

Managing a Modern Road Fund 15 Years of Lessons Learned



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Overview

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 2. Board structure, role and PR Program
 3. Functioning of the Secretariat
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- Summary

Commitment & Legal Basis

- ❑ Without firm commitment & strong legal base:
 - MoF regularly withholds funds
 - revenue less than requirements
 - contractors/concessionaires ask for sovereign guarantees
- ❑ Lenders also want sovereign guarantees -- causes debt to be counted “on budget”
- ❑ Can initially use decrees, Finance Act, etc., -- must eventually pass basic legislation

Board Structure & Role

- Advisory board with right members as effective as non-executive board
- Desirable to have 2-3 members appointed to represent public interest

BUT

- Nominated by board or – if Minister – cannot become chair
- Otherwise Minister may appoint cronies and appoint one crony as chair (Mal)

Board Structure & Role

- Members should serve staggered terms – problems if all terms expire at same time (Zam)
- Chair most important member – calls meetings, agrees agenda and manages discussion
- Chair should be independent (Gha), particularly of Advisory Board (Lat)
- Works best when written agreement between Minister & Board and chair regularly updates Minister


Board Structure & Role

- Board members should represent committed constituency (these are “our” roads)
- Should have written terms of reference
- Need to develop effective outreach program to “sell” road program to users
- Members usually require some form of initial training and ongoing CPD

Board Examples



Board PR Program (Outreach)

- Independent chair delivers better PR and this – in turn – raises revenues 
- Normally written into Board terms of reference
- PR must explain properly funded maintenance saves o/a costs (\$1 more on maintenance = \$3 saving in VOCs)
- PR program makes case for adequate funding & value of independent road fund

Board's PR Program



Functioning of the Secretariat

- Need qualified staff (Jor) – competitive salaries, or outsource (Pol)
- If outsource, need strong in-house client unit
- Competitive recruitment of Head who appoints rest of staff
- Must prepare long term financial projections to ensure solvency
- Have to balance expenditure program against available revenues

Setting the User Charges

- ❑ Commonly set under government tax-making power and included in budget:
 - board consults users on willingness to pay
 - recommends increased charges to MoF
- ❑ Easier for board to recommend increases when road conditions are improving
- ❑ With effective board consultation, MoF generally accepts board recommendation

Setting the “Road Tariff”

- ❑ Small number of boards have legal power to set own user charges (Nam, Mli??)
- ❑ Gives Board considerable freedom -
 - negotiates framework agreement with MoF
 - consults users, sets charges and submits proposals to parent Ministry (not MoF)
- ❑ If charges consistent with government fiscal targets, Minister issues “no objection”
- ❑ Likely long-term solution – creates genuine public enterprise – still a long way to go

Exempting Off-Road Usage

- ❑ No general exemption – fuel maintenance levy is a user charge (no diplomatic exemptions)
- ❑ Third of diesel fuel used outside road sector:
 - agriculture most important and influential
 - fishing and inland waterways also important
 - railways, power & mining may require attention
- ❑ Exemptions justified for off-road usage of diesel (petrol less of a problem)
- ❑ Generally little pressure for exemptions until fuel levy reaches about \$0.03-0.05 per liter

Exempting Off-Road Usage

- ❑ Some countries have devised ways to ensure off-road usage of diesel exempted
- ❑ Attempted solutions include:
 - tax exemptions, or colouring un-taxed diesel
 - rebates to compensate non-road users ex post (Nam)
 - weight-distance charges (Nam, NZ)
 - no exemptions, but higher fund allocations to farming areas (Zam & proposed in CHI)

Collecting the Revenues

- ❑ Charges collected by MoF face high level of avoidance, evasion and leakage:
 - license fees = 35-50%
 - transit fees = 60%
 - fuel taxes = 0%
- ❑ Road fund has more incentive to collect funds
- ❑ Can collect directly (license fees, road tolls), or under contract (fuel levy, transit fees)
- ❑ Works well under contract -- must pay realistic agency fee (Pol, BP-Zam)

Collecting the Revenues

- ❑ Contracts can be with Customs, oil companies, Revenue Authority, etc.
- ❑ Overload fines difficult, but can be done (UK)
- ❑ NZ collects ALL revenues under contract:
 - fuel levy by customs, 0.02% collection fee (low)
 - registration fees by LTNZ, 20% collection cost
 - weight-distance charges by LTNZ, 3.4% collection fee - 1/3rd spent on enforcement
- ❑ Mozambique 3% fee for transit charges

Depositing the Revenues

- ❑ Biggest problem faced by ongoing road funds
- ❑ Revenue typically goes via MoF:
 - results in delays (Tan)
 - some revenue often withheld
- ❑ Direct deposit under legislation, or collection by Revenue Authority, is preferred solution
- ❑ Otherwise try to get MoF to informally deposit directly – strong board can play major role

What Can the Fund Finance?

- ❑ Some road funds (US FHTR) support urban rail/mass transit, high speed rail, bike trails
- ❑ Several funds provide subsidies for urban/rural transport services
- ❑ NZ road fund has several innovative features:
 - first charge = road safety (pays for contract with traffic police)
 - also special provision – “alternatives to roads”
- ❑ Such programs may indirectly benefit road users, but difficult to keep right balance

Qualifying Expenditures

- First charge usually:
 - managing fund (subject to a limit, <5%)
 - routine & periodic maintenance
 - road safety
- Once these fully-funded, rehabilitation & minor works (often subject to a limit – 10 to 15 %)
- Major works financed through government's development budget
- Some road funds borrow (revenue bonds) – limit to 20%

Dividing Funds

- ❑ Key lesson, keep it simple, fair and transparent
- ❑ Do not write into legislation, use Board or Gazetted regulation instead
- ❑ Methods based on RMS generally too complex, particularly for regional/rural roads
- ❑ First divide between national, urban, rural
- ❑ Then divide between individual agencies within each urban/rural group

Dividing Between Agencies

- ❑ Typically use needs-based formula: (i) size of asset (length & type); and (ii) amount of traffic (loading)
- ❑ US originally used correlation analysis:
 - 0.55^* relative lane-km + 0.45^* relative veh-km
 - subject to minimum (min. = 0.5 %; ave. = 2%)
- ❑ Latvia = weighted (maintainable) road length
- ❑ Korea = weighted road length, population, vehicle population and financial (tax) resources available

Cost-Share Arrangements

- Little progress on this issue
- Most/all funds finance 100% of national roads
- Usually pay all costs on urban/rural roads, but trying to change this, particularly for urban roads
- Where cost share applied (e.g., NZ) on average typically pays 50% of costs
- Usually pays slightly higher proportion of new investment (e.g., in NZ it is 5% higher)

Disbursing Funds

- ❑ Funds only disbursed for “approved” programs
 - procedures used to strengthen financial discipline
- ❑ Three main options:
 - approve plan and disburse in regular installments
 - set up a revolving fund, disburse on regular basis & audit results ex post
 - pay contractors directly after certifying work has been completed according to specification
- ❑ Regular ex post financial & technical audits

Auditing Arrangements

- Normally by Auditor General, or private auditor approved by Auditor General
- Audit regulations sometime problematic (Leb)
- Private auditors may also have inbuilt bias (Gha)
- Qualified accounts can be a powerful weapon (Zam)
- Audit must be rigorous and results widely publicised

General Lessons

- If road fund gets into trouble do NOT ask donors for help
- Donor interference undermines local ownership -- “their” fund, not “our fund”
- Essential to have strong local ownership
- Means you have to solve your own problems in your own way (Zam)
- Strong Board is a crucial element

Summary I

- Difficult to succeed without strong government commitment and firm legislation
- Board plays key role and must develop effective PR program
- Secretariat needs qualified staff – can outsource but must have strong in-house client unit
- Must eventually exempt off-road usage – good experience available
- Collect revenue under contract, but pay reasonable agency fee and go for direct deposit

Summary II

- Focus qualifying expenditures on maintenance and be wary of borrowing
- Use simple ways of dividing funds and move towards cost sharing for urban roads
- Regular disbursement best – agreed monthly transfers or revolving fund
- Make sure audit is rigorous and publicised
- Do not ask donors to rescue “your” road fund

Thank you for your attention



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Chairman versus PR Effort

