND

Road fund was established in 1985 under an Executive (military) Decree. The objective was to secure adequate and stable funding for routine and periodic maintenance of roads. Revenue sources were: (i) fuel levy; (ii) bridge, road and ferry tolls; and (iii) vehicle examination fees. The Road Fund was managed by the Minister of Finance, Minister of Roads and Highways and Comptroller and Auditor General. Ghana Highway Authority, Department of Feeder Roads and Department of Urban Roads are the three road agencies entitled to receive funds from the Road Fund. Funds were nominally divided between the three agencies in the ration of 50:30:20 respectively.

The road fund was besieged with problems. Even though Minister of Finance, Minister of Roads and Highways and the Comptroller and Auditor General were involved in management of Road Fund, no one
was really responsible. The day to day management of Road Fund was inadequate. The Road Fund was simply a bank account. There was no Oversight Board. Although the levy was periodically revised, by 1995 the revenue from Road Fund was covering less than 50 percent of maintenance requirements. Funds were collected in the regions and paid into local treasuries and transferred to the road fund account. There were delays in transfers and leakage of funds. There was no accounting system in place. There was no way of knowing whether the Road Fund was receiving all the revenue attributable to it. Audit reports regularly complained about the accuracy and reliability of Road Fund balances. There was no consistent procedure for dividing funds between Ghana Highway Authority (GHA), Department of Feeder Roads (DFR) and Department of Urban Roads (DUR). Allocations ranged from 50 to 70 percent for GHA; 30 to 10 percent for DFR and 15 to 30 percent for DUR. The withdrawal procedures were cumbersome. This mismanagement of Road Fund continued for ten years.

RESTRUCTURING OF GHANA ROAD FUND

By 1995 it was realized that the Road Fund was not working i.e. it was not providing adequate and sustainable funds for road maintenance. In 1995 the government proposed wide-ranging changes for the roads sector:

- Establishment of public-private Board to oversee management of Road Fund
- Establishment of secretariat to manage the day to day operations of Road Fund according to sound commercial principles
- Comprehensive legal framework for 'Establishment of Road Fund' and 'Management of Road Fund'.

MANAGEMENT BOARD

It is interesting to note that the members of the Board, as proposed by draft law, were approved and had their first sitting on January 31, 1997, six months before the Road Fund Law became effective. The Road Fund was restructured to become a commercially managed road fund by the Road Fund Law in August 1997.

The Board consists of thirteen members and is private sector driven as eight members are from the private sector and five are from public sector. members 5 public and 8 private representatives. The private sector members who are in the majority are nominees of road users:

1. Association of Road Contractors
2. Ghana Private Road Transport Union
3. Ghana Private Enterprise Foundation
4. Ghana Road Haulage Association
5. Ghana Institute of Engineers
6. Ghana Association of Farmers and Fishermen

Two other private sector persons nominated by the Minister
The public sector members represent relevant Government Ministries:

1. Roads and Transport
2. Finance
3. Mines and Energy
4. Local Government and Rural Development
5. Accountant General

The chairman is the Minister of Roads and Transport. Ghana would have preferred to have a private sector member chair the Board but agreed for the Minister of Roads and Transport to be the chair as a strategic move. To get the Roads Boards moving they had to compromise. Minister being the chair provides comfort to the Government. Also, this has an advantage -- Minister has access to the top persons in the government and can get work done quickly. This may change in future and the Chairman may come from the private sector.

The main functions of the Board are:

- arrange for collection of funds and improve arrangements for collection of revenues to reduce evasion and avoidance
- recommend level of fuel levy and other road user charges
- review annual budgets of road agencies
- establish certification procedures to ensure work is completed according to specification
- prepare and publish procedures for disbursement

With the setting up of Roads Board, all arrears to contractor for maintenance work which were carried from 1997 were paid within two months.

SECRETARIAT

Consists of a Director, Engineer, Accountant, Secretary and two drivers. The staff is paid competitive market rate. Currently, the staff of the secretariat is paid from the World Bank Highway Credit. In two year, the Road Fund will pay for the secretariat from its own income. Secretariat manages the day to day affairs of the Road Fund.

FINANCING

The Road Fund Law defines the spending priorities clearly:

- first, routine and periodic maintenance;
- second, upgrading and rehabilitation of roads;
third, road safety activities

Of the Road Fund revenues, 93 percent comes from fuel levy, 4 percent from tolls and 3 percent comes from road user fees. In Ghana there exists a clear arrangement for separating the fuel levy from general taxes. The fuel levy is collected by Ghana National Petroleum Company and deposited directly into road fund account. Licensing and examination fees are collected by Ministry of Roads and Transport. Road, bridge and ferry tolls are collected by GHA. The road fund does not pay these agencies any collection fees.

Revenues in 1997 were US $ 47 million, expected to be US $ 75 million in 1998 and planned to increase to US $ 105 million in 2000 and US $ 148 million in 2003. There is no contribution from the consolidated budget for maintenance. Railways and Power are exempted from fuel levy. The allocation from the Road Fund to three agencies are: GHA 60%, DFR 25 % and DUR 15%. This allocation is not based on any criteria or formula. It reflects the government priority which right now is rural development. The priority of government can change and so would the allocation between DFR and DUR.

The staff form GHA, DFR and DUR are very happy with the Road Fund and Roads Board even though the Board has imposed stringent guidelines on the road agencies for disbursement of funds. For the road agencies, the major constraint for maintenance was lack of resource. With the establishment of Roads Board to oversee allocation and disbursement of funds, the agencies are getting money for maintenance on time. The backlog is so huge that it will take time for all maintenance needs to be met. People are seeing results and have stopped complaining.

On their side, the road agencies are required to submit roads programs which is reviewed by the secretariat and approved by the Board. Maintenance Performance Budgeting System (MPBS) is used to pick all roads which are in maintainable condition. The road agencies prepare the budget and prioritize the roads according to their maintenance needs. Money from the Road Fund is disbursed only for goods and services that form the Annual Expenditure Program. The secretariat performs financial and technical audits of the work done.

Overloading is a serious problem in Ghana and the Ministry is proposing to set up a separate division to tackle the problems of overloading.

CAPACITY

About 90 percent of road works are executed by private contractors (Ministry policy). Government owns limited equipment for emergency road maintenance operations. Equipment for road construction is primarily owned by private contractors. Apart from the staff for the road agencies, consultants are also used for planning, design and supervision of road works. In feeder roads, labor based methods are frequently used. In 1981, there were 5000 workers at the DFR and most of the work was done by force account. Currently, there are 700 workers and 90 percent of the work is contracted out.

The main weakness is that districts do not have capacity for planning and supervision.

Contracts are awarded by the Tender Board. The Roads Board are not members of Tender Board. Staff from GHA, DUR and DFR are just advisors to Tender Board. Awarding of contracts is independent of Road Fund and the road agencies. Contracts valued up to US$ 100,000 are awarded by District Tender Board, contracts between US$ 100,000 to US$ 500,000 by Regional Tender Board and contracts above US$ 500,000 by National Tender Board.
2. MANAGING THE ROAD FUND IN ZAMBIA
(Prepared by Kavita Mathur, February 1999)

BACKGROUND

Zambia is a landlocked country surrounded by eight neighboring countries. Zambia has road network of 37,000 km. of various classes of gazetted roads. Of this 21,000 km. of roads are the responsibility of the Roads Department, whilst the remainder 16,000 km. are under the jurisdiction of the District Councils. In addition there are about 30,000 km. of ungazetted roads administered by local authority.

In 1987 about 40% of the primary road network in Zambia was in good condition. By 1990 the percentage of the good roads had declined to 20%. The value of the Zambian road network was initially assessed at US $2.3 billion. It has during recent years declined by more than US$400 million due to neglect of maintenance. Road maintenance and other expenditures were financed from general tax revenues and the competition from other sector resulted in a decline in maintenance funds. Maintenance allocations declined to only about 15% of requirements.

Inadequate funding was further complicated by the poor institutional framework within which roads were managed. Poor conditions of service, lack of clearly defined responsibilities, ineffective and weak management structures and lack of managerial accountability have all contributed to poor use of the meager funds available. Consequently, the Roads Agencies suffer from lack of suitable qualified and experienced staff to plan, programme, organize, monitor and regulate work undertaken by own forces as well as by private Consultants and Contractors. Is very clear that the problem of road maintenance is not one of engineering but of policies and management.

At the recommendation of Road Maintenance Policy Seminar, February 1993, a road user charge in the form of a fuel levy was introduced from May 1, 1993. Initially it was about US$ 0.01 per litre but has now been increased to 15 percent of the wholesale price of fuel which is around US$ 0.07 per litre.

MANAGEMENT BOARD

After the fuel levy was instituted there was no Board for one and a half years. There was a National Task Force under the Ministry of Public Works to administer the funds. Chair of the Task Force was the Deputy Minister and 60 percent of the funds were misused. They were used for the purchase of vehicles, office equipment, payment of hotel and telephone bills, etc. The Audit queries have still not been cleared.

The setting up of National Roads Boards (NRB) as the Board to manage the Road Fund took longer to be instituted than fuel levy, but was eventually done through a Statutory Instrument in October 1994. One of the notable feature of the Board is that it is private sector driven as seven members are from the private sector and four are from public sector. The private sector members have the right to vote whereas the public sector members have the right to participate without the right to vote. The private sector members who are in the majority are nominees of road users:

7. Chamber of Commerce
8. Automobile Association
9. Chartered Institute of Transport
10. Transporter's Association
11. Farmers

12. Engineering Institute of Zambia

13. Copperbelt University

   The four public sector members represent relevant Government Ministries:

6. Communications and Transport

7. Works and Supply

8. Local Government and Housing

9. Finance

   Chairman and Vice Chairman are elected by the Board from among private sector representatives and not handpicked. The present chairman is the representative of the Chartered Institute of Transport. The road user dominated Board represent a major change of policy in the institutional structure of the roads sector. It is also a deliberate attempt by the Government to hand over ownership of the roads to the private sector as well as to create a partnership between the private and public sector for the management of roads. Roads in Zambia were always perceived as the responsibility of the Government. With the institution of Roads Board, this perception is changing slowly.

   For the Board to be effective, Board members should be -

- people of integrity and honesty
- should have close relation with their constituents i.e. they should give and get feedback from their constituents
- private sector members should be united
- Chairman should have access to the top person - i.e. the President.

The board conducts effective public relation programs such as Radio Programs and Monthly Press Releases to enhance the sense of the ownership among road users.

**HOW DOES THE BOARD OPERATE?**

   The first task of the board was to institute policy guidelines to manage and administer the Road Fund. The next step for the Board was to establish systems and procedures to ensure total transparency and accountability in the management of the Road Fund. This included:

- System for receipt of money
- Banking System
- Internal Control System
Another innovative institutional structure was to set up Committees which provide opportunities for participation by various stakeholders and key players and thus involve interested groups in the management of roads:

- **Technical Committee**
- **Finance Committee**
- **Road Sector Investment Program (ROADSIP) Co-ordinating Committee**
- **Transport Engineering and Technical Assistance (TETAP) Steering Committee**

The most important are the Technical and Finance Committee.

**Finance Committee**: meets at least once a month and comprises of three members of the Board, a representative from Auditor General's office and a financial expert from the Secretariat. The Committee is chaired by the representative from the Ministry of Finance. Other Board members are selected on the basis of their expertise. The finance committee makes recommendations of where the road fund money should be held. This is very important decision as a number of banks have gone under in the last few years. The finance committee monitors the liquidity of the banks where the money is held, and at the first sign of problem withdraw the money and move to another bank. The decision of which bank to use is reviewed annually through a tendering process to ensure that services are competitive. Facilities offered by the Banks include attractive interest rates, honoring of checks throughout the country, minimal or no charges on services offered etc.

**Technical Committee**: is the "think tank" of the Board. It meets at least twice a month and comprises of three members of the Board, a representative from Engineering Institute of Zambia, representative of the Roads Department, representative of the Ministry of Local Government and Housing and a technical expert from the Secretariat. The committee is chaired by the Vice Chairman of the Board. The committees main responsibility is to get "No Objection" from the Board for the Annual Road Maintenance Program. It also undertakes site visits to roadworks to ensure that road users get 'best value for money' from Road Fund. Not all members of Technical Committee are technical experts.

The National Roads Board by law is an advisory Board but over time has evolved into an Executive Board.

**SECRETARIAT**

The secretariat of the Road Fund is the strength of the Board as it manages the day to day operations of the Road Fund. Staffing of the secretariat is critical. The ability to deliver goods lies in the capacity, capability and creativity of the staff. The Secretariat started with just three staff members. It has taken on additional responsibilities and has grown considerable with highly skilled staff. It consists of an Executive Secretary, Engineer for Quality Assurance, Highway Engineer for Management Support Team, Co-ordinator For Procurement, and Accountant. There are three experts who work part time - Financial Analyst, Transport Economist and Human Resource person. The functions of the secretariat are to prepare (i) policy guidelines to manage the fund; (ii) procedures to administer the fund, and (iii) financial regulations and systems to account for the fund. It makes payments only after technical and financial audits are done.
The secretariat has set up a small engineering unit because the Board perceived that it needed sound technical basis for deploying its resources.

**NATIONAL PROGRAM OF ROAD MAINTENANCE**

Another step taken by the Board was to establish a National Program of Road Maintenance. All 72 District Councils and 9 Provincial Road Engineers were required to submit a program of road maintenance, which included the selection criteria for roads and the type of maintenance intervention recommended, and the costs for the consideration of the Board. There was no capacity at the council level and provincial road engineers. Private Sector Consultants were appointed to assist the Councils and Provincial Road Engineers in drawing up, implementing, auditing, as well as certifying the payments to the Board. The Board paid Contractors and the Consultants directly for work done. The Road Fund is assisting in building the capacity. As a result, the number of Private Sector Consultants has come down from nine to just three. Provincial Road Engineers and Directors of works in the councils are also being trained to plan, program, supervise road works and certify payments to promote total quality management of contracts.

**CAPACITY BUILDING**

The government has adopted a deliberate policy to move from force account to using private sector contractors. Earlier 94 percent of work was done by force account. Now 90 percent is done by contract. The main reason for this is that by using contract account, there is more transparency and accountability. Also, under force account, only 15 percent of equipment was under good condition. Funds were required for maintenance of the equipment.

The number of Contractors increased from 4 in 1994 to about 45 by the end of 1996 and to 120 by end of 1998. Consequently, the pricing for some road works also declined by about 40%. The Board is assisting in development of contractors. For this purpose, the Road Training school is being revamped and reorganized to train and develop contractor capacity with greater thrust on labor based road works.

Payments to contractors are certified by consultant and implementing agency i.e. Council or Provincial Road Engineer. Similarly payments to consultants are certified by implementing agency and the relevant ministry. By this internal control system the Board is able to ensure accountability of Road Fund and value for the money spent.

Contractors are pre-qualified only in case of large contracts.

**FINANCING**

Road Fund is dedicated to road maintenance. So far, the only source of revenue for the road fund is fuel levy contributed by road users. The fuel levy has increased from K10 per liter in 1994 to K30 per liter in 1995 to K40 per liter in 1996, and to 15% of wholesale price of fuel in 1997, with the support of road users. The revenues of the road fund has risen from about K3 Billion in 1994 to K30 Billion in 1998.

In order to broaden the revenue base, the Board has proposed that revenues from transit tolls, weighbridge charges, traffic fines, and motor vehicle licensing fees, should go to the road fund. A Cabinet Memo has been circulated and should be effective in the near future.

Funds are only disbursed for approved road maintenance programs and the division between road type is clearly determined - 40% for Main Roads, 20% for Council Roads (Urban) and 40% for District Council/ Feeder Roads.
The revenues from fuel levy are not enough (around 60%) to cover the entire maintenance needs. The gap is still funded by the government.

The fuel levy is routed through the oil companies to the Zambian revenue Authority which deposits it into MOF account. MOF then issues a check to NRB. NRB is expected to remit the levy every ten days. Initially, when the Board was set up, there were problems. The fuel levy was in arrears as civil servants sat on the money. For the last year the fuel levy has been paid on time. This can become a problem again. For the fuel levy to be deposited into Road Fund Account, the Revenue Act has to be amended. This will take a long time.

The contractors are generally paid on time, within 30 days of receiving the certification. The payment is on 'first in first out' basis.

There are no exemptions for fuel levy. To compensate the farmers, NRB allocates more funds for the feeder roads. Railways are asking for exemption as they feel that by paying the fuel levy for maintenance of roads, they are funding competition.

POLICY GUIDELINES ON ROAD FUND DISBURSEMENTS

1. Road Fund shall be disbursed on the recommendation of the National Roads Board, and approved by the Committee of Ministers on Road Maintenance Initiative.

2. Road Fund shall be disbursed for road maintenance only and not for road rehabilitation, road reconstruction or new road construction.

3. Road Fund shall be disbursed for a programme of road maintenance undertaken with the approval of the National Roads Board/the Committee of Ministers on Road Maintenance Initiative.

4. Road Fund shall not be disbursed for procurement of Capital Expenditure items, as these should be done through the Budget allocation.

5. Road Fund shall not be disbursed to meet travelling and subsistence allowances or pay for Hotel bills and meet any administrative/overhead expenditure.

6. Road Fund shall not be paid to meet outstanding debts as these were budgeted for and were not undertaken on the initiative and approval the National Roads Board/the Committee of Ministers.

7. Road Fund shall not be disbursed to pay for counterpart funding as it should be budgeted and hence paid from budget allocation.

8. Road Fund shall be disbursed for road maintenance in the following proportions: Main/Trunk Roads = 40%; Council Roads = 20%; District Council/Feeder Roads = 40%

9. Road Fund loaned to Ministries to meet budgeted road works should be reimbursed before further loans could be considered.

10. No person shall direct payment to be made from Road Fund the approval of the National Roads Board and Committee of Ministers on Road Maintenance Initiative.

AUDITING

Road Fund accounts are audited on a quarterly basis by external auditors - Deloitte & Touche. Auditor General also audits the books once a year. The Financial statements are submitted to Parliament and also published in major newspapers. They are also available on NRB webpage.
NRB accountant performs thorough Financial Audit. Technical Audits is done for only a small sample of projects which are flagged during Financial Audit. Only 27 out of 119 projects got direct supervision from Road Fund. This is the main weakness of NRB.
3. REVIEW OF THE ROAD FUND IN YEMEN
(Prepared by Ian G. Heggie, 1996)

1. Introduction

The Road Maintenance Fund and the Yemeni Board for Managing the Road Maintenance Fund were established under a Presidential Decree on 21 August 1995. The Fund is an independent entity supervised by the Minister of Construction, Housing and Urban Planning. The decree specifies that the four main functions of the Board are to: (i) provide funds for road maintenance; (ii) simplify procedures for financing and implementing road projects; (iii) determining the affordable road network (the decree says “limit and determine the road network”); and (iv) prepare general plans for road maintenance in the country.

The decree lists the members of the Board as the Chairman (appointed by Parliament, based on the recommendation of the Minister of MOC), the General Manager of the Road Fund, and seven members representing MOC, Ministry of Planning and Development, MOF, MLA, The General Corporation for Roads & Bridges, Ministry of Industry, and Ministry of Oil & Mineral Resources. The latter members are appointed by the Prime Minister, based on the recommendation of their respective Ministers. All members are required to hold positions not less than that of General Manager in their own Ministry. The Board is required to meet at least once per month.

The revenues of the Fund come from: (i) a separate levy on gasoline only (currently YR0.5 per liter, amounting to about 2.6 percent of the pump price); (ii) fines for overloading (not yet being deposited into the road fund pending passage of the necessary regulations); (iii) allocations from the State budget; (iv) loans, grants and donations for road maintenance; (v) all budget funds allocated to MOC and other road agencies for road maintenance; and (vi) any other funds allocated according to applicable regulations. The fuel levy is collected by YPC and deposited directly into the Road Fund bank account at the Central Bank.

The Board submits its road maintenance plans to the Cabinet for approval and also recommends any changes to the various fees attributable to the Road Fund. Once the Cabinet has approved the maintenance program the Board is able to use the funds without any further approvals (i.e., the funds are treated as “off budget” expenditures). The accounts of the Road Fund are subject to regular auditing and inspection by the Auditor General’s Office (the Central Authority of Control). The Minister of MOC is required to issue detailed regulations setting out the organizational structure of the Road Fund’s executive body and the way the Road Fund is to be managed.

YPC has been collecting the fuel levy since 16 January and depositing the funds into the Road Fund under a written, minuted agreement. The balance of the Road Fund as of 30 April 1996 was YR181.965 million (approximately $1.5 million). On an annual basis, the levy should thus generate about YR624 million (approximately $5.2 million). The procedures for collecting and depositing the fuel levy into the Road Fund are well established. Fuel is distributed to retail outlets through YPC’s ten branches in Sana’a, Hodeida, Taiz, Ibb, Marib, Dhamar, Hadramaut, Aden, Al-Moukha and Sa’adah. Monthly returns are made by each branch to their headquarters office in Sana’a where totals are compiled, and taxes and levies are calculated. Payment is then made by cheque directly into the Road Fund account on the 20th of the following month. YPC sends the Board copies of the monthly returns from the branches, together with the amount of fuel levy paid into the Road Fund.

The Board has not yet met, since they are still waiting for MOF to approve their administrative budget. It is expected that this will be done within a month. Staff can then be recruited and the Road Fund could perhaps become operational from the end of August. It is proposed to recruit up to 32 staff who would manage the Road Fund, plan and program road maintenance works, and supervise operation of the
weighbridges (which would continue to be manned by GCRB staff). In-house staff may also prepare some routine maintenance programs.

Current thinking is that the fund would primarily focus on periodic maintenance (mainly strengthening) of the 5,000 km of paved roads under MOC. To that end, Terms of Reference have been produced for consultants to prepare a periodic maintenance program for these roads. It is expected that consultants would be recruited by 31 December 1996 and that the final bid documents would be available towards the end of 1997. No work is presently planned on the 2,500 km of gravel roads under the jurisdiction of MOC, in the 18 municipalities (road length unknown), or on the roughly 60,000 km of roads and tracks under the 217 local councils. Many of the latter roads and tracks were built under the cooperative program and, although about 60 percent of the funds transferred from MLA to the 18 Governates (about YR190 per year) are supposed to assist with maintenance of these roads and tracks, it is not clear how much is actually spent on maintenance. Some local council roads are maintained by local communities, but many roads are now in urgent need of maintenance and rehabilitation.

3. Issues Arising

The above review points to several issues which need to be dealt with to ensure that the Road Fund and Road Fund Board get off to a good start and avoid some of the pitfalls which have affected similar road funds in other countries. There are six main areas where attention is required.

(i) The balance in the Road Fund is already roughly YR182 million. By the time consultants have prepared a periodic maintenance program and have finalized bid documents (estimated to be end 1997), the balance would be nearer YR1,248 million (approximately $10.4 million). It is extremely dangerous to have large cash balances lying around when other government departments are seriously short of fiscal revenues. Experience with other road funds has repeatedly shown that large unspent cash balances usually lead to “raids” on the road fund, or to other unauthorized withdrawal of funds. The growing cash balance should therefore be a cause for serious concern.

(ii) Given the above cash problem, it is essential to expedite preparation of the periodic maintenance program and also to find other ways of undertaking high priority maintenance work in the interim. This might be done by requesting MOC to undertake more routine maintenance on the 7,500 km under their jurisdiction (plans prepared by MOC and approved by the Board prior to implementation, with work certified by a registered engineer after completion but before payment), or by targeting some trial – high visibility – roads in selected municipalities (such projects to be prepared by the municipalities or local consultants and done on a cost-share basis). In the case of municipalities, the objective would be to show the public visible evidence that the Road Fund was working. Some local consultants may be involved in preparing some of the routine maintenance programs.

(iii) The Presidential Decree calls for MOC to issue regulations governing the work of the Road Fund Board’s executive body and to specify its organizational structure. In addition to the organizational structure, the regulations should probably cover maximum staffing levels, withdrawal procedures (i.e., which persons are authorized to withdraw funds from the Road Fund account), and the procedures for amending/adjusting the fuel levy. Although the Board is able to submit its requests for changes in the fuel levy direct to the Cabinet, the Cabinet will almost inevitably turn to the Minister of Finance for advice. It may therefore be advisable to set up procedures for changing the fuel levy which involve the revenue side of MOF in arriving at the recommended course of action. This would defuse any problems which might otherwise arise at Cabinet level.
(iv) At present, the Road Fund intends to concentrate on the 7,500 km of roads under MOC. In the medium to long term it would be wise to extend coverage to all roads. Road users throughout the network are paying the fuel levy and it is desirable to win as much support as possible from all road users before proposing any increases in the fuel levy. The Board should therefore start giving some consideration to extending the scope of its maintenance funding to cover municipal and local council roads and on the basis for any cost-share arrangements to be used for this work.

(v) The membership of the Board may eventually need to be amended. It is usual to find a representative of MOT sitting on a road fund board. MOT essentially represents the interests of the road transport industry and MOT is therefore expected to take a close interest in the condition of the roads and the additional levies paid by the industry. It is also usual to have at least two members on the board who directly represent the road transport industry and the business community. It is essential to win the support of these groups when considering increases in the fuel levy. The Minister of MOC may therefore wish to consider adding one additional voting member to the Board to represent MOT, and two unofficial non-voting members to the Board to represent the Federation of Yemen Chambers of Commerce & Industry, and the road transport industry (perhaps the Ferzah?). If this innovation works well, the arrangement could then be regularized through a formal amendment to the decree.

(vi) The Road Fund Board has not yet met and there are no plans to have any meetings until the Road Fund’s executive body has been properly staffed (i.e., not before August). However, it may be desirable for the Board to meet before then. A number of issues have already arisen in relation to the business of the Board (items (i) to (v) above) and it would be helpful to get the Board to discuss these issues so that the Chairman can rely on their support during the potentially difficult months ahead.
4. FRAMEWORK FOR SETTING UP A NEW ROAD FUND IN LESOTOHO
(Prepared by Ian G. Heggie, 1996)

Introduction

Allocations for road maintenance currently come from the government’s consolidated budget. However, given the growing size of the road program and the other urgent demands on the government’s budget, it is simply not possible to allocate sufficient funds for road maintenance from the consolidated budget. It is therefore proposed to gradually shift the road sector onto a fee-for-service basis under which road users would pay directly for road maintenance. The aim is to ensure that: (i) sufficient funds are allocated for maintenance; (ii) maintenance allocations cover all roads; (iii) financial discipline is strengthened to ensure that the public gets value-for-money; and (iv) the fiscal burden on government is reduced to manageable proportions.

The fees (or road tariff) would consist of an access fee – road toll-gate fees, border fees/short-term SACU permits, and a supplementary heavy vehicle license fee – and a user fee in the form of road maintenance levy collected on all transport fuels. General budget funds would be reserved for upgrading, improvement, and new construction. Since the above charges are not regular taxes, but fees-for-service, the proceeds from the road tariff will be deposited into a special fund which has been established as the Road Fund by Legal Notice No. 179 of 1995 published in the Government Gazette. The regulations of the Road Fund have been gazetted in Legal Notice No. 16 of 1996. The notice specifies the purpose of the special fund, its sources of revenues, and how the fund will be managed. It has been agreed that the special fund (road fund) will be pro-actively managed by a representative board of management. The Board has been created within the framework of Legal Notice No. 16, and is assisted by a full-time independent Secretariat which will manage the day-to-day affairs of the Road Fund, and monitor all revenues and expenditures on behalf of the Board. The Board reports to the Ministry of Finance (MOF) and will generally advise the Minister on all matters pertaining to the financing of roads. In the medium term (expected to be two years), based on experience with the Board, MOF would seek to bring forward legislation to turn the Board into an autonomous board managing the Road Fund in an executive capacity.

Expenditures to be Financed

Revenues from the road fund will primarily be used to finance routine and periodic maintenance of the classified road network, together with maintenance of selected Village Councils roads, and selected road safety projects. Village Council roads include those under the jurisdiction of the Civil Works Section (CWS) of the Ministry of Local Government as well as roads where the Village Council agrees to make their contribution to maintenance through a cost sharing arrangement. Village Councils will be expected to contribute 50 percent towards the cost of maintaining Village Council roads, and may choose to do so by contributing direct labor. District Councils will be expected to contribute 50 percent towards the cost of maintaining urban roads using revenues from rates and other local taxes. Road fund revenues may be used to finance rehabilitation, but will only be used to finance road upgrading and new works, once all road maintenance requirements have been met.

Source of Revenues

Revenues will come from four main sources: (i) road toll-gate fees collected on all vehicles leaving Lesotho, including GOL vehicles; (ii) border fees/short-term SACU permits charged on all foreign trucks entering Lesotho; (iii) license fees on motor vehicles and a supplementary license fee collected from heavy vehicles to ensure they pay in full for the damage they do to the road pavement; (iv) fines on overloaded vehicles; and (v) a road maintenance levy added to the price of all transport fuels, including the fuel
consumed by government. Lesotho cannot raise its fuel prices above those prevailing in South Africa and it attempts to keep the price of fuel at least 5 lisente below the South African level. Since the prices of petrol and diesel in Lesotho are currently 20 lisente and 12 lisente below those in South Africa, there is scope for adding a road user charge of 15 and 7 lisente respectively to the current price of petrol and diesel without reducing the relative margin between Lesotho and South Africa to less than 5 lisente. Although the relative prices between Lesotho and South Africa vary, the current differentials have been used to estimate the composition of the road maintenance levy.

The Road Fund Board

The Board consists of a chairman and eleven members who have been appointed by the Minister of Finance. Six members represent concerned government departments and five represent non-governmental organizations. The government members will be nominated by their Principal Secretaries (Ministries of Finance, Economic Planning, Works, Transport & Communication, Local Government, and Natural Resources), the non-governmental members will be nominated by the organizations they represent (Chamber of Commerce and Industry; Bus and Mini-bus Association; Transport Association; Architects, Engineers and Surveyors Association; and Law Society). Additional non-voting members may be co-opted to the Board when required. Members of the Board will be appointed for a period of two years and will be compensated for the time spent attending board meetings. Board meetings will be held at least once a month and will have four sub-committees: Road Safety, Environment, Engineering, and Road Fees.

Management of the Road Fund

In general, funds from the Road Fund will only be disbursed for goods and services forming part of an approved maintenance program. Each check withdrawing funds from the road fund will be signed by two people: one from the Board and the other from MOF. Work undertaken by contractors will be certified by a registered engineer before payment is made. Road agencies will transmit requests for payment to the road fund secretariat (copy to MOF) who will arrange to pay the contractor directly out of the road fund account. Work undertaken by force account will be subject to similar financial controls.

The Board will review the annual expenditure programs put forward by the various road agencies and decide, in light of these requests and in consultation with MOF, on the overall size of the road program to be financed through the road fund. Based on these revenue requirements, it will then recommend to MOF the required levels of the supplementary licenses and road maintenance levy. The Board will also recommend how the revenues from the road fund should be sub-divided between the various road agencies entitled to draw from the road fund, including those dealing with road safety.

The Board will negotiate agency agreements with of the Department of Customs and Department of Transport and Traffic for collection of road toll-gate fees, border fees/short-term SACU permits, and heavy vehicle license fees. The agreements will provide for fees to be directly deposited into a designated account at the Central Bank. The road maintenance levy (added to the price of fuel) will be collected by the oil companies in South Africa and paid directly into a designated account at the Central Bank.

The accounts and other financial statements of the road fund will be audited annually by a firm of auditors selected by the Auditor General. The audited annual accounts, which will eventually include a Statement of Income, a Balance Sheet, and a Statement of Cash Flow, will be published within three months of the end of each financial year. The audit will include a full financial audit and a selective technical audit. The Board will also publish an annual report within six months of the end of each financial year, dealing generally with the policies and activities of the Board during the year, and including a copy of the audited accounts and the auditors report on the accounts.