A REVIEW OF UGANDA’S ROAD FUND

Proposals for Transformation

Irene Achola

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<th>Description</th>
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<tbody>
<tr>
<td>CAIIP</td>
<td>Community Agricultural Infrastructure Improvement</td>
</tr>
<tr>
<td>DUCAR</td>
<td>District Urban Community Access Roads</td>
</tr>
<tr>
<td>FMC</td>
<td>Fund Management Committee</td>
</tr>
<tr>
<td>KCMA</td>
<td>Kampala City Council Authority</td>
</tr>
<tr>
<td>MFPED</td>
<td>Ministry of Finance, Planning and Economic Development</td>
</tr>
<tr>
<td>MoLG</td>
<td>Ministry of Local Government</td>
</tr>
<tr>
<td>MoWT</td>
<td>Ministry of Works and Transport</td>
</tr>
<tr>
<td>MTEF</td>
<td>Medium Term Expenditure Framework</td>
</tr>
<tr>
<td>PRDP</td>
<td>Peace, Recovery and Development Plan</td>
</tr>
<tr>
<td>RMI</td>
<td>Road Management Initiative</td>
</tr>
<tr>
<td>RUCs</td>
<td>Road User Charges</td>
</tr>
<tr>
<td>UNRA</td>
<td>Uganda National Roads Authority</td>
</tr>
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<td>URF</td>
<td>Uganda Road Fund</td>
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Acknowledgements

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A Review of the Uganda’s Road Fund

1. Introduction

The Uganda Road Fund (URF) was established in 2008 by an Act of Parliament (URF Act, 2008). Its purpose is to finance routine and periodic maintenance of public roads in the country. Since its operationalization in 2010, the Fund still struggles to deliver on its mandate. Many roads remain in poor condition with little or no maintenance. There are indications that funds raised are inadequate for maintenance of the current rapidly increasing road stock. Opponents of the road fund framework have argued that formation of Road Funds not only hampers optimal allocation of resources, but also compounds cash and financial management inefficiencies (Kumar, 2000). Proponents of the road fund framework, on the other hand, are quick to point out that despite the shortcomings, road funds confer advantages of decentralisation and autonomy (Brushett & Kumar, 2000). The advocates of the road fund framework further argue that funds secure a more predictable source of financing for road maintenance, although not every country that has established a road fund is necessarily fully efficient or fully autonomous (Benmaamar, 2006). This paper examines the performance of URF and focuses on four issues, namely: i) management of the URF, ii) the sources of funds for URF, iii) utilization of funds under URF, and iv) adequacy of the fund for maintenance of the road network in Uganda.

2. A Background to Road Funds

As a major component of infrastructural development, roads compete for funds with other key sectors in Uganda like health, education and security. This puts the road sector in an unenviable position as it has to compete for public funds with the other sectors. Due to this fact, many countries around the world have often responded to the growing shortage of funding to the roads sector by earmarking selected road related taxes and charges and depositing them into a special off-budget account or Road Fund. By definition, a Road Fund is therefore an institutional setup through which a selected stream of revenues is put at the disposal of a government roads department or agency without being subjected to the general budget procedures and review associated with the consolidated fund (Financing Road maintenance, 2012). The first countries that have set up Road Funds include: Burundi, Senegal and Gabon. The performance of the First Generation Road Funds was generally considered poor and was dogged by several problems including poor financial management, lack of independent audits, unauthorised expenditures and weak oversight (Benmaamar, 2006).

Towards the end of 1980s and early 1990s, road sector reforms were championed
under the leadership of the Road Management Initiative (RMI) to address the above mentioned weaknesses and enhance the road management efficiency (Brushett, 2005). The new policy emphasized the commercialisation of road management and pushing for institutional reforms in order to establish dedicated road funds that would be managed by autonomous road boards consisting of road user representatives (Brushett & Kumar, 2000). From this process, the “Second Generation Road Funds” emerged.

The “Second Generation Road Funds” are governed by a specific legislation which stipulates the roles and responsibilities of the fund and the secretariat to manage its day to day operations. The “Second Generation Road Funds” have become significant as a sector reform in improving the road maintenance in at least half of the countries in Sub-Saharan Africa (Benmaamar, 2006).

3. Institutional Structure and Context of the Uganda Road Fund

Road funds are derived from a policy framework formulated in the 1980s. The framework championed establishment of dedicated autonomous road funds and wider stakeholder involvement in management of the funds. The URF operates within the policy oversight of the Ministry of Finance, Planning and Economic Development (MFPED). The fund has a consultative arrangement between the Ministry of Local Government (MoLG) and Ministry of Works and Transport (MoWT). The fund submits its plans and budgets to Parliament through the Minister of Works and Transport while the accountability and performance reports are tabled by the Minister of Finance, Planning and Economic Development on behalf of the Fund. The Minister responsible for Finance appoints and supervises the board management. The Fund has the facilitator role over road maintenance function of the designated agencies (Uganda National Roads Authority (UNRA), Districts and Municipalities through providing finances and oversight (See Figure 1).

The functions of the Fund are administered by a secretariat that is headed by the Executive Director. The secretariat comprises six departments that include; Internal Audit, Fund Management, Planning and Programming, Monitoring & Evaluation, Procurement and Disposal of Assets, and Corporate Services (URF Annual report, 2012/13). The internal audit department develops and implements the audit programme of all the activities of the fund. The fund management department does the fund monitoring, fund disbursement among others. The programming department forecasts revenue and expenditure, prepares proposals for adjustments in the Road User Charges (RUCs) and reviews
the annual road maintenance programmes of the designated programme. The procurement and disposal of assets department develops and implements the procurement plan for the fund and prepares procurement reports. The institutional relationship between the fund and other institutions is illustrated in Figure 1.
Figure 1: Institutional Relationship between the Uganda Road Fund and other institutions

Source: URF Annual Report, 2010
The monitoring and evaluation department monitors the income and the expenditure of the fund and also evaluates the performance of the designated agencies. The corporate service department procures and supervises all the legal services of the fund and carries out the human resource management function among others. The Executive Director and the departmental managers form the Fund Management Committee (FMC) which is the top policy and administrative organ that reports to the board. The FMC basically provides oversight to the fund and generates strategic and policy issues for discussion by the board.

Since its operationalization, the Fund has operated as if it were a department of the Ministry of Finance, Planning and Economic Development albeit, consisting of some features of the Second Generation Fund which include: a Board of Directors, a Secretariat and a Bank Account in Bank of Uganda. The Fund has continued to draw its resources from the consolidated fund contrary to the Uganda Road Act, section 21(3) which has continually constrained its capacity to guarantee timely, reliable and adequate funding of road maintenance programmes. It is still a major challenge for the Fund to operate as a “Second Generation Fund” since it is not able to collect its revenue and disburse it according to the indicated needs. The Uganda Revenue Authority Act (1991) does not allow the Authority to transfer funds to any other account apart from the Consolidated Account. An amendment of the URA Act (1991) needs to be expedited to allow direct transfer of the RUCs to the Road Fund as it had been envisaged in the URF Act.

4. **Financing the Uganda Road Fund**

The sources of finances for the URF as envisaged in section 21 of the URF Act, 2008 include: fuel levies, transit fees, road license, axle load fines, tolls, and traffic and road safety fines, appropriations by parliament and donations/grants. Since enactment, allocations to the road fund have been appropriated by parliament from the consolidated fund. The road license which is one of the proposed sources of revenue for the Fund was abolished in the Budget of FY 2007/08. Other possible finance sources listed are not operational or provide a very insignificant amount of resources. The major source of revenue clearly identified at the moment is the fuel levy.

The government levied a fuel import duty at the rate of UGX 900/litre for petrol and UGX 580/litre for diesel in 2013/14. The fuel revenues from 2009/10 to 2011/12 are illustrated in the Table 1.
A Review of the Uganda’s Road Fund

Table 1 Annual revenues from fuel levies FY 2009/10- FY 2011/12 (UGX Bns)

<table>
<thead>
<tr>
<th>Revenue</th>
<th>2009/10</th>
<th>2010/11</th>
<th>2011/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petrol</td>
<td>326.8</td>
<td>380.8</td>
<td>238.1</td>
</tr>
<tr>
<td>Diesel</td>
<td>372.9</td>
<td>420.3</td>
<td>234.4</td>
</tr>
</tbody>
</table>

Source: Financing Road Maintenance 2012

As shown in Table 1 above, the fuel revenues increased over the years at an overall growth of 49% for petrol and 40% for diesel between 2007 and 2011. Fuel levy revenues were presumed to rise further as the levies were increased in the 2014/15 budget to UGX 950/litre for petrol and UGX 630/litre for diesel. The growth of revenue in petrol and diesel has an implication on the growth of both light vehicle traffic and heavy vehicle traffic on the roads; hence increasing the need for road periodic and routine maintenance.

As shown in Figure 2, the fuel total revenues are much greater than the allocations that have been made to the fund for road maintenance. All the proceeds from the fuel levies are not deposited into the URF bank account and these revenues still transit from the treasury.

Figure 2 The comparison between the total approved budget for road maintenance and the total fuel levies

<table>
<thead>
<tr>
<th></th>
<th>2009/10</th>
<th>2010/11</th>
<th>2011/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Fuel Levies</td>
<td>699.7</td>
<td>801.1</td>
<td>472.5</td>
</tr>
<tr>
<td>Road Maintenance Approved Budget</td>
<td>116.24</td>
<td>283.88</td>
<td>280.95</td>
</tr>
</tbody>
</table>

Source: Financing Road Maintenance 2012
The other potential sources of revenue for road maintenance include Road Safety and Traffic Act fees, the fines from the Express Penalty Scheme and other Road User Charges like the drivers’ permits and the axle load fines which would bring about an estimated value of UGX 60 billion and the rest would be met by the fuel levy (Financing Road Maintenance, 2012)

5. **Allocation to road maintenance**

Since operationalization, the fund allocations to road maintenance have been appropriated by parliament from the consolidated fund.
<table>
<thead>
<tr>
<th></th>
<th>2010/11</th>
<th>2011/12</th>
<th>2012/13</th>
<th>2013/14</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>UNRA</strong></td>
<td>178</td>
<td>178</td>
<td>178</td>
<td>182</td>
</tr>
<tr>
<td><strong>DUCAR</strong></td>
<td>98</td>
<td>97.5</td>
<td>97.52</td>
<td>91.2</td>
</tr>
<tr>
<td><strong>URF Secretariat</strong></td>
<td>7.89</td>
<td>7.89</td>
<td>7.88</td>
<td>7.89</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>283.9</td>
<td>283</td>
<td>283.4</td>
<td>281</td>
</tr>
</tbody>
</table>

*The fund assumed responsibility for financing road maintenance in the second half of FY 2009/10 and was allocated 116.24 billion from the consolidated fund. There was no direct transfer of Road User Charges (RUCs) to URF account as required by section 21 (3) of the URF Act. The funding was provided within the transport sector budget under budgeting process that predated operationalization of URF in January 2010.*
As shown in Table 2, the road maintenance budget increased by 24% in four years (FY2010/11 to FY2013/14) with most of this accruing to UNRA. Over the same period, the sector registered budget performance above 80%. The allocations are much lower than the road maintenance funding needs as shown in Figure 3 and even such funding has not been catered for in the MTEF projections. With the current MTEF projection for up to 2016, the available funding can only meet about 34% of the road maintenance and the backlog removal leaving about of 66% of unfunded road maintenance need (Financing Road maintenance, 2012).

**Figure 3 The gap in road maintenance funding**

![Bar chart showing the gap in road maintenance funding between 2012/13 to 2015/16.]

<table>
<thead>
<tr>
<th>Year</th>
<th>Needs</th>
<th>Available*</th>
<th>UN-Met Needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012/13*</td>
<td>1,655.40</td>
<td>441.1</td>
<td>1,214.30</td>
</tr>
<tr>
<td>2013/14*</td>
<td>1,527.40</td>
<td>471.6</td>
<td>1,055.80</td>
</tr>
<tr>
<td>2014/15*</td>
<td>1,467.10</td>
<td>507.8</td>
<td>959.3</td>
</tr>
<tr>
<td>2015/16*</td>
<td>1,418.90</td>
<td>599.2</td>
<td>819.7</td>
</tr>
</tbody>
</table>

**Source:** Financing Road Maintenance, 2012

*MTEF Projections

** Includes others for rehabilitation such as Peace, Recovery and Development Plan (PRDP), Community Agricultural Infrastructure Improvement (CAIIP) and other excluding major upgrading works

As shown in Figure 3 above, there is a great challenge of financing road maintenance as the un-met financing need is still huge. There is an un-met need for financing road maintenance of 819.7 UGX bns in MTEF projections of 2015/16.
6. **Utilisation of the Maintenance Funds**

Over the years the fund has greatly improved the utilisation of the maintenance funds. In the initial years of the road fund operationalization, some agencies had low absorption of funds that greatly lead to delayed implementation of the planned works; this lead to significant roll over of funds into subsequent years. DUCAR roads carried over an amount of un-utilised funds of 3.922 billion Ugx to financial year 2010/11 followed by UNRA that had unutilised funds amounting to 1.159 billion Ugx. KCCA carried over 13 billion Ugx that had not been utilised in FY2011/12, which had been accumulated over three years. In the recent years UNRA and KCCA have managed to absorb all the funds released to them and carried forward debts. DUCAR agencies still face the major absorption challenges as unutilised funds increased from 31.92bn in FY 2011/12 to 34.49bn in FY 2012/13, this was mainly due to the policy shift of force on account were work plans had to be adjusted and this affected implementation of works.

7. **Performance of the Road Fund**

With almost over one trillion disbursed to agencies for road maintenance since the road fund operationalization, the condition of the public road network has not really improved with almost 30% of the public road network in poor or very poor condition (URF Annual report, 2013). The condition of the 10,000km upgraded to national road standards in July 2009 are also still in poor state. Over Ugx350bn is needed over the next three years to rehabilitate them to the required national standards. The original 10,500km require about USD120m per year for the next ten years to remove maintenance backlog. (Financing Road Maintenance, 2012); MTEF projections do not cater for this funding.

The District, Urban and Community Access Roads (DUCAR) are not in any better condition as most of the urban roads including the Kampala Capital City Authority have exceeded their life spans and require reconstruction (Financing Road Maintenance, 2012). Table 3 below shows the characteristics of the public network as at June 2012.
Table 3 The public road network characteristics FY 2012

<table>
<thead>
<tr>
<th>Network</th>
<th>Length ,Km</th>
<th>Condition of Network (%)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Paved</td>
<td>Unpaved</td>
<td>Total</td>
</tr>
<tr>
<td>UNRA</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Original</td>
<td>3,242</td>
<td>7,703</td>
<td>10,945</td>
</tr>
<tr>
<td>Additional</td>
<td>10</td>
<td>9,607</td>
<td>9,617</td>
</tr>
<tr>
<td>Overall</td>
<td>3,252</td>
<td>17,310</td>
<td>20,562</td>
</tr>
<tr>
<td>DUCAR</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>District Roads</td>
<td>-</td>
<td>22,500</td>
<td>22,500</td>
</tr>
<tr>
<td>Urban Roads</td>
<td>1,100</td>
<td>4,500</td>
<td>5,600</td>
</tr>
<tr>
<td>CAR</td>
<td>-</td>
<td>30,000</td>
<td>30,000</td>
</tr>
</tbody>
</table>

**Source:** Financing Road Maintenance 2012/13

As at June 2012, 53% of the original paved national roads were in good condition and 26% in a poor condition. The unpaved original national roads 33% were in good condition and 16% in poor condition. With the additional 10,000km of the national roads 70% of the paved roads are in poor condition and 30% fair. 58% of the unpaved additional national road network was in poor condition and only 6% in good condition. The Community Access Roads create a major challenge for the fund as they are not clearly defined. The additional 10,000km of the national roads needs the urgent financing of over UGX350 billion to bring the roads to a maintainable level within the next three years. It is estimated that for every one shilling for maintenance held back, road users will incur an extra three shillings in vehicle operating costs (Budget framework paper, 2013/14).

Absence of detailed, up to date and accurate data on the road network condition especially DUCAR as depicted in Table 3 constrains effective panning and assessment of the Fund - beyond outputs.
8. **Conclusions and Policy Recommendations**

While the performance of the Uganda Road Fund has been commendable three key challenges to further improvements abound. First, the Fund is not fully autonomous despite the fact that it has some qualities of a Second Generation Fund which consist of the secretariat and the board, and a bank account in Bank of Uganda. The Fund still receives funds from the treasury for road maintenance and operates as a conduit of the Ministry of Finance, Planning and Economic Development contrary to the law. Second, the utilisation of the funds by the agencies is still a challenge. The District, Urban and Community Access Roads tend to face the lowest absorption of the road maintenance funds. This problem has been blamed on cumbersome procurement processes that bedevil local governments. Third, the dearthness of detailed, up to date and accurate data for effective and efficient planning of maintenance of the road network particularly DUCAR.

9. **Policy Recommendations**

The following recommendations are drawn from this review:

**Amendment of the Uganda Revenue Authority Act, 1997:** There is need for amendment of Section 14 of the Uganda Revenue Authority Act, 1997 to allow URA to transfer directly in a timely manner the RUCs into the URF bank account to reduce uncertainties in funding of the road maintenance works.

**Build Capacity for roads agencies:** The capacity of agencies in procurement particularly districts needs to be bolstered by recruitment of qualified personnel and setting up appropriate procurement systems. This would go a long way in improving absorption of funds for maintenance of roads.

**Assessment of the DUCAR Road network condition:** Detailed and timely periodic assessments of the road network particularly DUCAR for effective and efficient planning of road maintenance.
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General Elections: Key Issues for Political Parties and Political Leaders to Address in their Manifestoes, Kampala, ACODE Policy Briefing Paper, No.31, 2015.

Irene Achola is a Research Officer under the Center for Budgets and Economic Governance (CBEG). She holds a Masters degree in Public Administration and Management from Uganda Christian University and a Bachelor’s degree in Economics from Makerere University Kampala. Irene is interested in public policy analysis, governance and economic development.