

# Road Funds in the CAREC Region

 **CARTIERCONSULT**

Serge Cartier van Dissel

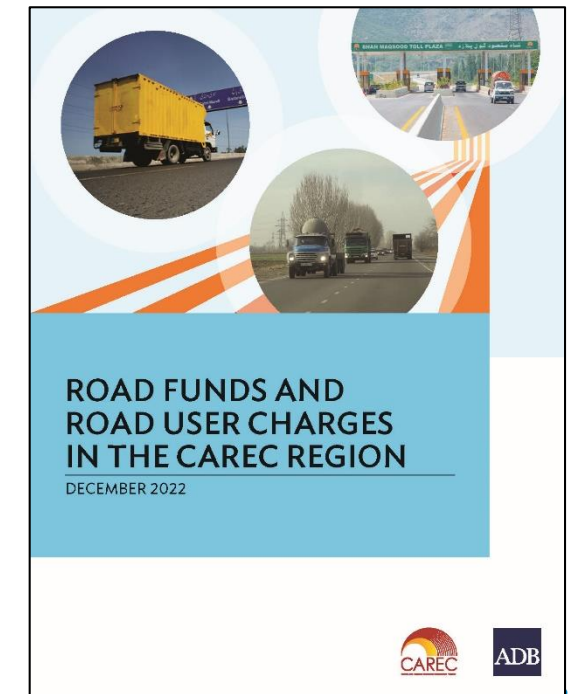
Kyrgyz Republic, May 2023

# 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  
[www.adb.org/publications/road-funds-road-user-charges-carec](http://www.adb.org/publications/road-funds-road-user-charges-carec)
- 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

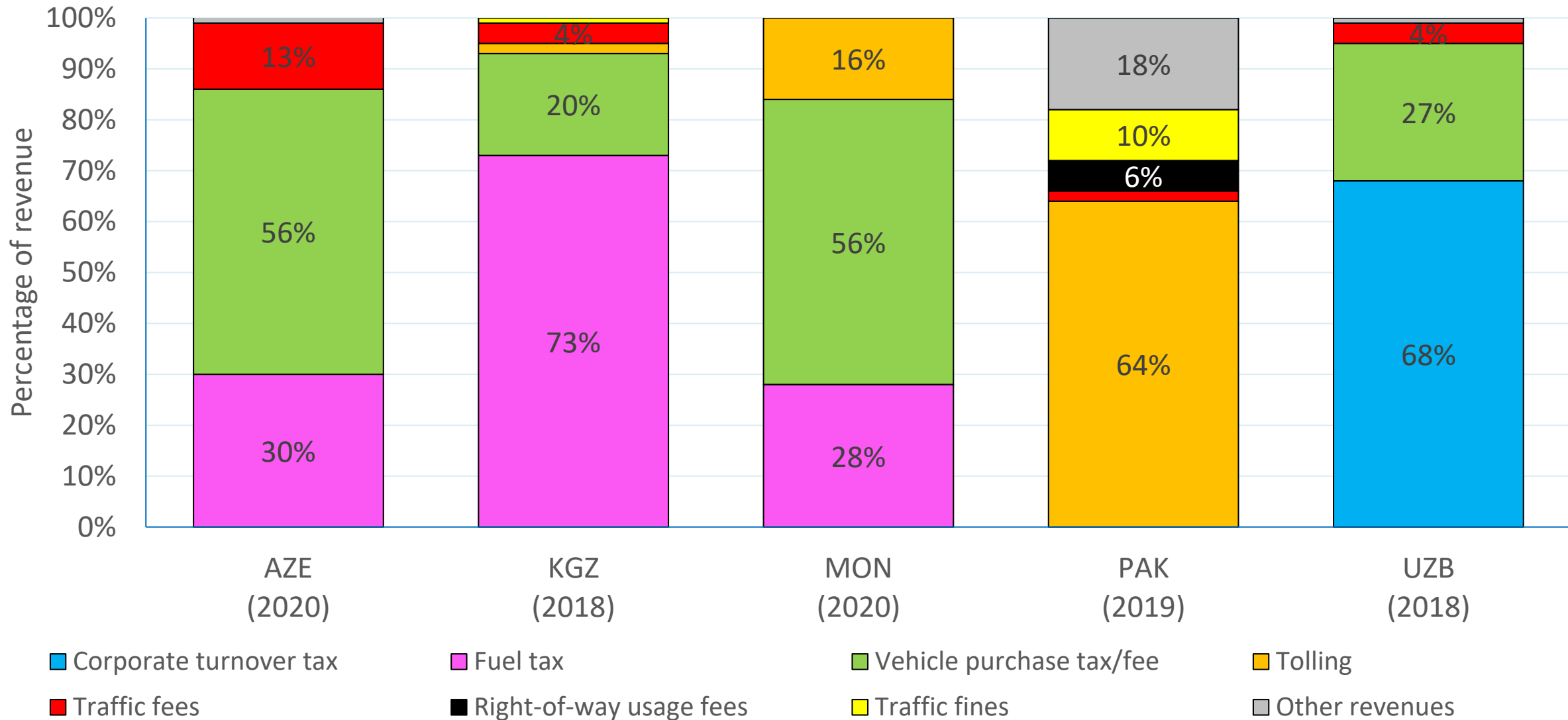
- 4 main sources of funding in the CAREC region:
  - Fuel tax
  - Vehicle tax/duty/fee (first registration or annual operation)
  - Tolling
  - (Corporate turnover tax)
- Without at least one of these sources, it is difficult to collect sufficient revenue
  - Other sources provide limited revenue and only serve to complement the main sources

# Sources of funding

Road User Charge	AZE (2020)	KGZ (2018)	MON (2020)	PAK (2019)	UZB* (2018)
Corporate turnover tax	-	-	-	-	<b>68%</b>
Fuel tax	<b>30%**</b>	<b>73%</b>	<b>28%**</b>	-	-
Vehicle purchase tax/fee	<b>56%</b>	<b>20%</b>	<b>56%**</b>	-	<b>27%</b>
Tolling	-	2%	<b>16%</b>	<b>64%</b>	-
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.*

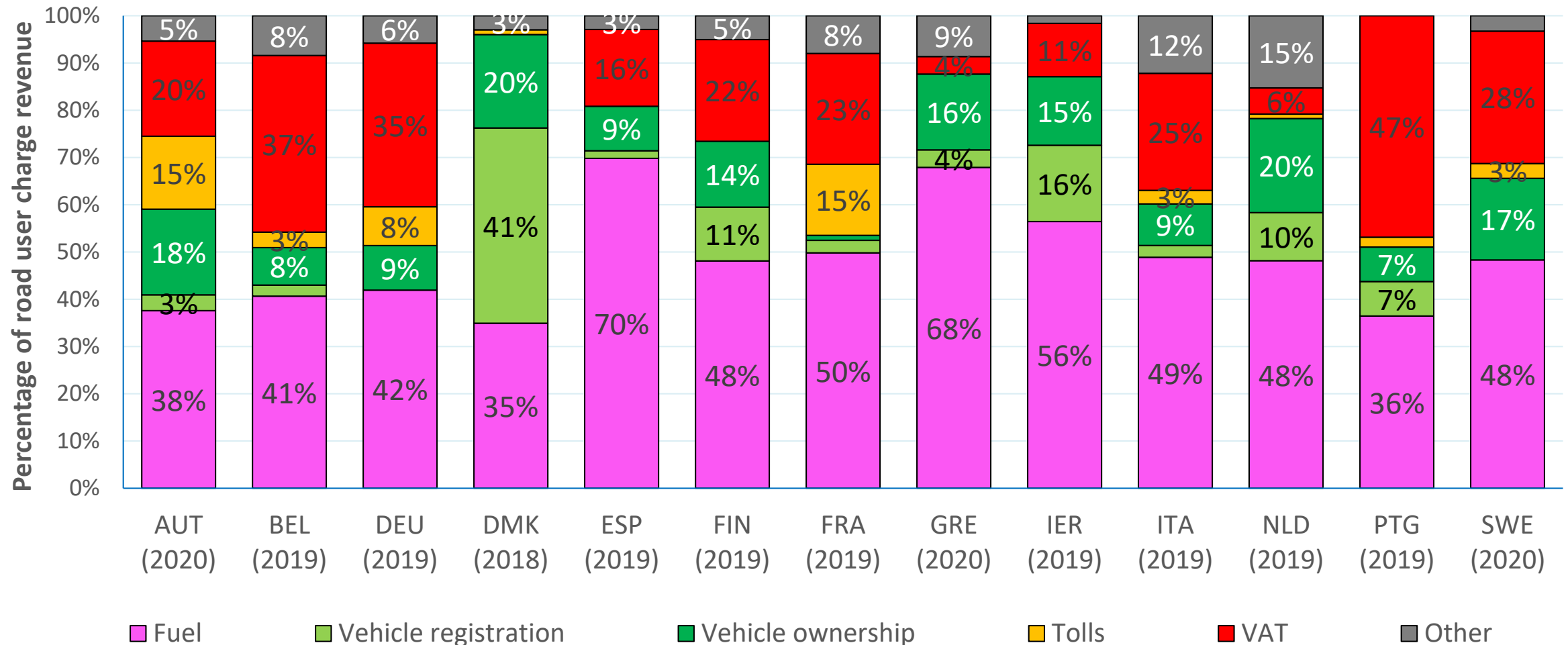
# Sources of funding





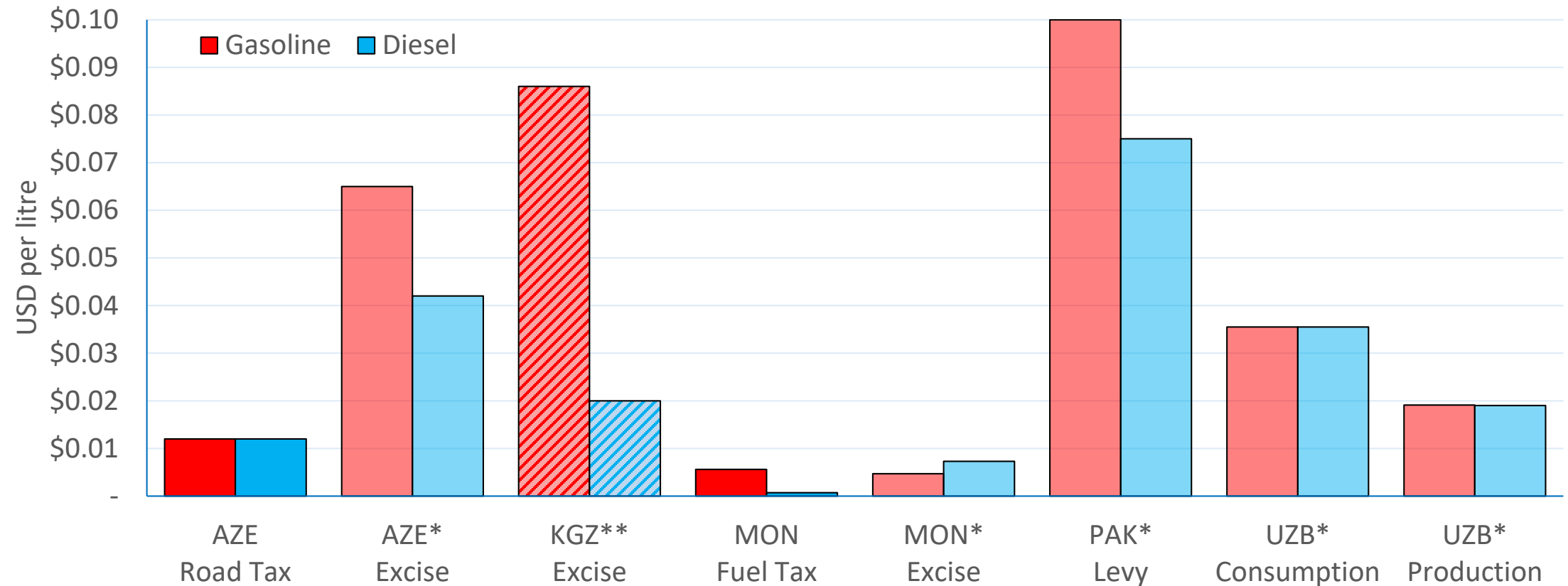
# Sources of funding - Europe

- Sources of funding in Europe – Not necessarily earmarked to the road sector



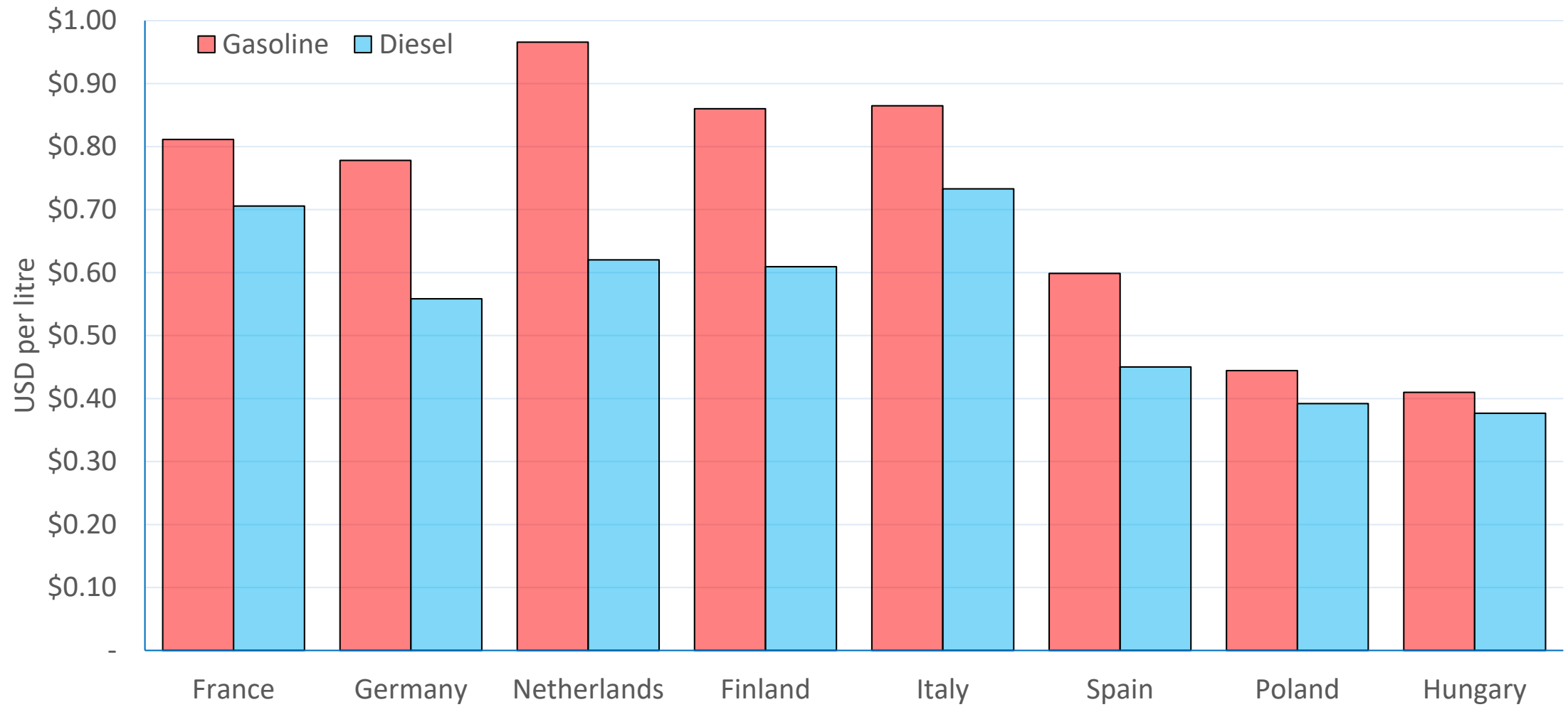
# Fuel tax or levy

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

# Fuel excise taxes in Europe (2021)



# Vehicle import tax/duty/fee

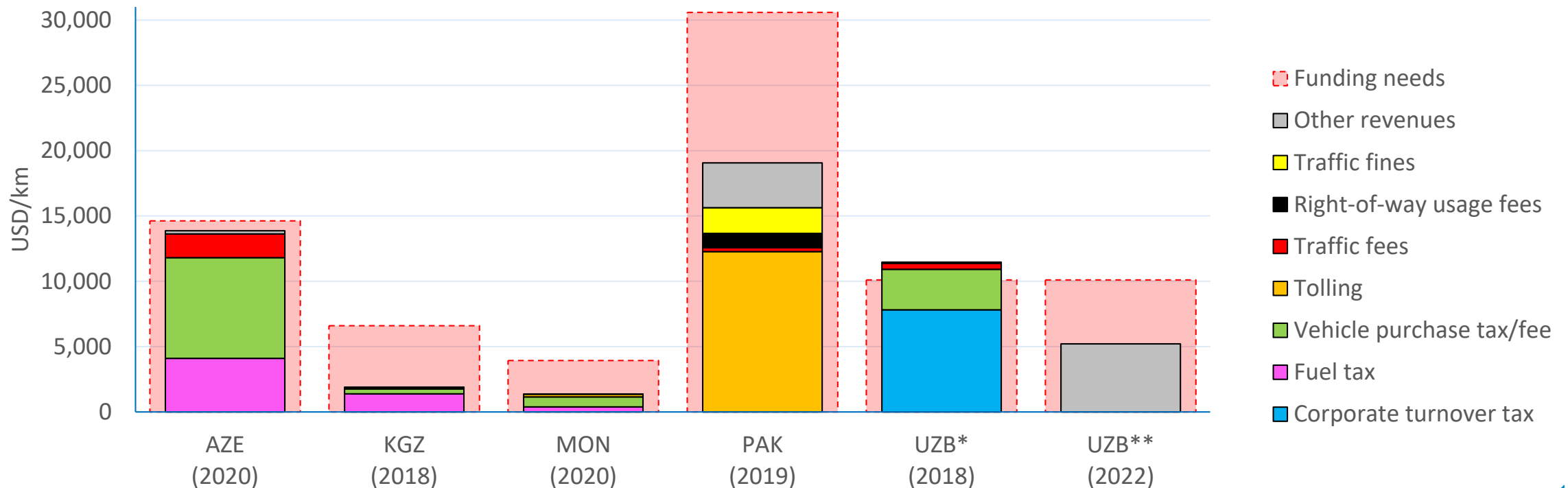
- First registration
- Annual operation fees tend to be low

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

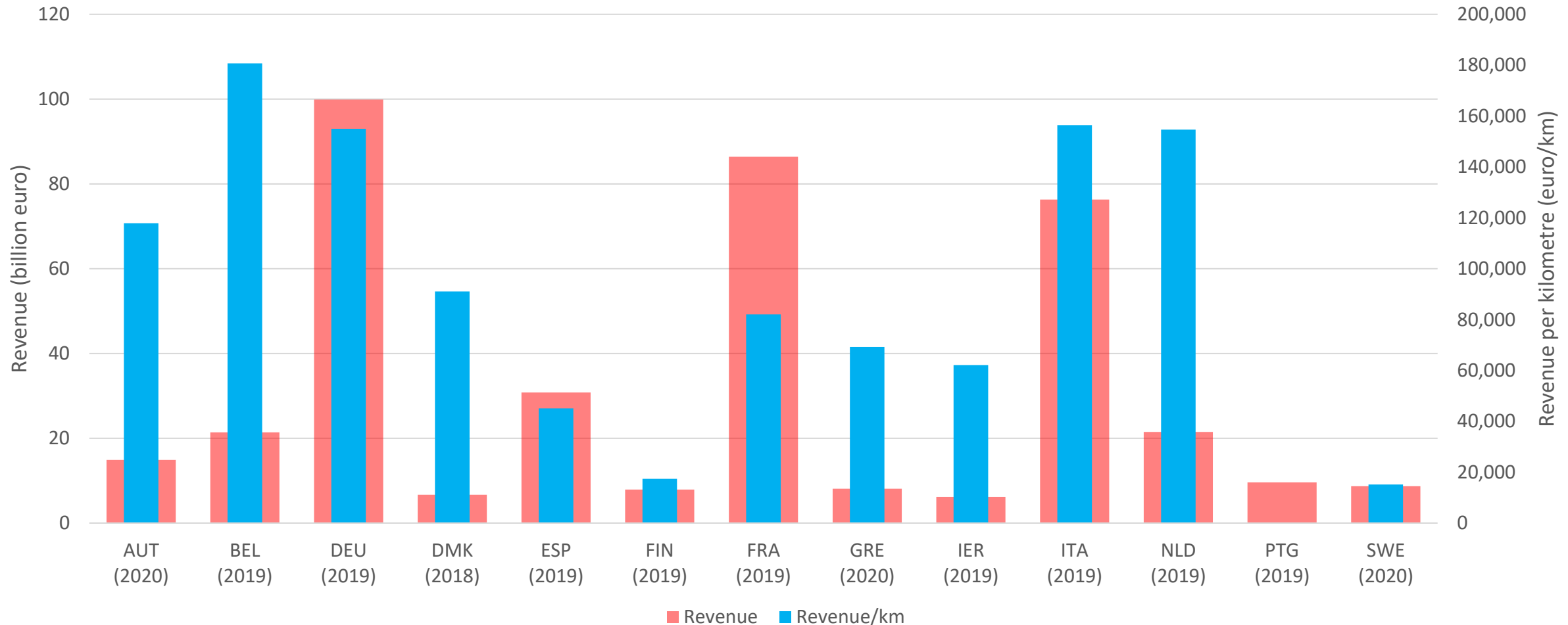
# Coverage of funding needs

	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
<b>Road fund revenues (USD/km)</b>	<b>\$14,000</b>	<b>\$1,900</b>	<b>\$1,400</b>	<b>\$19,000</b>	<b>\$11,500</b>	<b>\$5,200</b>
<b>Maintenance and repair needs (USD/km)</b>	<b>\$15,000</b>	<b>\$6,600</b>	<b>\$4,000</b>	<b>\$30,000</b>	<b>\$10,000</b>	<b>\$10,000</b>
<b>Road fund coverage (%)</b>	<b>95%</b>	<b>29%</b>	<b>35%</b>	<b>62%</b>	<b>114%</b>	<b>52%</b>



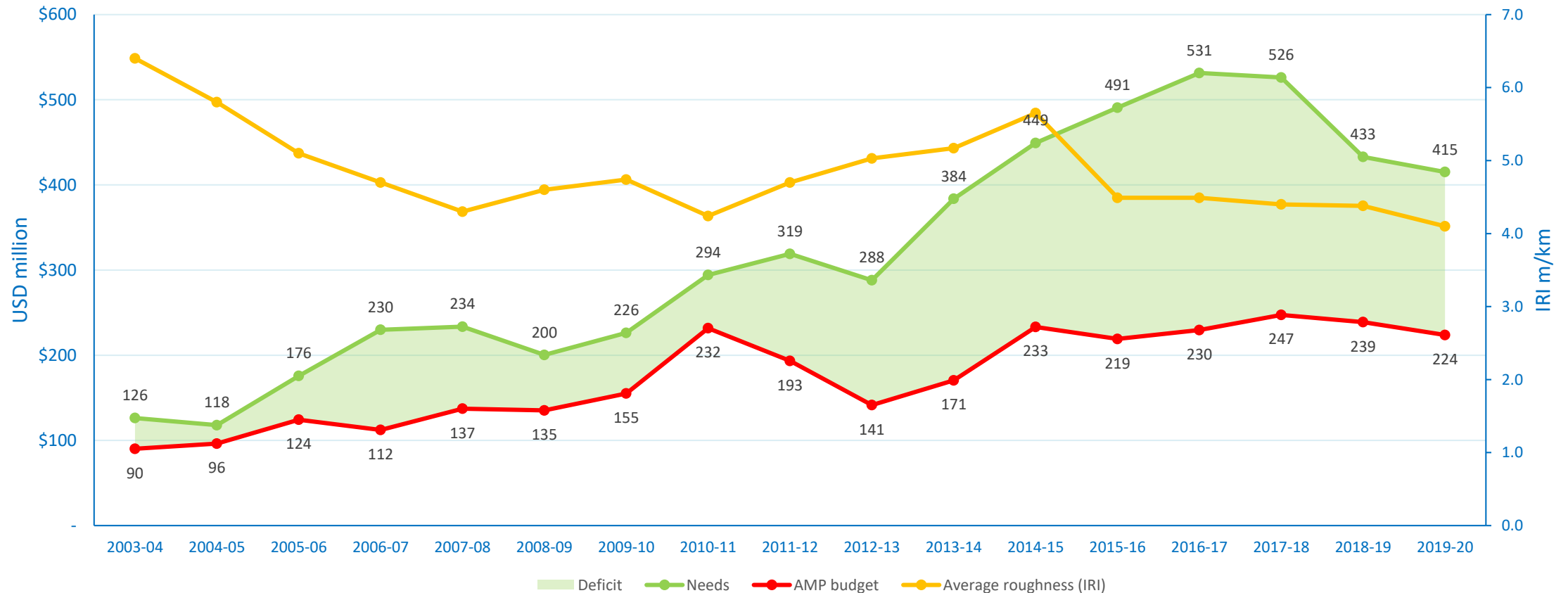
# Revenues in Europe

- Revenues not earmarked to the road sector



# 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) administration of the road fund
- Preparation of reports and accounts

## Road Fund Board

- Approval of the annual workplan and proposing road user charge rates
- Members include Ministry of Transport, Ministry of Finance, and other ministries/entities
- Members may also include road user associations (e.g. goods and passenger transport associations)

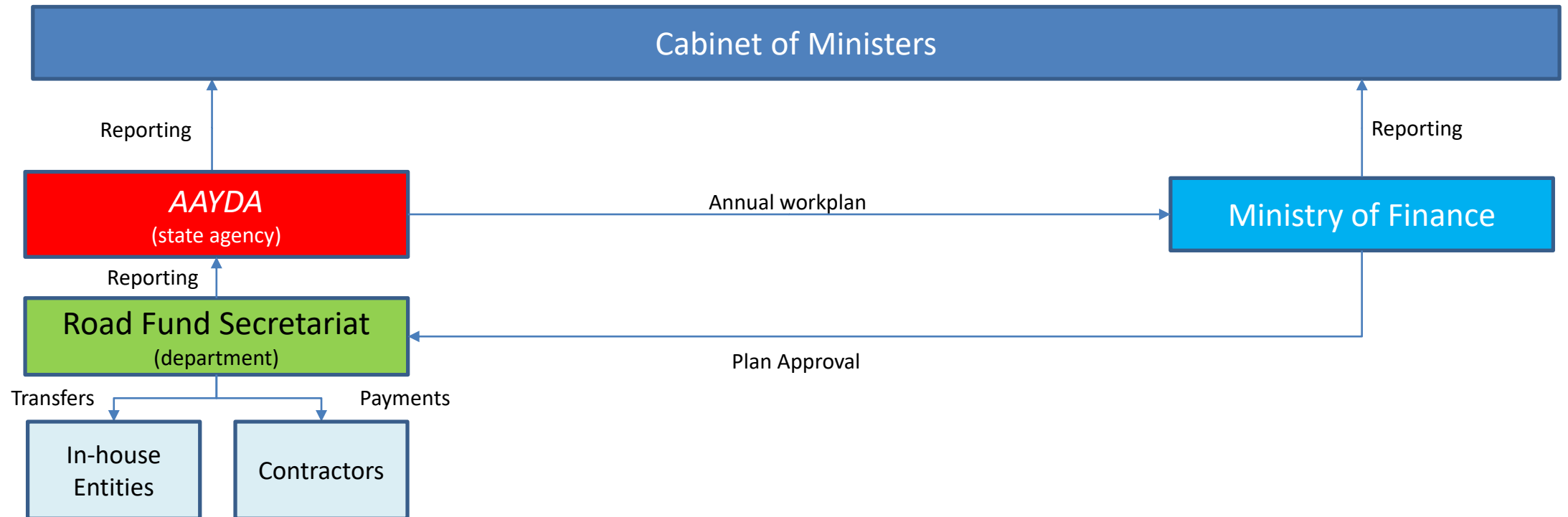


# Management structure of the road funds

- 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

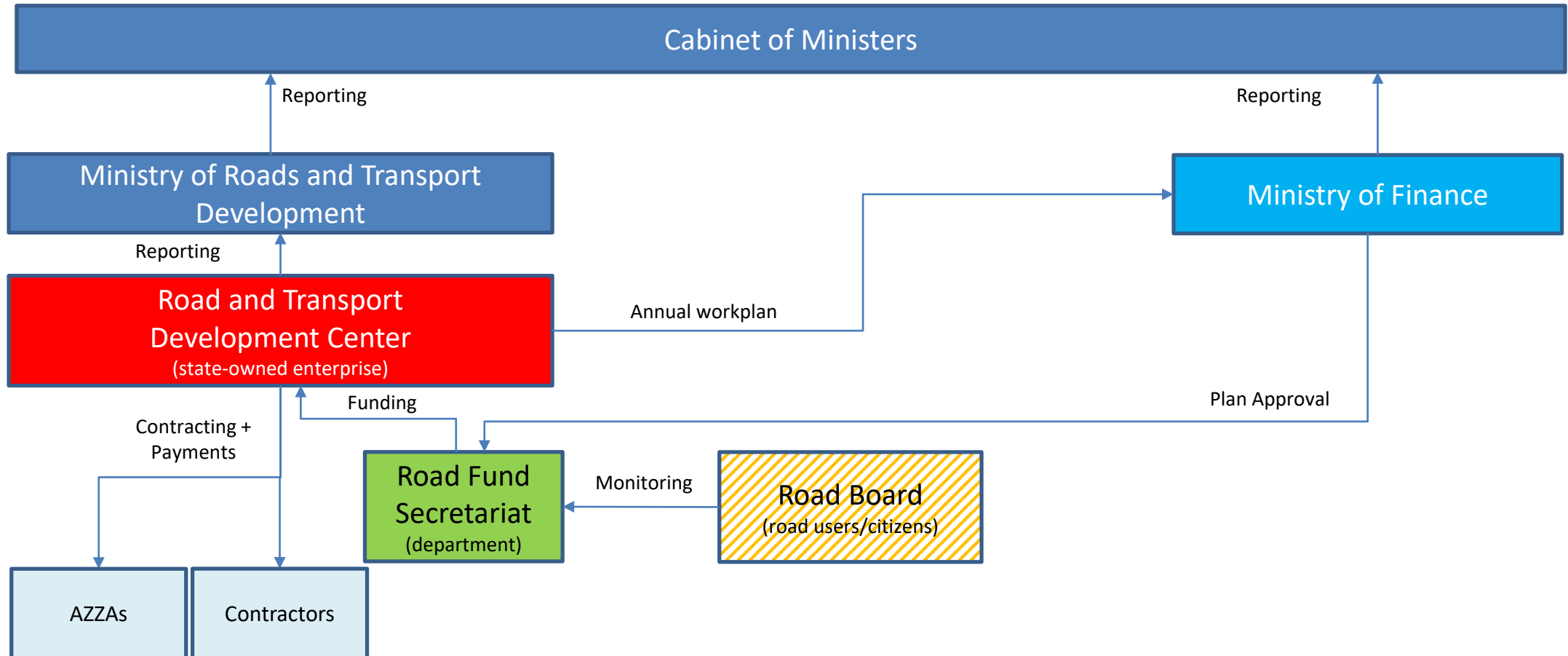
# Example management structure – Azerbaijan

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



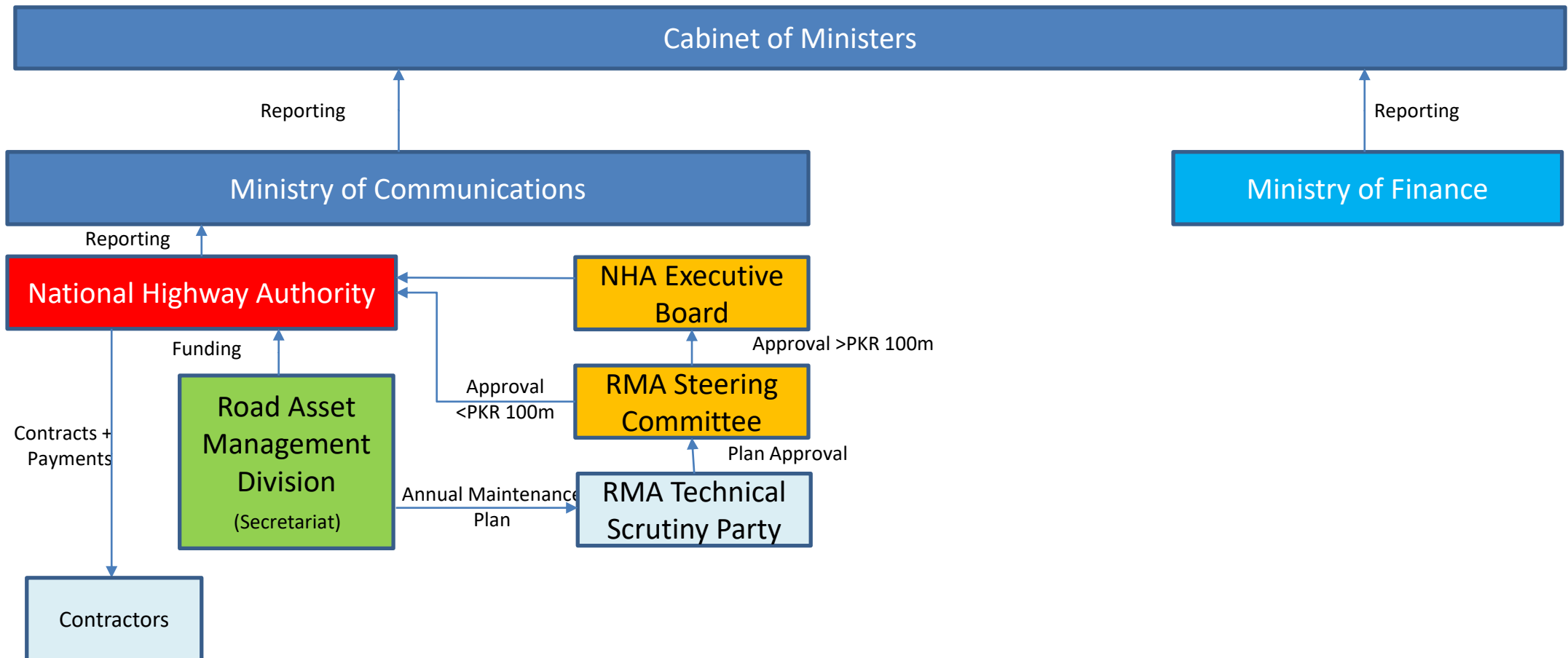
# Example management structure – Mongolia

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



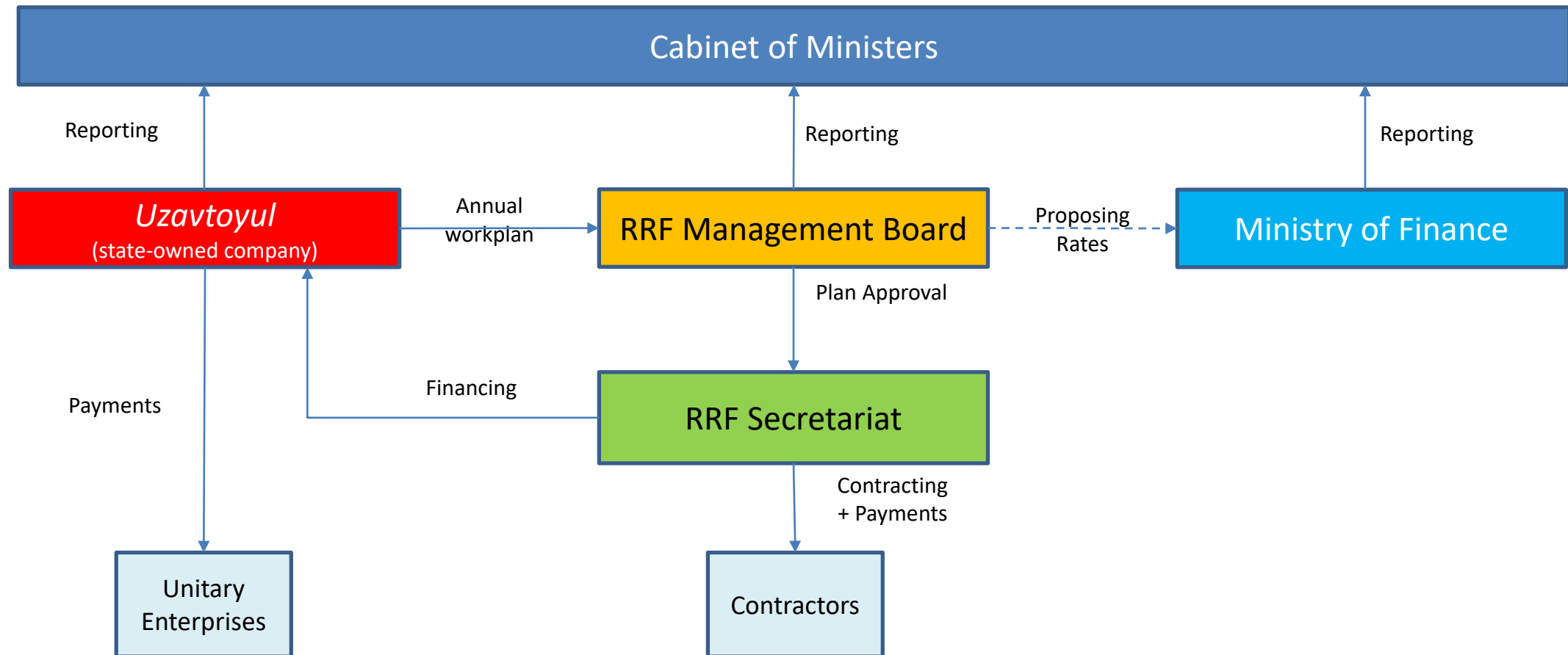
# Example management structure – Pakistan

- 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)



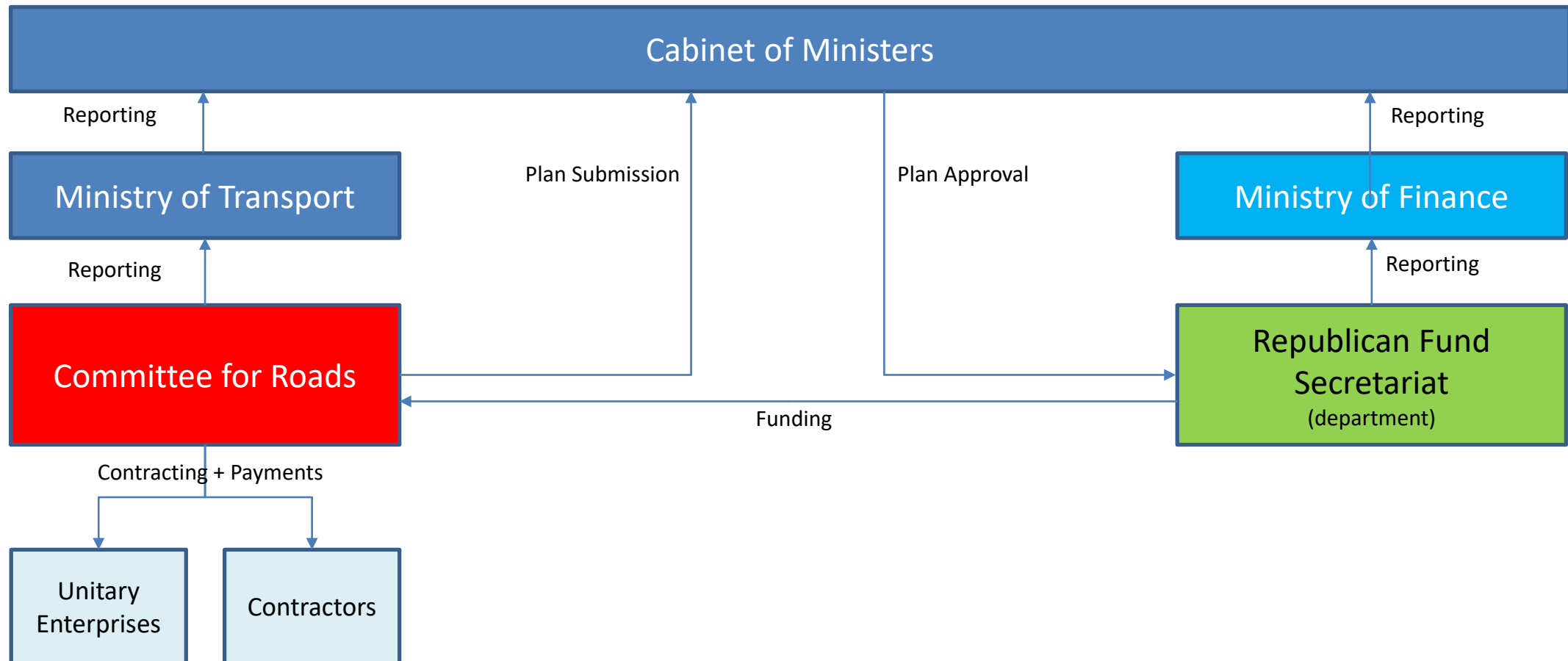
# Example management structure – Uzbekistan (Republican Road Fund)

- 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**
<b>Road fund secretariat</b>	+	+	+	+	+	+
Road agency	+	-	+	+	-	-
Ministry of Finance	-	-	-	-	-	+
Independent legal entity	-	+	-	-	+	-
<b>Approval by road fund board</b>	-	+	+	+	+	-
Road agency representatives	-	-	+	+	+	-
Parent ministry representatives	-	+	+	+	+	-
Other ministry representatives	-	+	-	-	+	-
Road user representatives	-	+	-	-	-	-
<b>Approval by Ministry of Finance</b>	+	-	+	-	-	+

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

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



# Reporting and auditing

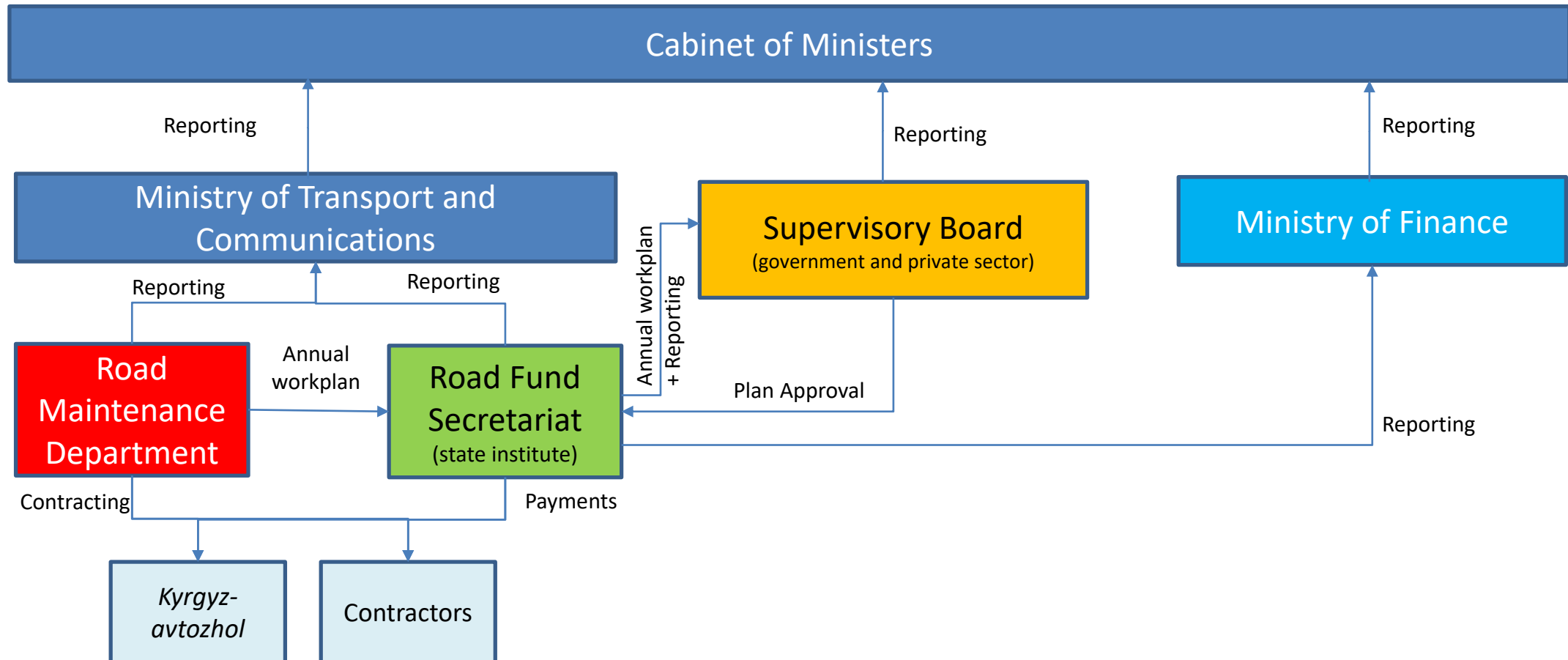
- Proper accounting is crucial to the sustainability of the road fund
  - Annual financial audits, preferably by external third party
  - Regular technical audits to confirm quantity and quality of work
  - Detailed annual reports to inform government and general public
  - Publication of audits and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

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

# Road Fund in Kyrgyz Republic

# Road Fund Law issued in 2022

- Law #36 issued in May 2022, effective January 2023, replacing Resolution #346 of 2021
  - Set up as non-lapsable trust fund, as part of Republican Budget
  - Secretariat as department of MOTC, Supervisory Board with government + private representation
  - Fund allocation approved by the Cabinet of Ministers?



# How is the Road Fund in Kyrgyz performing?

- Expansive set of eligible activities
  - Design, construction, reconstruction, development, repair and maintenance of public roads
  - Procurement of machinery and equipment
  - Development of road and roadside facilities
  - Publications, research, training
  - Road management bodies
- Large number of funding sources
  1. Republican Budget allocations
  2. Fuel excise tax (at least 50%)
  3. Vehicle registration fee
  4. Permit fees for oversized/overweight vehicles
  5. Fees for axle load and size control
  6. Tolls for artificial structures
  7. Fees for bus and truck transport
  8. Compensation payments for damages by heavy/oversized vehicles
  9. Fines for overweight/oversized vehicles
  10. Fees for use of the right-of-way
  11. Foreign investments and grants
  12. Donations
  13. Payments related to public-private partnerships
  14. Fees for transport licences and permits
  15. Contractor fines and penalties
  16. Bidder securities
- 2023 budget KGS 2 billion (\$23.5 million)
  - Repair and maintenance needs estimated at \$125 million per year
  - Does not yet include design, construction, reconstruction, development
  - How will this budget be used – which activities will be financed?