

Road Funds in the CAREC Region

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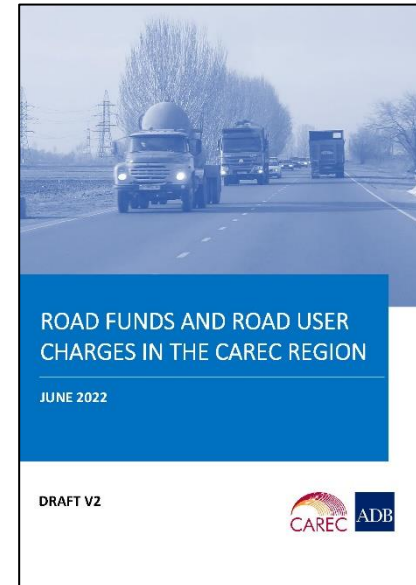
Baku, Azerbaijan, September 2022

Road Funds

- **First generation road funds - earmark road user charge revenues to the road sector**
 - Dedicated non-lapsable treasury accounts under Ministry of Finance (part of budget)
 - Establishment through simple legislation (decrees) linked to existing laws
 - Managed directly by department or agency responsible for roads
 - Use of government accounting procedures – limited auditing and reporting
 - Little to no participation of road users in setting priorities and monitoring progress
- **Second generation road funds - improve accountability and transparency in the use of earmarked revenues**
 - Sometimes external accounts with commercial banks (extra-budgetary)
 - Establishment through a specific law with complementing regulations
 - Managed by separate entity - Secretariat + Board
 - Often with representation of road users
 - Strengthened accounting, auditing and reporting procedures
- In practice, road funds tend to show a mix of first and second generation aspects

Road Funds in the CAREC region

- Road funds currently exist in 5 countries in the CAREC region
 - Azerbaijan Road Budget Trust Fund (2006)
 - Kyrgyz Republic Road Fund (1998-2018), new Road Fund (2021)
 - Mongolia State Road Fund (1998), new law (2017)
 - Pakistan Road Maintenance Account (2003)
 - Uzbekistan Republican Road Fund (2003-2019), Republican Trust Fund for Road Development (2019)
- Review of these road funds was carried out by ADB in 2021-2022
- This presentation will look at the main findings
 - Eligible expenditures and allocation of funding
 - Sources of funding and revenue levels
 - Management structure of the road funds
 - Reporting and accounting requirements



Eligible expenditures and allocation of funding

- Road funds may finance different activities
 - Maintenance and current/midterm repair
 - Capital repair
 - Construction and upgrading
 - Safety improvements
 - Toll plaza construction
 - Roadside facilities and services
 - Road fund operation
 - Road agency operation
 - Road network inspections and surveys
 - Equipment (for state-owned maintenance enterprises)
- The more activities may be financed by the road fund, the higher the funding needs
- Generally there is a prioritization of certain activities
 - Order in which activities may be funded
 - Upper limits of funding allocation for certain activities

Eligible expenditures and allocation of funding

Activity	AZE	KGZ	MON	PAK	UZB*
Winter + summer maintenance	++	+	++	++	+
Routine maintenance / current repair	++	+	++	++	+
Emergency maintenance / emergency repair	++	+	++	++	+
Periodic maintenance / midterm repair	++	+	+	++	+
Rehabilitation / capital repair	++	+	+	+	+
Inspections and asset management	+	+	+	+	+
Operation of road fund secretariat	-	+	-	-	+
Toll plazas	-	+	+	+ (<2.5%)	-
Operation of road agency	-	+	-	-	+
Equipment procurement	-	+	+ (<10%)	-	+
Safety improvements	-	+	+	+ (<5%)	+
Geometric improvements	-	+	-	+ (<6%)	+
Roadside facilities and services	-	+	-	+ (<1.5%)	+
Design	-	+	-	-	+
(Re)construction	-	+	-	-	+
Loan repayments	-	+	-	-	-

* This refers to the Republican Road Fund that existed previously in Uzbekistan

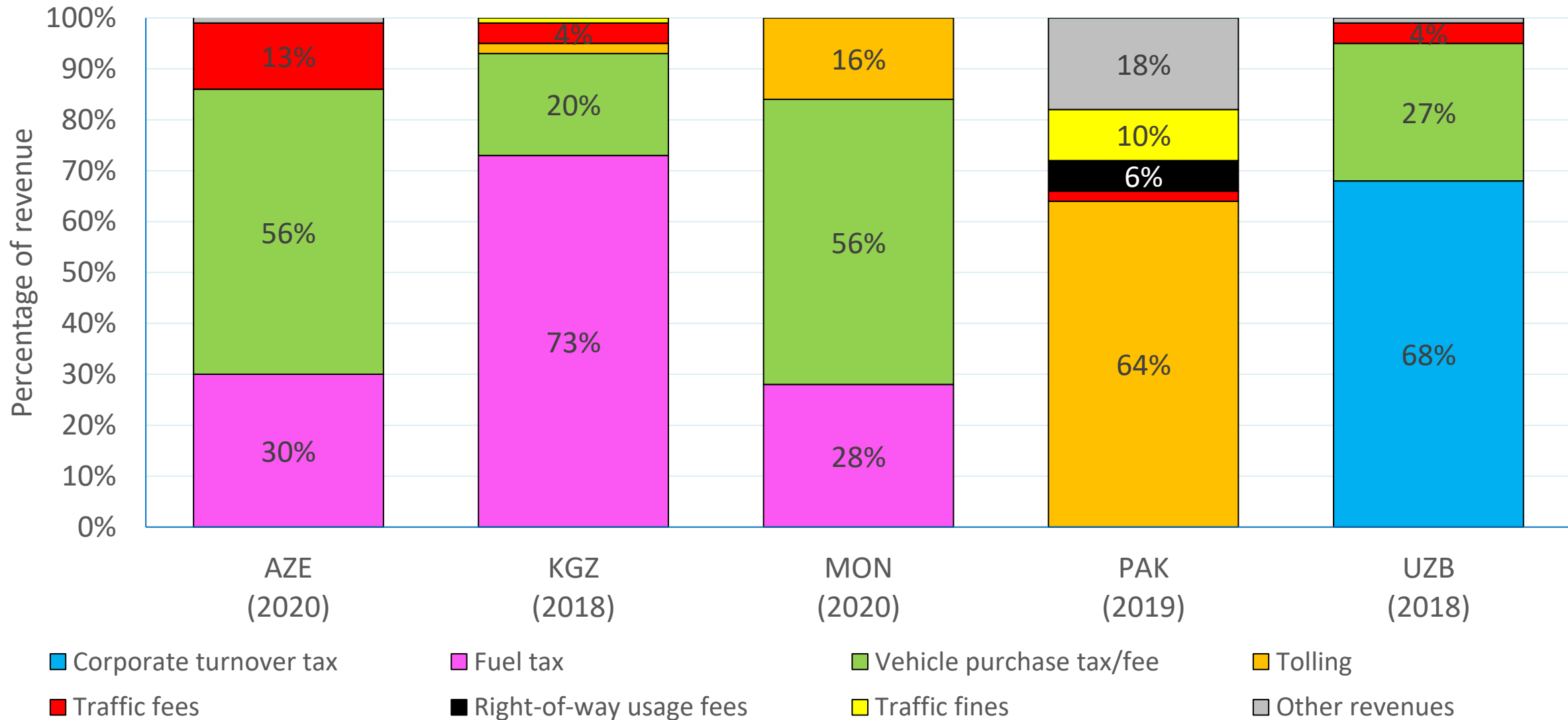
Sources of funding

- 4 main sources of funding: Fuel tax, Vehicle import tax/duty, Tolling, (Corporate turnover tax)
 - Without at least one of these sources, it is difficult to collect sufficient revenue

Road User Charge	AZE (2020)	KGZ (2018)	MON (2020)	PAK (2019)	UZB* (2018)
Corporate turnover tax	-	-	-	-	68%
Fuel tax	30%**	73%	28%**	-	-
Vehicle purchase tax/fee	56%	20%	56%**	-	27%
Tolling	-	2%	16%	64%	-
Foreign vehicle entry fee	3%**	-	-	-	4%
International transport permit fee	4%	-	-	-	-
Vehicle technical inspection fee	6%	-	-	-	-
Load and dimension control fee	-	3%	-	2%	-
Indivisible load fee	-	1%	-	-	-
Right-of-way usage fees	-	-	-	6%	-
Compensation for damages fine	-	1%	-	-	-
Traffic fines	-	-	-	10%	-
Simplified tax for transporters	2%	-	-	-	-
Other revenues	-	-	-	18%	1%

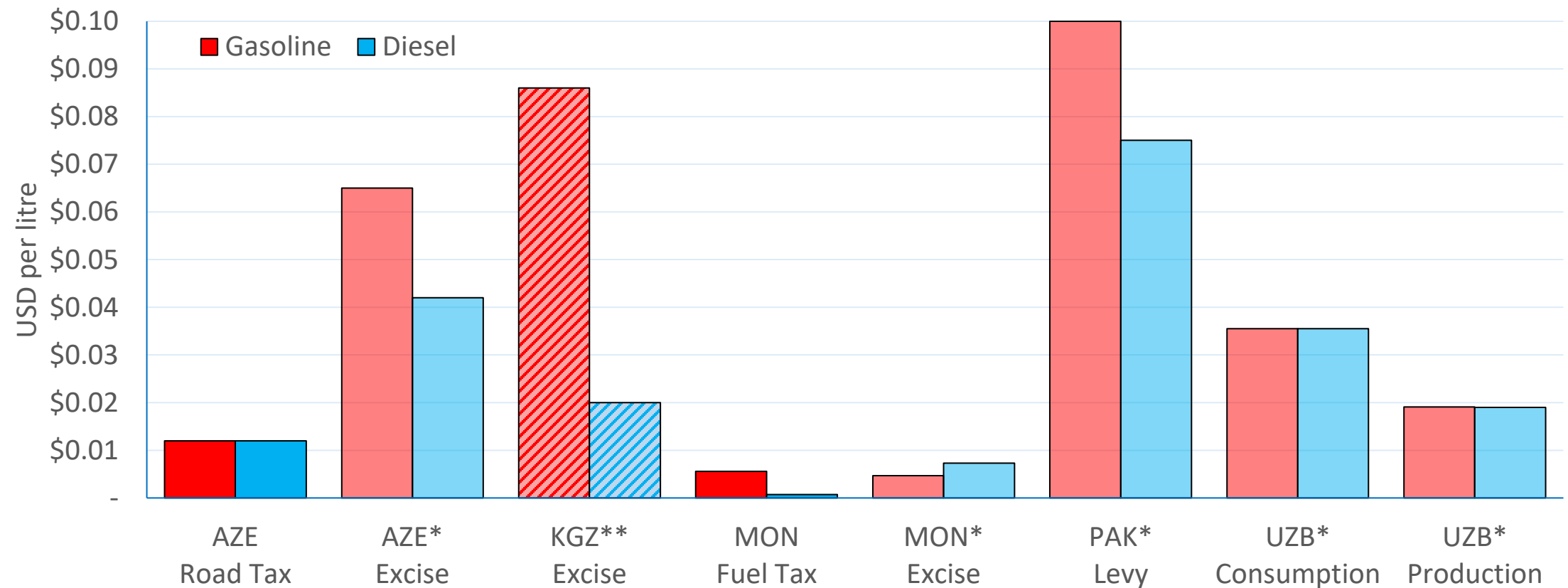
* Based on the former RRF, ** These revenues are reported together, and the division is based on estimations.

Sources of funding



Fuel tax or levy

Fuel type	AZE Road tax	AZE* Excise	KGZ** Excise	MON Tax	MON* Excise	PAK* Levy	UZB* Production	UZB* Consumption
Gasoline	\$0.012	\$0.065	\$0.086	\$0.0056	\$0.0047	\$0.100	\$0.0191	\$0.0355
Diesel	\$0.012	\$0.042	\$0.020	\$0.0007	\$0.0073	\$0.075	\$0.0190	\$0.0355



* Not earmarked to the road funds, ** Only 50% earmarked to the road fund

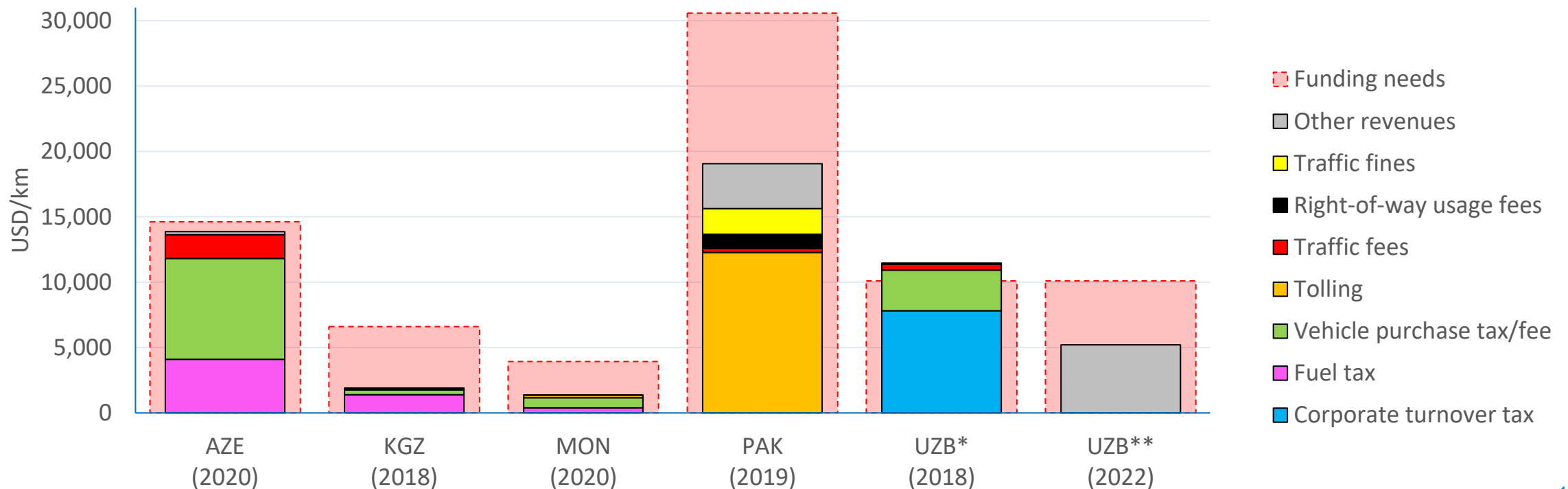
Vehicle import tax/duty

Fuel type	AZE Excise Tax	AZE Customs Duty	KGZ Registration fee Inside EAEU	KGZ Registration fee Outside EAEU	MON Excise Tax	PAK* Registration fee	UZB* Registration fee	UZB* Customs Duty
Motorcycle 250cc (\$5,000)	-	-	\$230	\$230	-	\$100**	-	\$20
Car 1,500 cc (\$25,000)	\$265	\$600	\$195	\$500	\$285	\$500**	\$750**	\$3,000
Electric car 70KWh (\$40,000)	-	\$600**	\$180	\$180	\$145	-	\$1,200**	-
Bus 6,000 cc (\$100,000)	\$9,400	\$4,200	\$435	\$810	\$5,425	\$1,000**	\$3,000**	\$12,000
Truck 10,000 cc (\$100,000)	-	-	\$565	\$910	\$5,425	\$1,000**	\$3,000**	\$12,000

** Not earmarked to road funds, ** Based on percentage of import value*

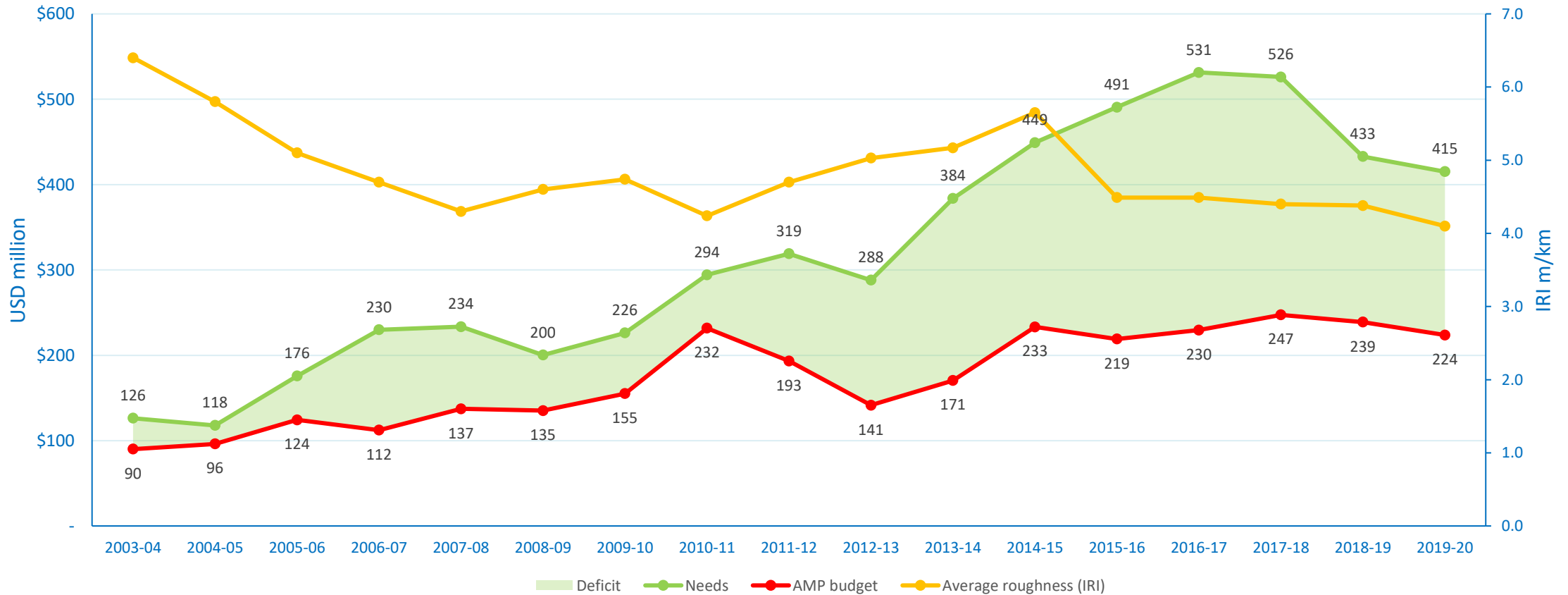
Coverage of funding needs

	AZE (2020)	KGZ (2018)	MON (2020)	PAK (2019)	UZB* (2018)	UZB** (2022)
Road network length (km)	13,671 km	18,942 km	15,249 km	13,570 km	42,869 km	42,869 km
Road fund revenues (USD million)	\$189.6	\$35.8	\$20.8	\$258.7	\$491.6	\$223.3
Maintenance and repair needs (USD million)	\$200	\$125	\$60	\$415	\$433	\$433
Road fund revenues (USD/km)	\$14,000	\$1,900	\$1,400	\$19,000	\$11,500	\$5,200
Maintenance and repair needs (USD/km)	\$15,000	\$6,600	\$4,000	\$30,000	\$10,000	\$10,000
Road fund coverage (%)	95%	29%	35%	62%	114%	52%



Coverage over time

- The level of coverage may change over time
 - Due to inflation regarding construction costs
 - Due to the expansion of the road network or the use of higher standards
- This requires regular adjustment of road user charge rates to ensure sufficient revenue



Management structure of the road funds

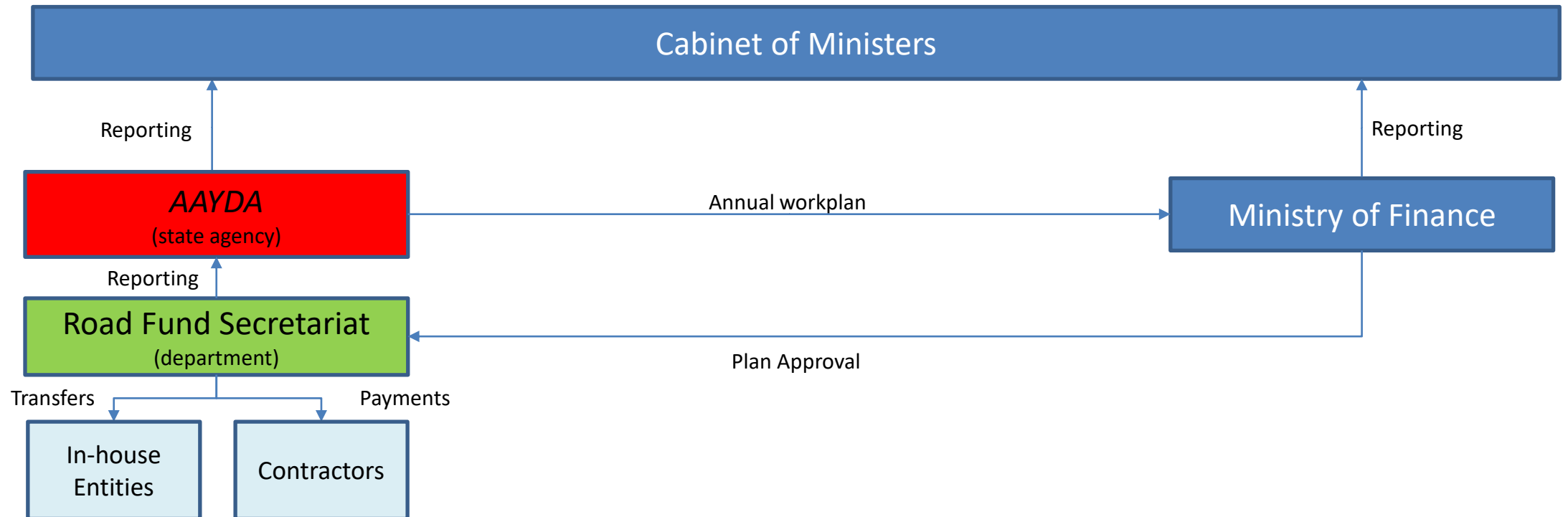
- Road Agency/Ministry (responsible for road sector)
 - Monitoring of the road network and identification of the maintenance and repair needs
 - Preparation of the (draft) annual workplan and cost estimate (budget request)
 - Implementation of the approved workplan
- Ministry of Finance (responsible for financial control)
 - Traditionally responsible for approving the budget allocation (with Parliament)
 - Monitoring the proper use of funds
- Road Fund Secretariat
 - Day-to-day (financial) management of the road fund and preparation of reports and accounts
 - Professional staff – often higher salaries than government to attract and retain qualified staff
- Road Fund Board
 - Decision-making for the road fund – approval of the annual workplan and proposing road user charge rates
 - Members include road agency/ministry, often ministry of finance, and preferably also other ministries
 - Members should also include road user associations (e.g. goods and passenger transport associations)

Management structure of the road funds

- Location of the secretariat
 - Secretariat is mainly responsible for financial management
 - The Road Agency is not the best location for the secretariat
 - Either under the Ministry of Finance or as a separate entity
- Existence of a road fund board and its membership
 - There should be a board to approve the annual workplan and propose road user charge rates
 - Wide membership to reflect different views on needs and priorities
 - The board should include other entities than the road agency and its parent ministry
 - The board should include other government entities (finance, economy, planning, etc.)
 - Ideally the board should also include road user representatives (e.g. transport associations)
- A proper structure, placing and membership can improve the transparency and acceptance of the road fund and the works it finances

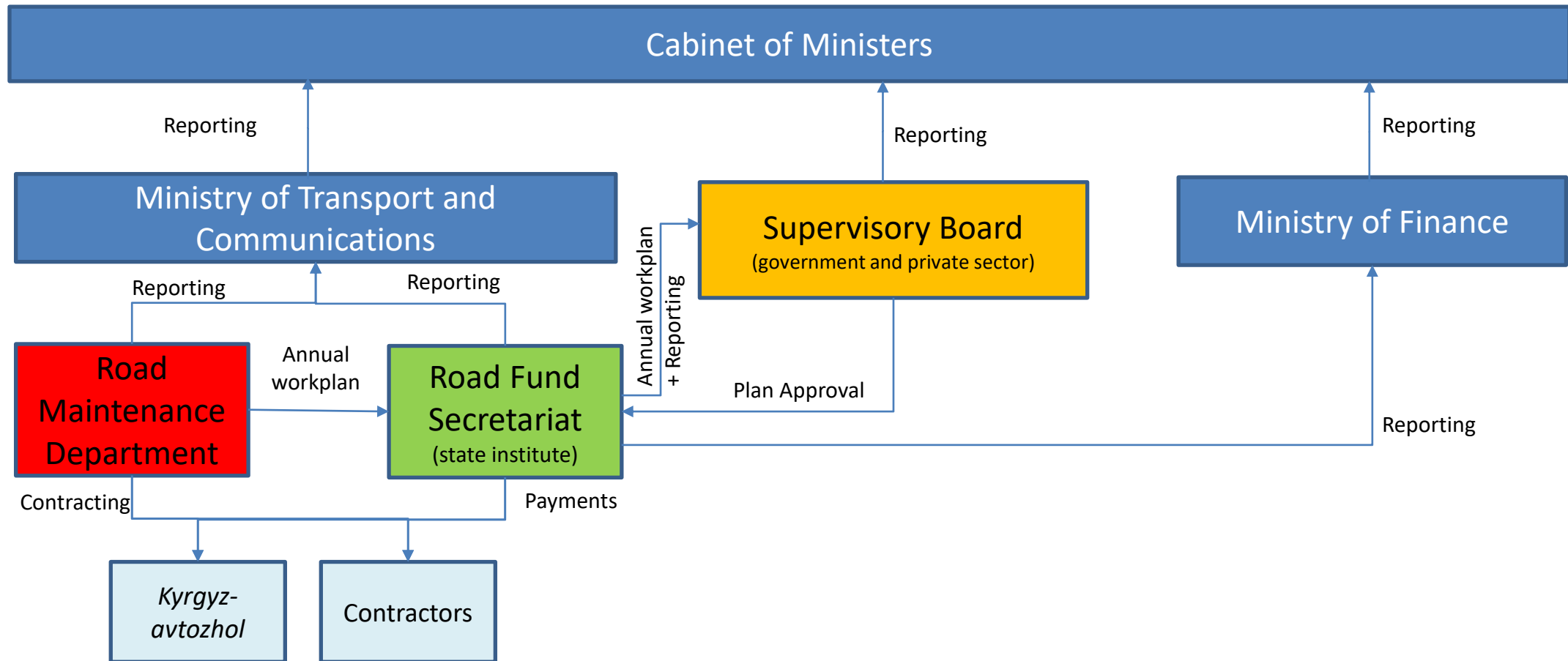
Example management structure – Azerbaijan

- No road fund board – annual workplan approved by Ministry of Finance
- Secretariat forms part of road agency (AAYDA)



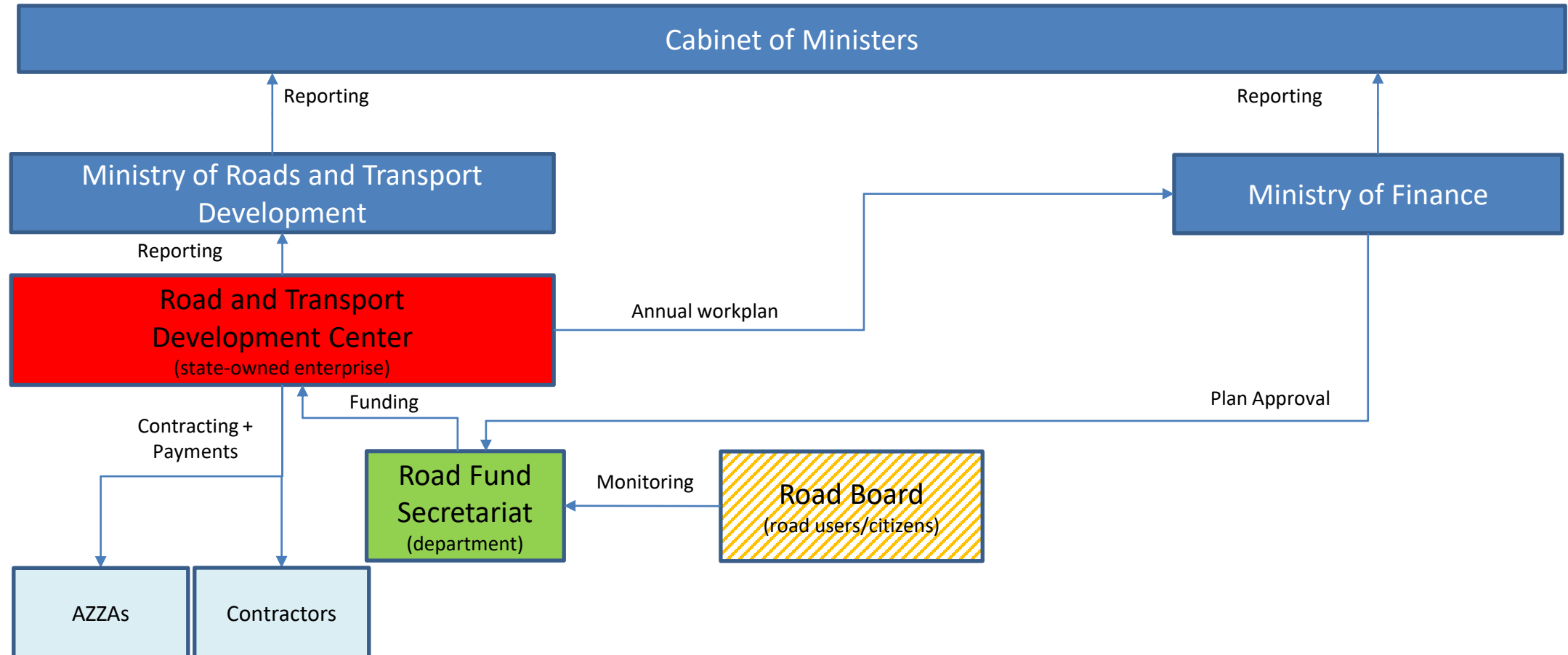
Example management structure – Kyrgyz Republic

- Separate road fund board with different ministries and road user representatives
- Secretariat under the parent ministry responsible for roads



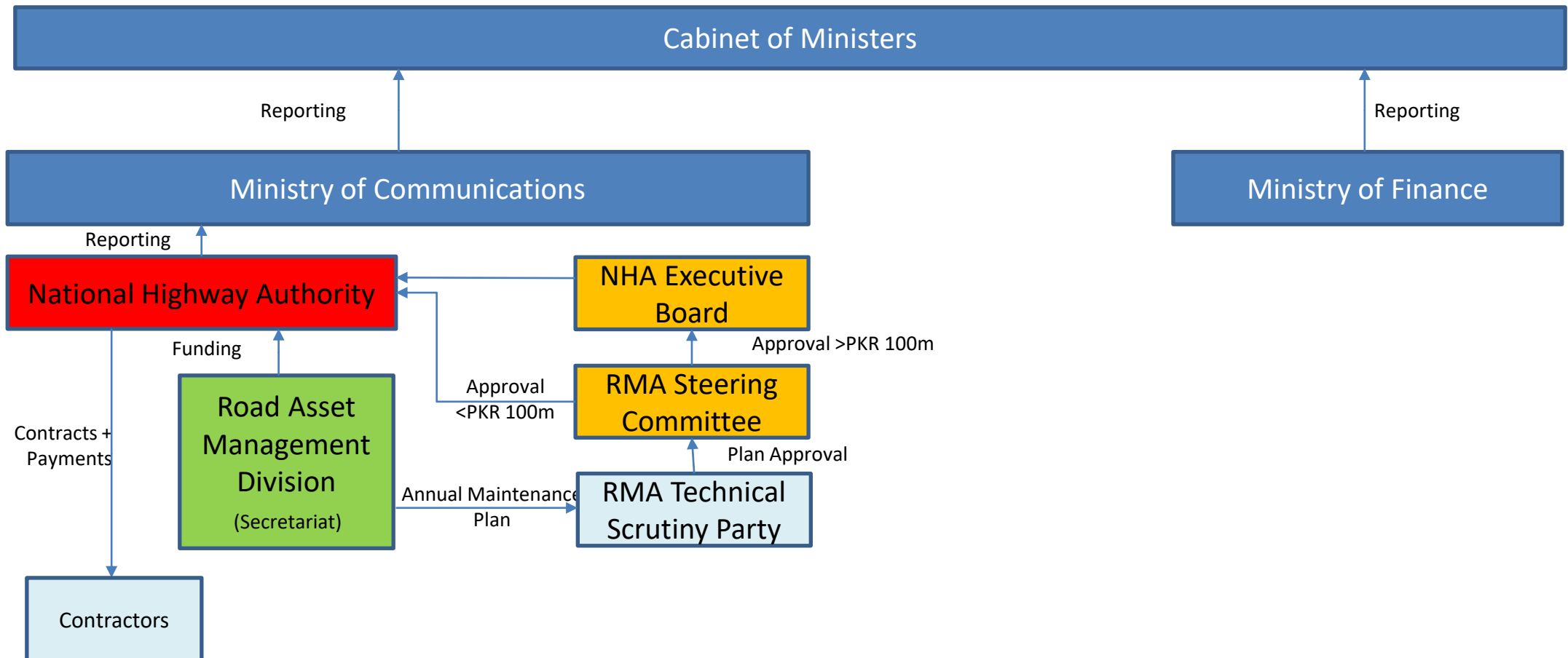
Example management structure – Mongolia

- Road Board with road user representation, but only monitoring role
- Annual workplan approval by ministry of finance
- Secretariat under road agency



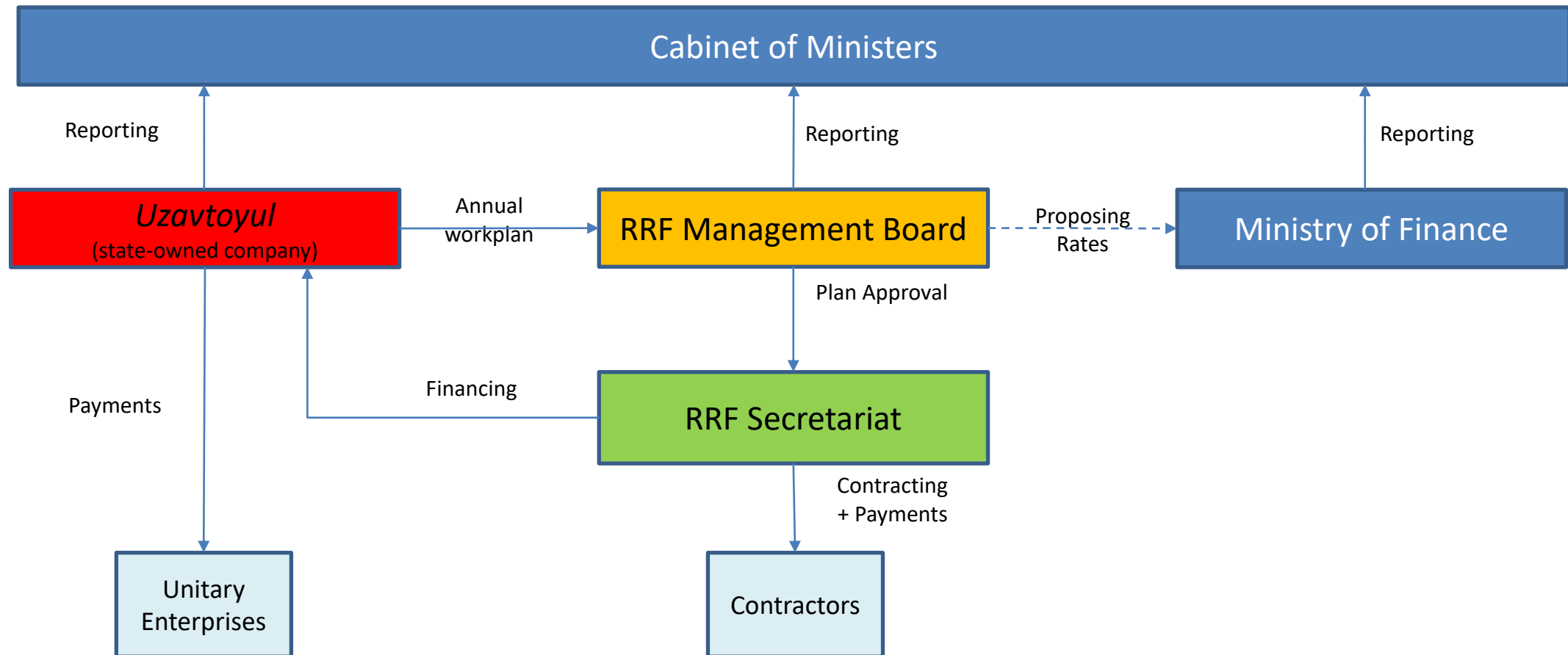
Example management structure – Pakistan

- Different boards, but mainly road agency and parent ministry representatives
- Secretariat forms part of road agency
- Special case, since all road user charge revenues are collected by parent ministry (extra-budgetary)



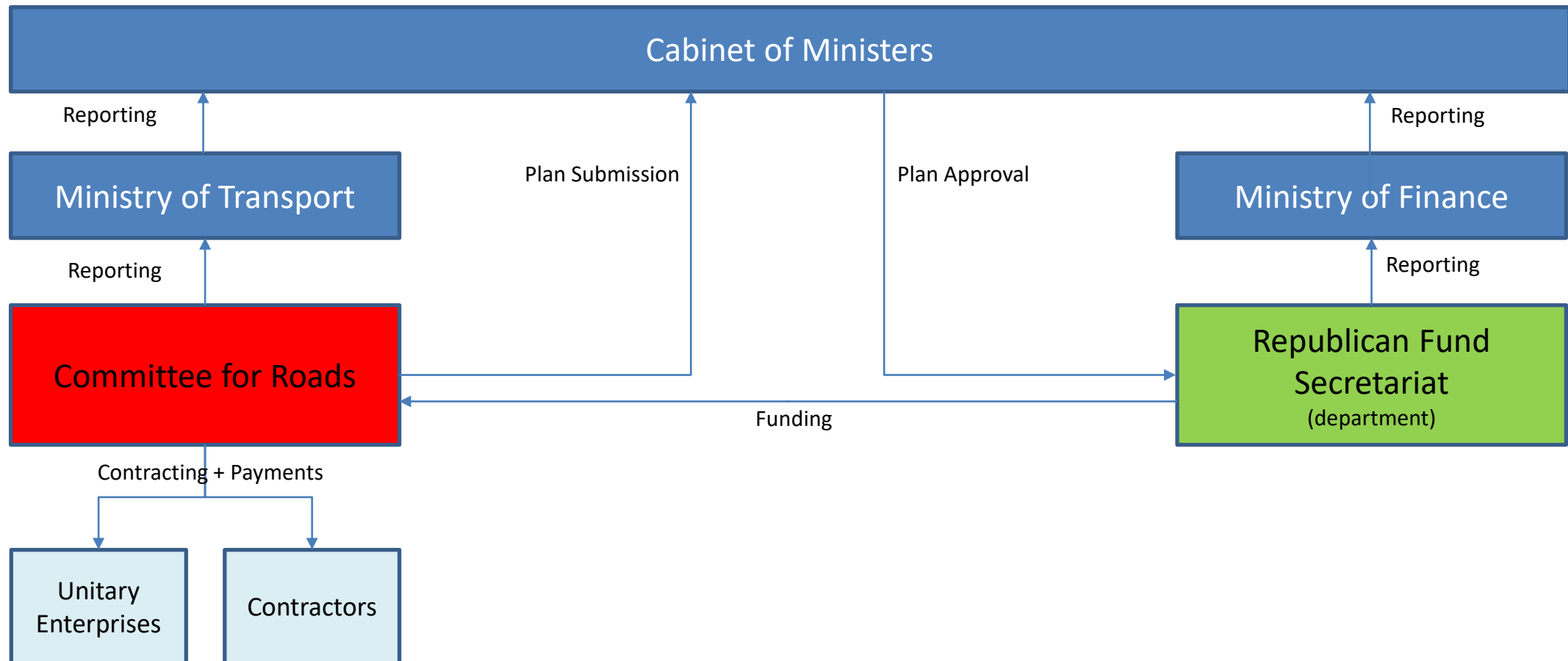
Example management structure – Uzbekistan (Republican Road Fund)

- Road fund as separate legal entity with board and secretariat
- RRF also involved in annual workplan preparation and implementation



Example management structure – Uzbekistan (Republican Trust Fund)

- New Republican Trust Fund no longer has a board
- Secretariat as department under ministry of finance

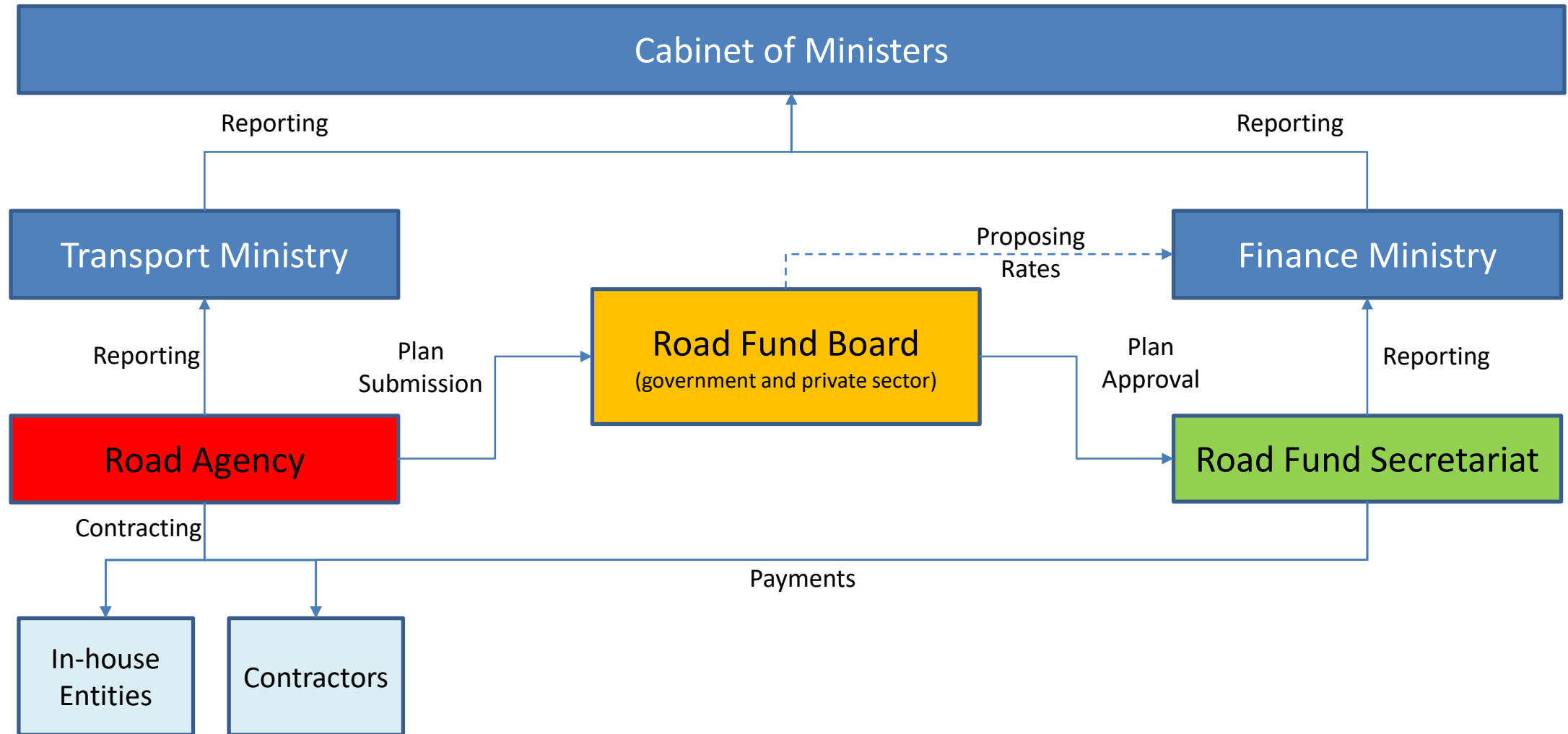


Management structure of the road funds

Representation	AZE	KGZ	MON	PAK	UZB*	UZB**
Road fund secretariat	+	+	+	+	+	+
Road agency	+	-	+	+	-	-
Ministry of Finance	-	-	-	-	-	+
Independent legal entity	-	+	-	-	+	-
Approval by road fund board	-	+	+	+	+	-
Road agency representatives	-	-	+	+	+	-
Parent ministry representatives	-	+	+	+	+	-
Other ministry representatives	-	+	-	-	+	-
Road user representatives	-	+	-	-	-	-
Approval by Ministry of Finance	+	-	+	-	-	+

* This refers to the Republican Road Fund that existed previously ** This refers to the current Republican Fund

Proposed management structure for a road fund



Road fund accounts

- May be treasury account or account with commercial bank
- Non-lapsable accounts allow more efficient use of funds and facilitate the use of multi-annual contracts
- Revenues are generally on-budget, but in some cases may be off-budget

Account characteristics	AZE	KGZ	MON	PAK	UZB*	UZB**
Type of account						
Special treasury account	+	+	+	-	+	+
Commercial bank account	-	-	-	+	+	-
Use of unused funds at the end of the year						
Returned to the national budget	-	+	-	-	-	-
Non-lapsable, carried over to next year	+	-	+	+	+	+
Type of revenues						
On-budget revenues	+	+	+	-	+	+
Off-budget revenues	-	-	-	+	-	-

Reporting and auditing

- Proper accounting is crucial to the sustainability of the road fund
 - Annual financial audits, preferably by external third party
 - Regular technical audits to confirm quantity and quality of work
 - Detailed annual reports to inform government and general public
 - Publication of audits and reports on publicly accessible website

Auditing and reporting	AZE	KGZ	MON	PAK	UZB*	UZB**
Financial audits						
Internal audits	+	+	+	+	+	+
Government audit	+	-	+	+	+	-
Independent third-party audits	-	-	+	+	-	-
Publication on website	+	-	+	+	-	-
Technical audits						
Technical audits	-	-	-	+	+	-
Publication on website	-	-	-	-	-	-
Annual reports						
Accounting reports	+	+	+	+	+	+
Detailed annual reports	-	-	-	+/-	-	-
Publication on website	-	-	-	-	-	-

- Are the road fund revenues still in line with the needs?
 - Is a new needs assessment required?
 - Do road user charge rates need to be increased? If so, which ones?
- Are the road fund revenues allocated efficiently?
 - Is the road asset management system used for this?
 - Is sufficient midterm repair (periodic maintenance) carried out
 - Does AAYDA have the in-house capacity to do mid-term repairs or should this be outsourced?
- Can the management of the road fund be improved?
 - Should a road fund board be established?
 - Should the road fund secretariat be placed under the ministry of finance or established as a separate entity?
- Can the accountability of the road fund be improved?
 - Should financial audits be carried out by external third party?
 - Should regular technical audits be carried out?
 - Should detailed annual reports be prepared and published?
 - Should these documents be made freely accessible on a website of the road fund and/or AAYDA?