

FINAL DRAFT

GOVERNMENT OF THE REPUBLIC OF NAMIBIA

MINISTRY OF WORKS, TRANSPORT AND COMMUNICATION



DEPARTMENT OF TRANSPORT

MEMORANDUM

ROAD SECTOR REFORM IN NAMIBIA:

VOLUME 1:

BACKGROUND, POLICIES AND STRUCTURES

Date : 07 March 2000

Note

This Memorandum was written prior to the implementation of the Road Sector Reform. Reference to the existing or present situation hence refers to the situation up to 1 April 2000.

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VOLUME 1 : BACKGROUND, POLICIES AND STRUCTURES

1. PURPOSE OF THE MEMORANDUM

1.1 The purpose of Volume 1 is to provide a broad background to the new policies and organisational arrangements in the road sector¹ in Namibia.

1.2 The new policies and arrangements are being implemented through legislation. Explanatory notes on the Roads Authority Act and Road Fund Administration Act are available as Volume 2 and Volume 3, respectively.

2. BACKGROUND

2.1 Economic role of transport in Namibia

2.1.1 Namibia is a large country of over 825 000 square kilometres with a small population of 1,7 million. Transport makes up approximately 6,5% of the economy measured in terms of the GDP. The number of registered vehicles is about 172 000 with heavy vehicles in excess of 3,5 tons estimated to be 5 800².

2.1.2 The proclaimed rural road network in Namibia, i.e. roads outside urban areas, comprises some 42 500 kilometres of paved and unpaved roads. The extensive road network, in relation to the size of the population, is the result of the vast distances which have to be covered and explains why, on a per capita basis, Namibia appears to be well provided with roads in comparison with many other countries. The road network is generally in a good condition but some older sections of the paved road network, forming part of the Regional Trunk Road Network (RTRN), have deteriorated and a programme of rehabilitation is being implemented.

2.1.3 An efficient transport sector is important for Namibia because: (i) as a developing country, the role of transport in the economy is likely to grow faster than the rest of the economy, and (ii) the long distances between sources of goods and services to points of final consumption make each transport journey expensive in relation to what is normal in many countries. For Namibia, therefore, it is of crucial importance to avoid the typical problems with regard to roads being experienced in Sub-Saharan Africa. Road sector reform is aimed at ensuring the efficient functioning of the whole road sector in Namibia.

¹The road mode should more accurately be referred to as a “sub-sector” of the transport sector in the economy. Because “road sector” has been widely used, the convention adopted herein is to refer to the “road sector”.

²National Transportation Master Plan Study: Final Report on Road User Charges, 28 May 1997.

2.2 Transport policy development in Namibia

2.2.1 After Independence in 1990, a thorough review of transport policy in Namibia was initiated resulting in the release, in April 1992, of a draft White Paper on Transport Policy, which covered all the transport modes, viz. road, rail, air and sea. A final White Paper on Transport Policy was approved after consultation with a broad spectrum of interested parties in October 1994 and deals mainly with regulatory policies to be applied with regard to the provision of transport services. The basic strategy recommended in the White Paper is the promotion of healthy competition as the most effective means of improving efficiency in the provision and operation of transport services. The strategy will be implemented by relaxing the existing regime of strict economic regulatory controls.

2.2.2 The White Paper on Transport Policy also recommended that the existing institutional arrangements in the transport sector should be reviewed so as to improve the overall efficiency of the transport sector. One of the areas which merited particular attention was Government's prominent role in the financing, building and maintenance of roads.

2.2.3 Lastly, a separate road taxation policy study was commenced in 1990 and completed in early 1993. The recommendations of this study resulted in further work by an Interministerial Committee of Technical Experts (ICTE) whose final report was accepted in July 1995. Its recommendation was that roads should be funded through a system of road user charges operating through a road fund.

2.3 International developments affecting transport in Namibia

2.3.1 The typical road sector problems in Sub-Saharan Africa of inadequate funding allocations to roads and inefficient utilisation of funds for building and maintaining roads have resulted in a general acceptance of the need to introduce reforms in national road sectors. Various international agreements make provision for the implementation of such reforms.

2.3.2 Namibia is bound by the provisions of transport agreements to which it is party. The most important of these in relation to road transport are the Memorandum of Understanding on Road Transportation in the Common Customs Area (MOU) and the SADC Protocol on Transport, Communications and Meteorology (1996). The former regulates cross-border road transport services between the member states of the Southern Africa Customs Union and also provides for the implementation of non-discriminatory road infrastructure cost recovery systems (in effect road user charging systems which apply to cross-border road transport operations). The SADC Protocol, in its Chapter 4 (Roads Infrastructure), has a number of provisions of direct relevance to road sector management and road user charging.

2.3.3 The transport policies accepted in Namibia are in agreement with those being promoted in the Southern Africa Region and Namibia is therefore well placed to take a leading role in implementing the provisions of the multilateral international transport agreements to which it is party.

3. THE NAMIBIAN ROAD SECTOR : EXISTING ARRANGEMENTS

3.1 Road transport services, the national road network and urban roads

3.1.1 Road transport services in Namibia are provided by private sector road transport operators.

3.1.2 All roads, with the exception of urban roads under the control of local authorities and private roads, form part of the proclaimed³ road network, also referred to as the “national road network”. The management of the national road network is currently the responsibility of the Department of Transport in the Ministry of Works, Transport and Communication.

3.1.3 Roads in urban areas are managed by the relevant local authorities.

3.1.4 In Namibia roads are therefore provided at only two levels, namely at the national level and at local government level. This considerably simplifies the process of introducing road sector reforms.

3.2 Management of the national road network

3.2.1 The expression “management” in relation to roads is taken to comprise planning, design, construction and maintenance⁴.

3.2.2 Planning and design of the national road network are to a large extent executed with the assistance of consultants in the private sector. In the last decade the Department of Transport has, in addition, drastically scaled down its own road construction capacities resulting in such work being mostly contracted out through competitive bidding procedures. Routine road maintenance such as periodic grading and re-gravelling of unsurfaced roads is

³ Roads are proclaimed in terms of section 23 of the Roads Ordinance, 1972. The act of proclamation results in the road becoming a public responsibility and ensures public right of access thereto. It should be noted that some roads within local authority areas have been proclaimed in terms of the Roads Ordinance and that such roads therefore form part of the national road network.

⁴ In the Roads Authority Act, the expression is somewhat more comprehensively defined.

still largely executed by means of an in-house road maintenance organization of some 2400 employees dispersed throughout the country in different regional and district centres. The Department operates a heavy plant and equipment pool in support of its road construction and maintenance operations.

3.2.3 In an investigation by management consultants it has been estimated that the productivity level of the Departmental road units is about 35% below that which would be expected if the work were contracted out under competitive bidding procedures. Improvements have recently been achieved under the Rapid Adjustment Programme, implemented to prepare the units for commercialisation as part of the Road Sector Reform.

3.3 The existing road funding process

3.3.1 Roads are funded from the Central Revenue Fund (CRF) as part of the Government budget process administered by the Ministry of Finance. The Department of Transport's road budget forms part of the budget of the Ministry of Works, Transport and Communication.

3.3.2 The annual budget allocations for roads depend on the availability of funds in the CRF and the various other budget priorities confronting Government. Typically the budget allocations for capital works (new road projects) vary the most from year to year. In recent years the Namibian Government has followed a policy to use available funds for roads in accordance with the following priorities, (i) to maintain at least the existing service level of the Namibian road system, (ii) to develop roads in previously neglected rural areas and, (iii) to upgrade road links with neighbouring countries.

3.3.3 The above policy has, by and large, been adhered to, resulting in the Namibian national road network comparing well with road systems in the Southern Africa Region. However, the tight economic conditions of recent years has resulted in cutbacks in real levels of road maintenance allocations with the result that maintenance and rehabilitation of some of the older surfaced roads forming part of the Regional Trunk Road Network (RTRN) have had to be curtailed. The development of rural roads in underdeveloped areas has likewise had to be kept back, although some support has been provided through a number of grants since Independence. Such grants have, however, formed a relatively small part of total road spending. The development of rural roads can mostly be justified on grounds of economic efficiency, but their development may also be justified for reasons of equity (to improve basic accessibility or stimulate development). As far as the upgrading of road links with neighbouring countries is concerned the position is somewhat more favourable because international development financing agencies tend to support such road projects through favourable long term loans, mainly because they are more readily perceived to be inherently economically viable.

3.4 Existing taxes on road users

3.4.1 Although a number of taxes in Namibia can be regarded as specific to road users, no official policy of earmarking the relevant tax revenues for road expenditure is followed. Such taxes are treated as pure revenue taxes forming part of the Central Revenue Fund (CRF).

3.4.2 The taxes concerned are fuel levies on diesel and petrol, vehicle licence fees and general sales taxes on spares, lubricants, vehicles and tyres. Of the above, fuel levies and vehicle licence fees can be regarded as specific to road users since sales type taxes are levied on most commodities in the economy.

3.5 Efficiency and equity of the road funding and taxation processes

3.5.1 The efficiency of the present road funding process can be questioned for several reasons. Firstly, because roads are treated as one of a number of a public funding responsibilities it means that road funding is annually subject to the same funding considerations as Government's other funding priorities, including social priorities such as housing, health and education . Efficiency principles applicable to the transport sector can therefore not easily be taken into account.

3.5.2 Secondly, since there is no policy to bring revenue from taxes on road users into account against expenditure on roads, the re-distributional implications of such taxes are not a matter of definite policy. In some years, therefore, the general tax payer "subsidises" road users while in other years the opposite may be true.

3.5.3 Thirdly, the determination of the levels of taxes on fuel as well as vehicle licence fees are based on considerations of revenue generation and acceptability. There is thus no specific objective to tax different categories of road users equitably in relation to their "consumption" of roads. Heavy vehicles currently, for instance, are taxed far less than they would be if the costs they impose on roads were to be taken into account in an equitable user charging system.

3.5.4 Fourthly, it follows that from an economic efficiency point of view the present taxes fail to provide road users with "pricing" signals reflecting costs, which would tend to facilitate more efficient⁵ choices with regard to vehicles, fuels and journeys. This, in turn, affects the intermodal competition between different transport modes

⁵ "Efficient" from the point of view of the national economy, because individual vehicle owners would tend to take decisions which are rational and financially advantageous or efficient from their point of view.

such as road and rail and adversely affects the development of an efficient and integrated transport system⁶.

3.5.5 The existing arrangements for funding roads and taxing road users in Namibia are therefore neither equitable nor conducive to the development of an efficient road transport sector.

4. THE ROAD SECTOR : NEW ARRANGEMENTS

4.1 National policy objectives and strategies

4.1.1 One of the basic tenets of the transport policies recommended in the White Paper on Transport Policy is that they should be in harmony with national policies and objectives. The national economic policy objectives of particular relevance to the transport sector are: (i) sustained socio-economic development, and (ii) optimum utilization of scarce resources.

4.1.2 Government's strategies for achieving its national economic objectives are, *inter alia*, to: (i) reduce the role of Government in activities which can be performed by the private sector, (ii) reduce the aggregate Government spending level, (iii) promote efficiency through competition by the elimination of unnecessary economic regulatory controls, (iv) contract out operational functions under competitive bidding conditions, and (v) implement arrangements which will result in the provision of services at prices which reflect economic costs with beneficiaries, rather than the general tax payer, paying through appropriate user charges.

4.1.3 In the road sector the above strategies apply to both the operation of road transport services and the provision of road infrastructure. The former, as mentioned earlier, are supplied by the private sector and the above strategies will be implemented by promoting competition through the relaxation of regulatory controls through new legislation. A detailed discussion in this regard is contained in the White Paper on Transport Policy and falls outside the scope of this volume. The provision of road infrastructure depends on: (i) sufficient funds being available to build and maintain roads, and (ii) funds being efficiently used in the management of roads. The new arrangements therefore target both the road funding process and the road management process.

4.2 Responsibilities for functions

4.2.1 Restructuring commences with a clear demarcation of responsibilities for basic functions. Once this has

⁶ See Chapter 3 of the SADC Protocol on Transport, Communications and Meteorology which requires member states to work towards the development of such a system.

been done, the philosophy is that new organisational entities will be able to function most effectively if they: (i) are given explicit objectives to achieve, (ii) are provided with the relevant expertise, (iii) have sufficient powers and, (iv) can be held accountable for their performance⁷.

4.2.2 It is accepted that some functions, the so-called “pure” Government functions, should remain the responsibility of Government. The Minister of Works, Transport and Communication is and should remain responsible for functions such as transport policy formulation and implementation, quality (safety) and economic regulation (albeit the latter should be reduced as far as possible) of transportation services and management of Namibia’s international transport interests and obligations. The minister responsible for the transport function will therefore continue to be responsible for road sector regulatory functions such as vehicle registration and licensing, vehicle roadworthiness, driver testing, issuing driving licences and registration of road transport operators⁸.

4.2.3 A basic point of departure is that Namibia’s national road network is a public asset of great value, the final control of which should vest in Government. In the new arrangements it is therefore proposed that Government should retain ownership of the national road network although, in terms of the basic strategies mentioned above for improving efficiency, the actual execution of operational functions may be assigned to specialised and more efficient organisational entities or agents, preferably outside the direct ambit of the Public Service.

4.2.4 The above approach confirms Government’s recognition of the importance of an efficient transport sector and the role of the Minister responsible for the transport function, and specifically the road transport function, in a developing country such as Namibia with its particular characteristics as described earlier. It is incumbent on Government to, *inter alia*, accept responsibility to ensure access where purely economic transport considerations would not ensure adequate roads development in remote or underdeveloped rural areas. In the new arrangements the national road network will be viewed as consisting of two types of roads. First, those roads which are justified to be provided on grounds of economic efficiency considerations because of the traffic volumes which they must accommodate. Such roads should be funded out of user charges. Second, those roads which are necessary in the national interest to ensure accessibility in certain areas. The latter roads are required “in the national interest” and

⁷ This approach is in line with the proposals contained in the World Development Report 1994, published by the World Bank. (See “Applying commercial principles of operation”, page 8 of that report.)

⁸The Minister will execute these functions in terms of the Road Traffic and Transport Act. The Act provides for the Minister to appoint agents for the operational performance of certain functions. The Namibian Traffic Information System (NaTIS) will be operated by the Roads Authority who will therefore in future keep a central register of vehicles and drivers. The Road Traffic and Transport Act provides for the functions of driver and vehicle testing to be performed by the Namibian Police. The function of testing vehicles may be withdrawn, either completely or partially and the Ministry of Works, Transport and Communication is reviewing possible options. Driver testing may also be outsourced and the options in this regard are also under review.

their construction⁹ may not necessarily be justified on grounds of *transport* economic efficiency considerations. They should therefore be funded mainly out of general tax revenues.

4.2.5 In terms of the above the whole national road system (comprising both “economic” and “socio-economic” roads) will be the responsibility of the Minister responsible for transport, who will exercise the “ownership” function on behalf of the Government. The Minister should, for reasons of operational efficiency and in accordance with the strategic principles accepted by Government, refrain from becoming too deeply involved in actual operational activities.

4.2.6 The responsibility for managing and funding roads in urban areas will remain with local authorities. However, such roads will qualify for funding support out of revenues generated through road user charges, the rationale being that part of such revenues arise from the operation of vehicles on urban roads. In terms of economic efficiency principles applicable to the transport sector, urban residential roads should not be fully funded through road user charges because considerations other than traffic and transport economics play a role in the provision of such roads. For this reason, only the traffic-related maintenance of such roads is envisaged to be funded through road user charges. Major urban arterial roads, however, qualify to be funded to a larger extent out of road user charges because of the more direct role they play as part of the national road transport system.

4.2.7 In Namibia, as in most countries, the funding allocation for roads at present comes out of the Central Revenue Fund. When roads are no longer funded out of general tax revenues, which will happen when the system of road user charges is introduced, the revenues concerned will be kept separated from the Central Revenue Fund and be deposited in the Road Fund. While this is an obvious minimum requirement to ensure that the relevant taxes are “earmarked” for roads, it does not necessarily provide an answer to the general concern about “inadequate” funding of roads which is so prevalent in the literature on roads in Sub-Saharan Africa as well as many other countries. To address this concern, definitive policies for the determination of the road funding level and the determination of the rates of road user charges need to be formulated and implemented.

4.2.8 The rates of road user charges and road funding levels are two sides of the same coin. This is particularly so if there is policy which defines the relationship between road user charges and expenditure on roads. The general philosophy in this regard (see the SADC Protocol on Transport, Communications and Meteorology as well as publications of the World Bank - Road Maintenance Initiative) is that at least the maintenance of roads should be funded out of road user charges while the road development budget should progressively be funded out of road user

⁹ In the application of the above policy, a distinction is made between construction costs and maintenance costs required for the achievement of acceptable levels of accessibility. The latter is proposed to be funded by the Road Fund, see the discussion in Volume 3, dealing with the Road Fund Administration Act.

revenues, with the ultimate objective of fully funding roads out of road user charges.

4.2.9 Namibia, has adopted the view that the road funding level for the so-called “economic road network” should be determined in accordance with economic efficiency criteria. This view is promoted by the SADC Protocol on Transport, Communications and Meteorology.

4.2.10 As far as road user charges are concerned, Namibia’s policy is that the full cost of the road network which complies with the economic efficiency criteria, should be carried by road users through appropriate road user charges.

4.2.11 With the above as basic policy guideline it is possible to implement the strategies mentioned earlier and to assign the functions of determining the road funding levels and road user charges to a specialised body, endowed with both the required expertise and the necessary powers. Such a body would have explicit objectives to pursue for which it can be held accountable.

4.2.12 The discussion of the proposed organisational structures for managing the road network and road funding process, in paragraphs 4.4 and 4.5 below, is concluded by a more detailed discussion of the road funding and road user charging system. For a full discussion of the new legislation, Volume 3, dealing with the Road Fund Administration Act, should be consulted.

4.3 Participation by interested parties

4.3.1 In terms of the general approach adopted by Government in developing transport policies for Namibia, transparency and participation by interested parties are important considerations. The new arrangements are therefore based on there being: explicit definitions of the objectives to be achieved by new organisational entities, clarity about their functions and powers, definitions of the principles to be applied in the exercise of powers and the pursuance of objectives, mandatory obligations with regard to the information to be disclosed in performance statements, annual reports or other documents, provision for prescribed consultative procedures to be followed before important decisions are implemented and, finally, a framework for the enforcement of accountability.

4.3.2 Interested parties, such as road users or any other party with a bona fide interest in the achievement of well-functioning road sector, will therefore be placed in a strong position to monitor the performance of relevant entities against the background of an explicit set of objectives and a definitive set of rules and principles, contained in the legislation, and to be consulted as to their views whether the relevant entities are effectively achieving their mandates in accordance with prescribed principles. The advantage of the above approach is that it provides a definitive framework for consultation and the avoidance, or, if necessary, the resolution, of disputes.

4.4 Management of the national road network : the Roads Authority

4.4.1 The function of “managing” (see earlier note) the national road system will be assigned to the Roads Authority. All the powers, currently vested in the Minister of Works, Transport and Communication in terms of the Roads Ordinance, 1972¹⁰, which are necessary for the Roads Authority to be able to perform its function of managing the national road network, will be transferred to the Roads Authority.

4.4.2 The Roads Authority is an agency of state acting as the agent of the Minister responsible for transport with the task to efficiently manage the national road network and has been established in terms of the Roads Authority Act.

4.4.3 The Minister will retain overall responsibility for the national road assets and will therefore also retain the powers pertaining to the proclamation of roads in section 23 of the Roads Ordinance. In addition, the Minister will be able to prescribe the minimum road standards which are required for public safety on roads and to ensure accessibility to any area in Namibia. Compliance with these standards by the Roads Authority is mandatory. The funding necessary to be able to achieve the minimum safety standards will have to be made available through the road user charging system (see later discussion on road user charging system).

4.4.4 The Minister appoints the board of directors of the Authority. The Minister also controls the performance of the Roads Authority through a performance statement which is regularly reviewed and which will set out the Authority’s short and medium term objectives and cover various other matters regarded as necessary to enable the Minister to assess the performance of the Authority.

4.5 Funding of roads : the Road Fund Administration and road user charging system

4.5.1 The responsibility to fund roads in such a way that: (i) a safe, and (ii) an economically efficient road sector is achieved has been assigned to the Road Fund Administration. The Road Fund Administration has been established in terms of the Road Fund Administration Act.

4.5.2 The objective of the Administration is to ensure that roads are funded in accordance with the principle of economic efficiency. The tool at the disposal of the Road Fund Administration is the road user charging system, which it will manage in order to secure funding for roads. The Administration will have autonomy in executing its road funding function and therefore it in effect will “regulate” roads funding. “Regulate” in this instance means

¹⁰ The Ordinance will be re-vised and be promulgated as a National Roads Act in due course.

that the Administration is responsible to ensure adherence to certain principles rather than that it has unqualified discretionary decision-making powers¹¹. It can also be said that the Administration is the body responsible for upholding the integrity and principles of the road user charging system. The road user charging system itself is more fully elaborated hereafter.

4.5.3 Apart from managing the Road Fund, established in terms of the Act, the functions of the Road Fund Administration are to evaluate road construction and maintenance funding proposals submitted by the Roads Authority and various other “approved authorities”, to determine the amount of funding to be provided out of the Road Fund for different road projects and programmes, to determine the manner in which funds should be allocated in annual budgets (plans), to set road user charges and to manage the affairs of the Road Fund so as to ensure its long term solvency. The Administration is also required to consult with and take account of the views of stakeholders about the correctness of the application of the principles of the road user charging system. Finally, the Administration will have powers to exercise control over other bodies receiving funds from the Road Fund to the extent that it is necessary to ensure that such funds are efficiently utilized.

4.5.4 The Administration must annually publish a detailed Annual Report to be tabled in Parliament by the Minister of Finance. The Administration and the Road Fund will be subject to an annual independent financial audit.

4.5.5 The Minister of Finance will administer the legislation establishing the Road Fund Administration and will be responsible to, in consultation with the Minister responsible for transport, appoint the board of directors of the Administration. The Minister will, in addition, be responsible to ensure that consultations with interested parties take place and that regulations are issued with regard to matters such as, *inter alia*, the principles to be applied in managing the financial affairs of the Road Fund.

4.5.6 The Minister will exercise control over the Road Fund Administration by means of a performance statement which the Administration must submit to the Minister and which will enable the Minister to monitor whether the Administration is likely to achieve its objectives while complying with the principles contained in the legislation.

¹¹ A discussion about “regulation” and whether the type of regulation intended in this instance compares with the type of regulation required for state enterprises operating under monopolistic conditions, is not attempted herein. It should, however, be noted that the latter type of organisations are, in the absence of competition, subjected to regulation to ensure that market power is not abused.

4.6 The principles of the road user charging system

4.6.1 The basic principles of the road funding policy for Namibia are:

- (a) The funding of the national road network should have as objective to ensure the achievement of safe and efficient road transport (general economic efficiency principle) whilst seeking to minimize the effects of road building on the environment.
- (b) The full costs of roads, complying with the above objective, should be carried by the beneficiaries, namely road users, through appropriate road user charges (user pay principle).
- (c) In addition to recovering costs, the levels of road user charges should be set so as to, as far as practicable:
 - (i) implement the principle of equity, i.e. one class or category of road users, e.g. owners of light vehicles, should not subsidize another class or category, e.g. heavy vehicle operators; and
 - (ii) promote allocational efficiency in the road sector through the road pricing signals they provide¹².

4.6.2 The above road funding policy principles will be implemented through a purpose-designed, transparent road user charging system, using clearly defined, transparent road user charging instruments. Further objectives are that the road user charging system should be broadly acceptable to affected parties, be practical to implement and administer and provide for competition on an equal basis between the different transport modes, particularly the rail mode.

4.6.3 As noted earlier, the Minister of Works, Transport and Communication will be responsible to set minimum road standards which will define what is regarded as “safe”. This will be accomplished through the issuing of regulations which prescribe the minimum road standards to be implemented by the Roads Authority. The funds necessary to enable the Roads Authority to comply with the minimum safety standards must be provided by the Road Fund Administration.

¹² According to economic theory, efficiency in the choice of equipment and use of other resources is enhanced when prices reflect marginal costs

4.6.4 The interpretation of “economically efficient” is the task of the Road Fund Administration. To this end the legislation empowers the Administration, after consultation with parties prescribed by the Minister, to frame rules and principles to be followed by parties applying for funds from the Road Fund in order to ensure the practicable implementation of economic efficiency theory. The Administration is autonomous in that it has the final say with regard to the levels of road funding for “economic” roads, although it is bound by the principles contained in the legislation. The Administration’s interpretation of the principles in the legislation is, under certain circumstances open to be challenged in terms of the complaints procedures provided for in the Act. In such cases a process of review by an independent panel of experts will be implemented.

4.6.5 The process to fund those roads regarded as economically justified from a road transport point of view will, to be consistent with the basic policy principles, in future comprise the following sequential steps:

- (a) Determination of the efficient or “optimum” road funding level for individual road projects and programmes (i.e. as far as practically possible individual projects and programmes will be evaluated and a determination made);
- (b) translation of the total funding requirement resulting from the above into the actual annual expenditure budgets of implementing agencies, which represent the *manner* in which the approved funding will be made available for spending, taking account of:
 - (i) the availability of funds at any point in time; and
 - (ii) the need to maintain road user charges at a reasonably stable level from year to year and in the long term;
- (c) determination of the levels of road user charges, corresponding with the funding and budget programmes, and complying with the approved principles as set out in paragraph 4.6.1 above.

4.6.6 One of the implications of the new road funding arrangements is that the existing system of government contributions to local authorities for urban road maintenance will be discontinued. Allocations for the maintenance of urban roads under the jurisdiction of local authorities will become part of the costs financed through the road user charging system. The funding of urban arterial roads will be limited to the traffic-related maintenance costs of such roads. It will, however, be possible for local authorities to obtain funding support for the construction of major urban arterial roads on economic efficiency grounds where such roads carry high traffic volumes of which a large proportion may be out of town traffic.

4.6.7 The user pay principle, if consistently applied, will further have the implication that the cost of activities related to the safe and efficient use of roads should be accepted as part of the costs to be carried by road users in general. This policy has been confirmed by Government with regard to the traffic-related costs of traffic law enforcement¹³ and subsequently for road traffic safety promotion costs¹⁴ and have been provided for in the Road Fund Administration Act. As part of the above, the costs of, *inter alia*, vehicle testing, overload control, driver testing and traffic information systems may also be defrayed as part of the road user charging system.

4.6.8 It must, however, be accepted that a pragmatic approach must be adopted in applying the principles of the road user charging system because such a system can never be perfect due to various practical and technical constraints. Cross-subsidization between different roads in the network and between urban and rural road use will inevitably occur and it must be a longer term objective to bring about improvements in this regard. The basic policy principles will therefore be implemented to the extent that is practicable. For example, equity between different vehicle categories, although much improved from what is currently the case, will only be achieved to the extent that charging instruments can distinguish between the different vehicle types. Efficient pricing signals can, furthermore, only be generated to the extent that marginal cost pricing can be achieved in practice. The justification for the system is that it will enable the achievement of specific desirable objectives to a far greater extent than would be possible without the system.

4.6.9 It should be noted that the inclusion of road user charges in the pump price of fuel, has certain implications. The first is that arrangements must be made to either exclude such charges from the price of fuel used off-road or to make refunds to off-road fuel users if they have paid the road user charges when purchasing fuel. Another implication is that the process for imposing revenue taxes on fuel sales and setting the pump price of fuel, which is generally regarded as a strategic economic commodity, must be coordinated with the process of imposing user charges to be included in the fuel price, *inter alia*, with regard to road use. This has led to the concept of an “integrated fuel taxation and pricing policy”. Such a policy was accepted by Cabinet, on the recommendation of the Ministry of Finance, in December 1996¹⁵.

4.6.10 In conclusion, it is noted that there are a number of factors which favour the implementation of a road user charging system in Namibia. The most important of these are: (i) there is no insurmountable road maintenance backlog which has to be eliminated, (ii) no drastic increase in road network development expenditure is required

¹³See Cabinet’s decision of 25 July 1995.

¹⁴See Cabinet decision of November 1995 regarding Road Traffic Safety.

¹⁵ The important features of this policy are that it provides for all components which go to make up the pump price of fuel, namely, the basic costs, the user charges and revenue taxes, to be determined in accordance with clear principles and that revenue taxes and user charges should be transparently distinguished.

because the main arterial road network has been established and upgraded links to neighbouring countries are either completed or in the process of being completed, (iii) the total revenues from existing road-use related taxes are in relative balance with the annual expenditure on roads, (iv) the existing fuel taxes and system of annual vehicle licence fees are in place and familiar to the public and can easily be redefined as “road user charges”, and (v) the existing level of road funding is regarded as being more or less at the estimated “economically efficient” funding level¹⁶. In addition, roads are provided at only two levels, namely at the national (rural) level and at the local authority (urban) level, which simplifies fund allocation.

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¹⁶ A thorough determination based on contemporary methods has not yet been completed, although a report completed in June 1998, Roads Planning and Budgeting in Namibia, as part of a National Transportation Master Plan Study suggests that a total annual expenditure figure some 30% higher than previously estimated, may be more correct.