

### Road Funds

Relying solely on government budgets for financing road maintenance nearly always leads to roads being under-funded. As a consequence, road assets are eroded, vehicle operating costs increase and the country builds up a large backlog of rehabilitation work. To overcome this problem, a new generation of Road Funds were developed in the mid-1990s, based on the **fee-for-service concept**, meaning that road users pay explicitly for roads (mainly through fuel levies), the funds are managed through an independent Road Fund Administration and the arrangements are designed to ensure that funds are not abstracted from other sectors.

In the United States, Japan and New Zealand road funds have been in place since the 1950s. The New Zealand one especially, is an excellent example of good practice. Similar, so called **1st generation road funds**, were established in other countries in the 1970s, 80s and 90s, but these often lacked proper specifications and controls, leading to misuse. As a result, most were closed down or restructured as **2nd generation road fund**.

There are numerous resources available assisting staff in setting up or restructuring a road fund and experiences are rather well documented. The resources cover important questions like:

- **What type of expenditures should the Road Fund finance?** Most funds finance maintenance and, when maintenance is fully covered, then spend the balance of revenues on rehabilitation and minor new works. A few funds finance all road expenditures and enable the road sector to operate independently.



Some subsidise bus services and even provide funds to other transport modes. However, care needs to be taken to ensure the Road Fund does not simply become a substitute for general government funding and does not undermine the fee-for-service concept.

- **Which roads should be financed by the Road Fund?** Most modern Road Funds meet all costs on national roads and provide some funds on a cost-share basis to finance urban and rural roads. Few finance national roads only, since the main source of revenue - the fuel levy - is paid by all road users, regardless of which roads they use.
- **Where will revenues come from?** Revenues mainly come from a fuel levy, vehicle license fees and international transit fees. These charges - the road tariff - are usually collected by the Ministry of Finance and are deposited into the Road Fund bank account. They may also be collected under contract by the Revenue Authority, or a private sector agency.
- **How should the Road Fund be managed?** Most successful Road Funds are managed through an independent Road Fund Administration. Oversight is provided by public-private board consisting of representatives of

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government and key private sector road organisations (e.g., Chamber of Commerce, Road Transport Association, etc.). The board delegates day-to-day management of the Road Fund to a Chief Executive with a small staff. The arrangement is designed to win road user support for the road tariff and associated road program.

- **How should funds be divided between the different agencies entitled to draw from the Road Fund?** This is usually done through a formula that attempts to share the funds in relation to road length, traffic volume and population served.
- **How should funds be disbursed to the road agencies?** Usually, there is an approved (and affordable) road program and funds are disbursed through a revolving fund (or equivalent), or contractors are paid directly by the Road Fund Administration.
- **How is the Road Fund audited?** Most modern Road Funds are regularly subjected to technical and financial audits by private sector auditors (drawn from a list supplied by the Auditor General's Office) and/or are audited by the Auditor General.
- **What sort of legal basis should the Road Fund have?** Some road funds have been set up under existing legislation, some through decrees and others under special purpose legislation. Although the first two may be used to initially to establish the Road Fund, it is essential to eventually give it a firm legal basis by passing legislation. Several examples and standard

templates are available for doing this.

**Key lessons** of experience with 2nd generation Road Funds centre on good governance, transparency and comprehensive stakeholder involvement and consensus building. A road fund needs to:

1. Have an effective oversight board under an independent chairman of standing;
2. The concerned Minister should not chair the board;
3. Publicise their work to win public support for the fuel levy, other charges and the associated road program;
4. Operate transparently; and
5. Subject the working of the road fund to regular technical and financial audits.



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### Key documents:

- **Case study:** Andreski, A., [Case Study of Road Funds in Ghana, Malawi and Tanzania](#), background paper to Module 1, Senior Road Executive Course, University of Birmingham, 2008.
- **General:** Asian Development Bank, [Road Funds and Road Maintenance, An Asian Perspective](#), ADB, Manila, Philippines, July 2003.
- Guillossou, J-N. and Stankevich, N., [Assessment of Road Funds in South Asia Region](#), Transport Note No TRN-37, World Bank, December 2008.
- **General:** Heggie, I. and P. Vickers, **Commercial Management and Financing of Roads**, Technical Paper 209, World Bank Washington DC, 1998, chapters 3, 7 and 8 plus Annexes. This extensive resource has been translated into Arabic, Chinese, French, Hungarian, Russian and Spanish and can be ordered through the World Bank.
- **Case study:** Zietlow, G., [Road Funds in Latin America](#), background paper to Senior Road Executive Course, University of Birmingham, 2004.
- **Hands on guidance:** Heggie, I., [Setting up a Road Fund in a Commercialised Road Sector](#), background notes to Senior Road

Executive Course, University of Birmingham, 2006.

- **Hands on guidance:** Heggie, I., [Day-to-day Management of an Independent Road Fund Administration](#), background notes to Senior Road Executive Course, University of Birmingham, 2006.

### Key presentations:

- Heggie, I., [Managing a modern Road Fund, 15 Years of Lessons Learned](#), presented during Module 1 Road Finance and Road Fund Management, Senior Road Executive Course, International Road Federation/University of Birmingham, 2009.
- Ugandan Road Fund Task Force Secretariat, [Principles of a Road Fund](#), 2007. This is an extensive presentation about the preparations of setting up a Road Fund in Uganda, addressing institutional aspects, pros and cons, when to implement, alternatives etc.

### Recommended Links:

- [Association des Fonds d'Entretien Routier Africains \(AFERA\), African Road Maintenance Funds Association \(ARMFA\)](#)
- [The World Bank has extensive information about Road Funds on its website](#)

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### For further information

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