

ROAD FUND ADMINISTRATION BUSINESS PLAN

Presentation of the Business Plan for the
period 2004/05 – 2008/09
Stakeholder Consultations 26 July 2004



03/31/2006

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Outline of Presentation

- Part A:
 - Analysis of Implications of the Medium- to Long-term Roads Master Plan
- Part B:
 - Overview of Business Plan for 2004/05 – 2008/09
- Part C: Options for Implementation of road user charges increases

PART A

Analysis of Implications of the Medium- to Long-term Roads Master Plan



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Purpose

To present the implications of the MLTRMP
for the future direction of road user
charging in Namibia



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Part A Overview

- Options for road network investment
 - Medium- to Long-term Roads Master Plan
 - Road Maintenance Only
- Options for Road User Charging System

Medium- to Long-term Roads Master Plan Scenarios

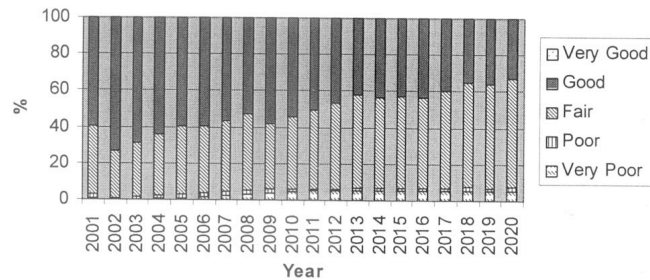
- Roads Authority MLTRMP – 5 scenarios:
 - 1. Base Option (do minimum)
 - 2. Minimised Total Transport Cost (Optimum)
 - 3. Maintain current network condition
 - 4. 80% of Optimum funding
 - 5. 60% of Optimum funding
- Funding responsibility of the Road User Charging System analysed per scenario
 - Government funding and donor loans excluded

MLTRMP Scenarios: Key Indicators

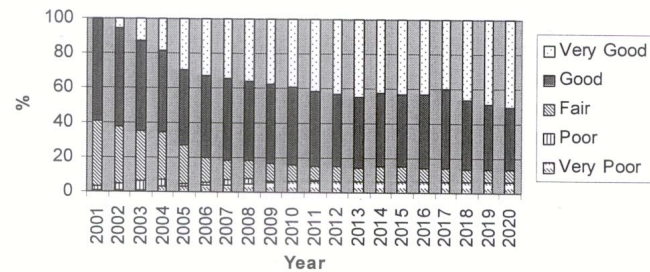
- For Paved Road Network
 - Change in road network condition
 - Change in road network asset value
 - Agency, road user and total transport cost
- For Unpaved Road Network
 - Agency, road user and total transport cost

Scenarios 1 to 5: Network condition

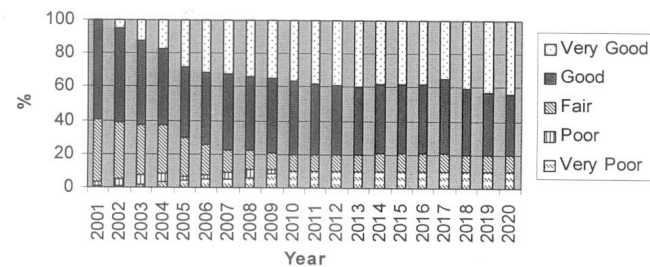
**Scenario 1: Annual Condition Distribution
(% of Network)**



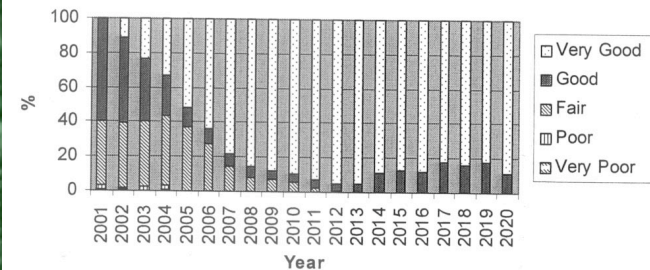
**Scenario 3: Annual Condition Distribution
(% of Network)**



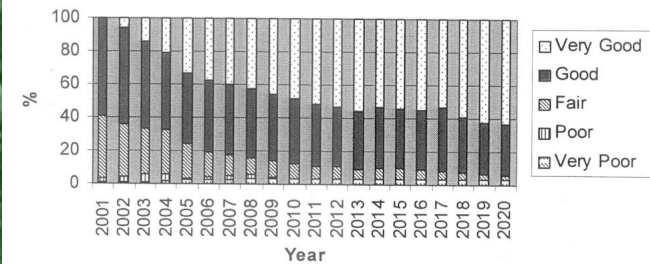
**Scenario 5: Annual Condition Distribution
(% of Network)**



**Scenario 2: Annual Condition Distribution
(% of Network)**



**Scenario 4: Annual Condition Distribution
(% of Network)**

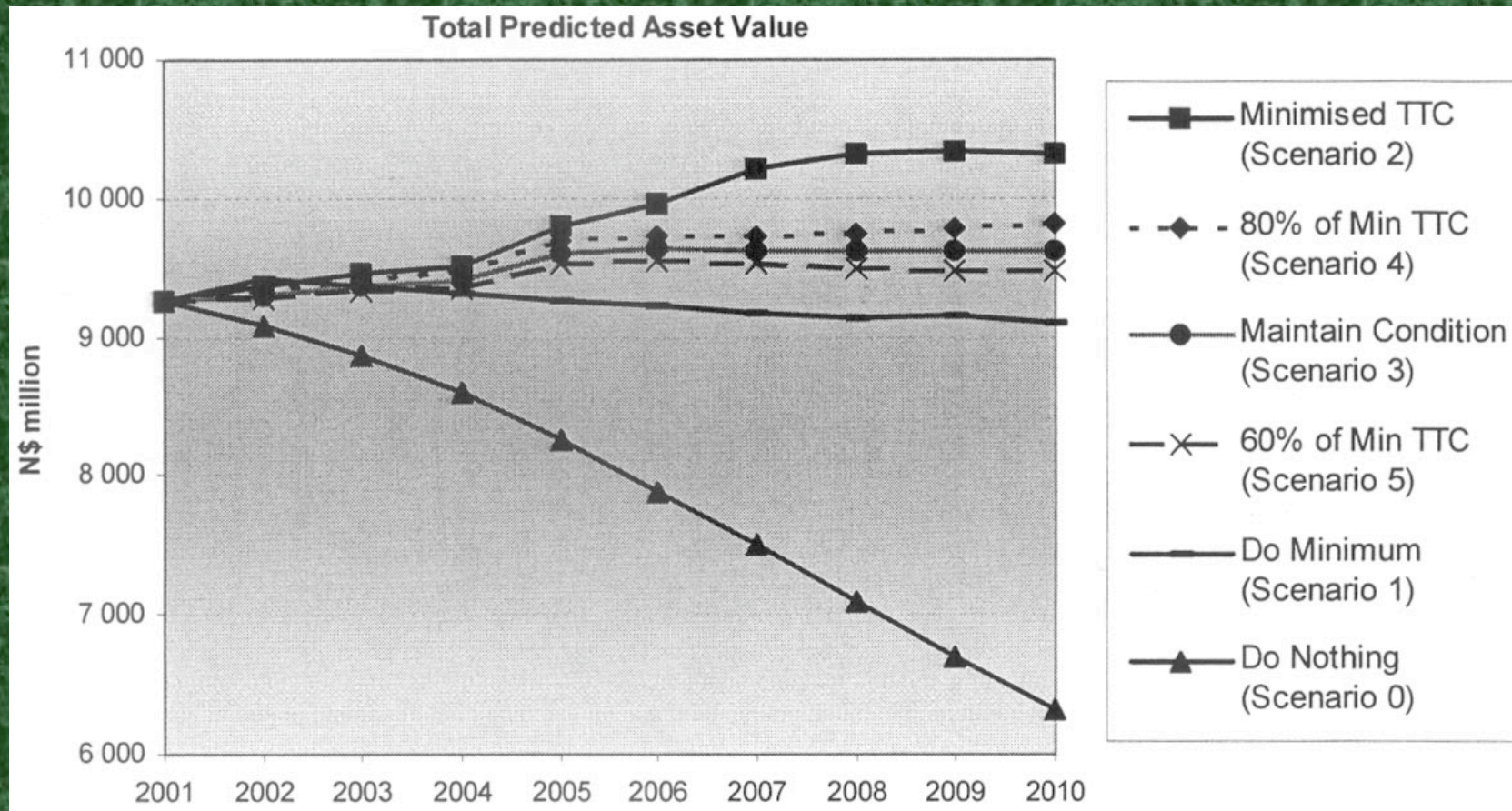


Scenarios:

1. Base Option (do minimum)
2. Minimised Total Transport Cost (Optimum)
3. Maintain current network condition
4. 80% of Optimum funding
5. 60% of Optimum funding

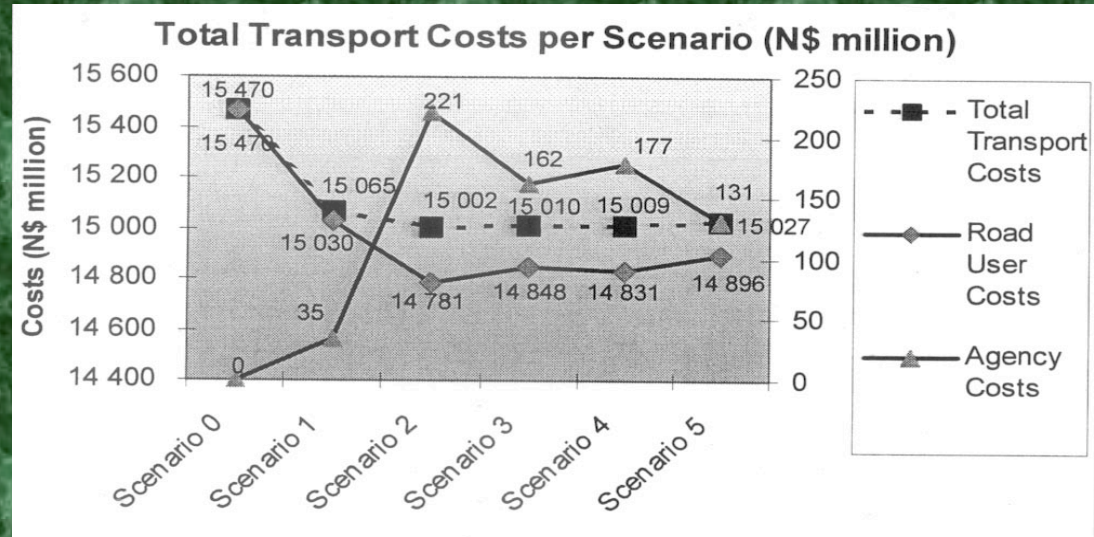


Scenarios 1 to 5: Asset Value

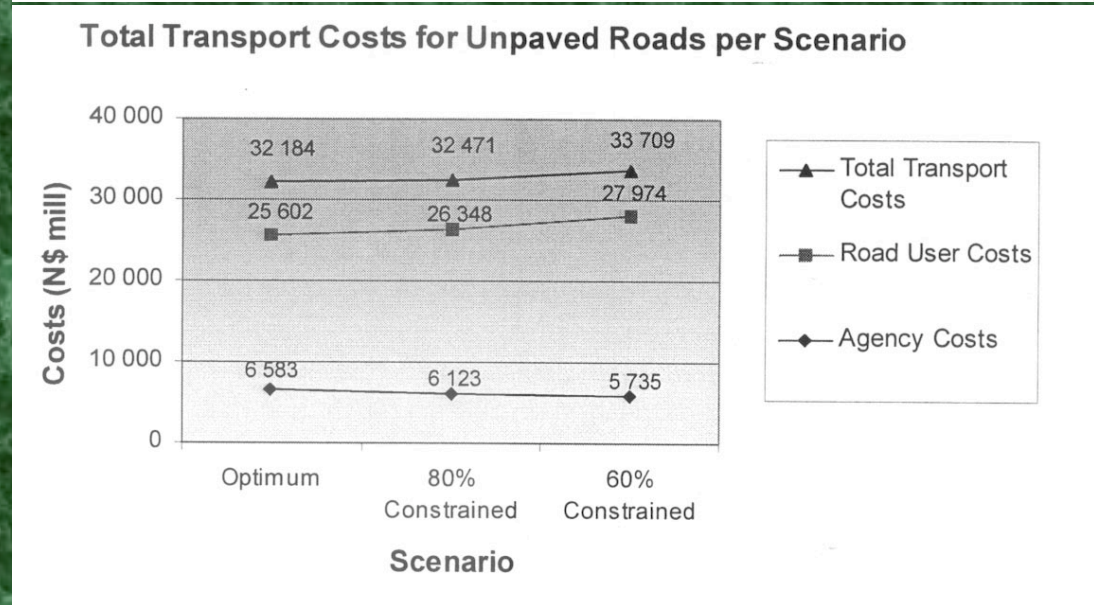


Scenarios 1 to 5: Costs (over 20 years, in 2002 values)

Paved Roads



Unpaved Roads



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WHICH SCENARIO? (1)

- The RFA Act:
 - allocate sufficient funding for the achievement of a safe and efficient road sector
- Scenario 2:
 - results in the best economic efficiency
 - allows for expansion of rural access roads
 - achieves prescribed safety standards
 - highest impact on road user charges



WHICH SCENARIO? (2)

- Test limits of compliance with RFA Act:
 - can impacts on road user charges be reduced?
- Scenario 5:
 - results in the least impact on road user charges
 - allows for expansion of rural access roads
 - achieves prescribed safety standards
 - maintains road network condition

WHICH SCENARIO? (3)

- With road user charges constraints – further scenarios considered:
- Two “Worst Case” scenarios were analysed
- One feasible alternative scenario developed
- Order of scenario presentation:
 - 2 MLTRMP Scenario alternatives (Sc. 2 & 5)
 - 2 “Worst Case” Scenarios
 - 1 Feasible Alternative Scenario

Comparison of Key Indicators

- Scenario 2: Minimum Total Transport Cost
 - All roads improved to good to very good
 - Asset value of paved roads increased from 9,3 to 10,3 billion
 - Total transport costs:
 - paved: 15,00 billion
 - unpaved: 32,1 billion
- Scenario 5: 60% of funding for MTTC
 - Present road network condition maintained
 - Asset value of paved roads increased from 9,3 to 9,5 billion
 - Total transport costs:
 - paved: 15,03 billion
 - unpaved: 33,7 billion

Comparison of RUC Effects

Scenario 2

- Fuel levies:
 - 2004 & 2006: + 20%
 - 2005: + 30%
 - up to 2013: inflation + 2%
 - after 2013: at inflation rate
- Licence fees and MDC:
 - 2004 & 2005: + 15%
 - 2006: + 20%
 - up to 2013: inflation + 2%
 - after 2013: at inflation rate

Scenario 5 + inc. maint.

- Fuel Levies
 - 2004 & 2006: + 20%
 - 2005: + 30%
 - up to 2008: inflation + 2%
 - after 2008: at inflation rate
- Licence fees and MDC:
 - 2004 & 2005: + 15%
 - 2006: + 20%
 - up to 2008: inflation + 2%
 - after 2008: at inflation rate

Financing Requirements

Scenario 2

- Loan stock or similar cash flow bridging finance to smooth out RUC level:
 - 2006 - 2015: N\$ 1,65 bill.
 - 2012 - 2018: N\$ 1,03 bill.
- Project specific (donor) loans:
 - 2007 - 2023: N\$ 4,450 bill.
 - borrowing would have to continue after 2023

Scenario 5 & incr. maint.

- Loan stock or similar cash flow bridging finance to smooth out RUC level:
 - 2006 - 2015: N\$ 0,67 bill.
 - 2012 - 2018: N\$ 0,61 bill.
 - = 1,4 bill. less than for Sc.2
- Project specific (donor) loans:
 - 2007 - 2010: N\$ 0,746 bill.
 - no borrowing required after 2010; RUC income suffices
 - alternatively, borrowing could focus on needs for rural access roads

Evaluation of Scenarios 2 and 5: (1)

- Paved road network:
 - Scenario 2: extra expenditure over that of Scenario 5 only increases the asset value of the road network, which is not an economic efficiency consideration
 - Scenario 5: the loss in economic efficiency compared to Scenario 2 is minimal - N\$ 30 million over 20 years is insignificant
 - Scenario 5: maintaining the current asset value and road network condition would be acceptable
- Unpaved road network:
 - Scenario 5 vs. Scenario 2: road users lose N\$ 1,6 billion over 20 years
 - for the analysis of Scenario 5, it has therefore been assumed that maintenance expenditure would be increased to that of Scenario 2
 - this increase will also ensure continued adequate funding to the Roads Contactor Company to bridge its way to full competitiveness, as well as increasing private road maintenance contractors' capacity



Evaluation of Scenarios 2 and 5: (2)

- Regardless of the scenario:
 - immediate fuel levy increases of between 20% to 30% required
 - to continue with already committed projects and programmes
 - necessitated by lack of moderate fuel levy increases in the past
- With both scenarios:
 - moderate increases of fuel levies can be achieved as from 2006/07
- The main difference between Scenarios 2 and 5:
 - stable road user charges in line with inflation five years earlier (2008) with Scenario 5 than with Scenario 2

Evaluation of Scenarios 2 and 5: (3)

- Non-project specific cash flow financing facilities needed:
 - required in the case of both scenarios
 - to achieve smoothed and stable road user charges
 - else, fluctuating increases and decreases in road user charges
- Cash flow financing difference between Scenarios 2 and 5:
 - Scenario 5 requires N\$ 1,4 billion less than Scenario 2
 - therefore also far lesser interest costs (est. N\$ 1 billion saving)
- Project-specific donor loans difference:
 - Scenario 2: the RFA would be dependent on loans beyond 2023
 - Scenario 5: dependency would cease by about 2010

Road Maintenance Scenario (1)

- Funding is for road maintenance only
 - funding for 2004/05 as per Business Plan
 - funding as from 2005/06: Scenario 5 of the MLTRMP for paved roads and Scenario 2 for unpaved roads
- Road Maintenance Scenario assumes:
 - that fuel levies are kept constant at current levels
 - 20% and 15% annual increases in licence fees and MDC, respectively

Feasible Alternative Scenario (2)

- To fund the budget submitted for 2004/05:
 - issue almost all of the remaining N\$ 350 million in RFA 10 Loan Stock in 2004/05; or
 - alternatively increase fuel levies by 20% early in 2004
- As from 2005/06, RFA only continues funding the maintenance of the national road network and traffic-related maintenance on urban streets
- As from 2005/06, Government would have to resume full responsibility for all other funding, including ongoing projects, and budget for this in its 2005/06 budget, or terminate projects
- RFA would be able to redeem the RFA 10 Loan Stock
- As from 2018, an increasing trend of surplus revenue occurs; RFA then able to take on additional responsibilities, if supported by new road user charging policies

Evaluation of Road Maintenance Scenario

- A scenario:
 - where fuel levies are excluded from road user charges regulation, and annual increases in licence fees and MDC are limited to about 15%
 - **will allow only the funding of road maintenance programmes**
- Under such a scenario, the RFA is
 - **able to redeem the RFA 10 Loan Stock**
- Since maintenance should be fully funded from recurrent revenue, the RFA would:
 - **not require any further loans of any kind**

Main Conclusions: MLTRMP

- The RFA would be able to give effect to its object of adequately funding the achievement of a safe and efficient road sector, by adopting a long-term financial plan in accordance with **Scenario 5 for paved roads and Scenario 2 of the MLTRMP for unpaved roads**
- **This is only possible, if the RFA can regulate fuel levies as part of the road user charging system**, and annual increases in fuel levies licence fees and MDC between 20% - 30% from 2004/05 to 2006/07, and thereafter roughly in line with inflation, can be committed to

Main Conclusions: Road Maintenance Scenario

- Road User Charging System to provide funding for road maintenance only
 - issue most of remaining N\$ 350 million in RFA 10 Loan Stock in 2004/05
 - then road user fuel levies can remain capped
 - moderate future increases in licence fees & MDC
 - RFA can service RFA 10 Loan Stock
 - economically efficient road maintenance assured
 - maintenance of rural access roads built with GRN funding is assured
 - **however:** achievement of economically efficient road sector dependent on GRN funding

Summary Conclusion and Recommendation

- RFA in principle supports funding in accordance with Scenario 5 of the MLTRMP with due regard to:
 - impartial and professional confirmation of
 - the economic justification of this Scenario; and
 - the road user charging feasibility of funding this Scenario, provided that fuel levies are regulated as part of the road user charging system;
 - compliance of this Scenario with the RFA Act and Government policies as adopted at the stage of legislating the RFA Act.

PART B

Overview of Business Plan for 2004/05 – 2008/09



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Revenue and Expenditure from RUC

For the 5-year period 2003/04 – 2007/08

- Revenue [N\$ millions]

– Mass-distance and Abnormal Load Charges	510,000	10%
– Vehicle Licence Fees	574,425	12%
– Road User Fuel Levy	3 135,600	64%
– Cross-Border Charges	199,644	4%
– Other Revenue	46,553	1%
– VAT Refunds	470,340	9%
– Total	4 936,562	100%

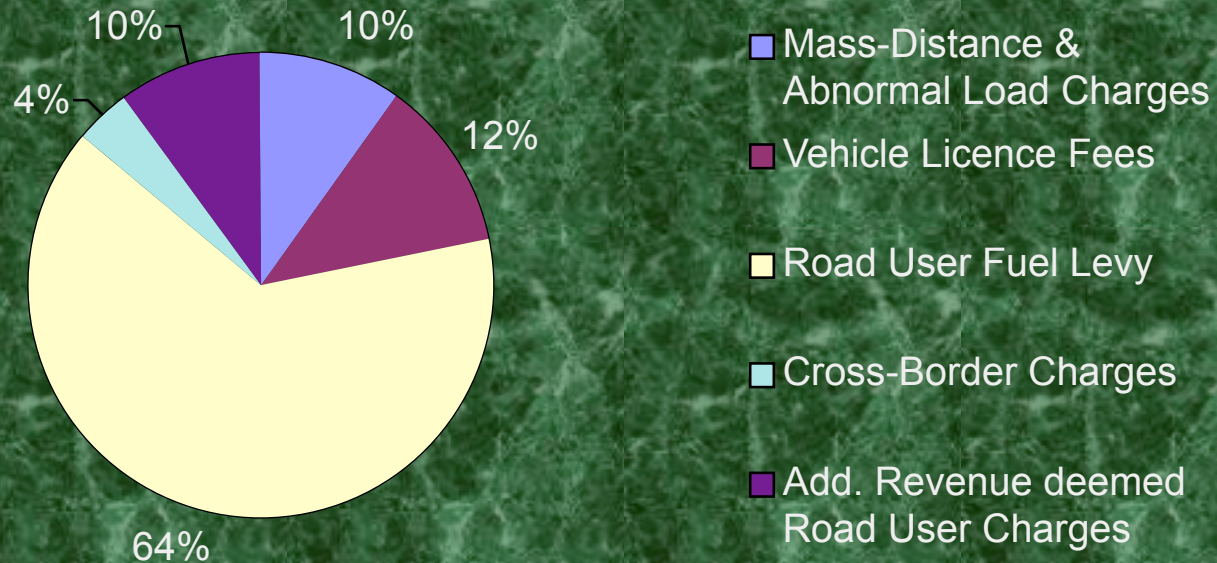
- Expenditure [N\$ millions]

– Management of the national road network	3 758,735	71%
– Administrative expenditure of the RFA	108,059	2%
– Local Authorities - Road maintenance	278,205	5%
– Traffic Information System	190,728	4%
– Traffic law enforcement/overload control	206,024	4%
– Interest (RFA bonds)	451,750	9%
– Net to reserves (for loan stock redemption)	293,061	5%



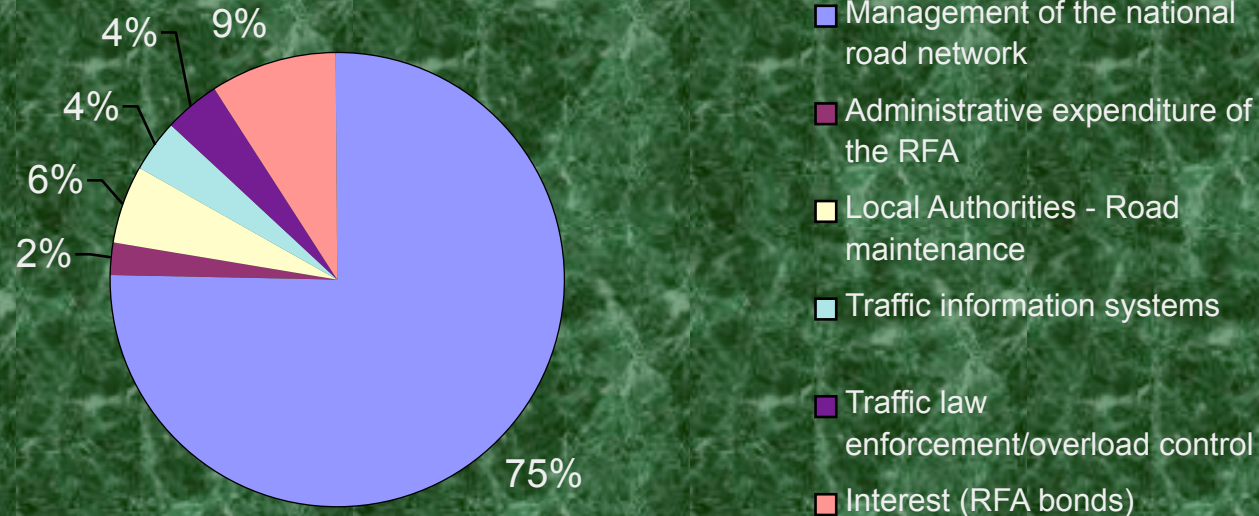
Revenue from RUC 2004/05 – 2008/09 (excluding financing)

Revenue



Expenditure from RUC 2004/05 – 2008/09 (excluding financing)

Expenditure



Summary of Revenue and Expense Inside Road User Charging System 2004/05 – 2008/09

REVENUE AND EXPENSE: ROAD USER CHARGING SYSTEM	Business Plan Total	2004/05	2005/06	2006/07	2007/08	2008/09
TOTAL REVENUE FROM RUCS	4 936 561 640	685 951 640	931 775 800	1 087 115 760	1 106 402 400	1 125 316 040
Revenue from Road User Charges	4 427 601 640	608 007 640	837 346 800	977 981 760	994 082 400	1 010 183 040
Additional Revenue deemed Road User Charges	508 960 000	77 944 000	94 429 000	109 134 000	112 320 000	115 133 000
TOTAL EXPENDITURE FROM RUCS	4 993 500 784	1 028 613 280	1 027 947 520	1 089 685 096	903 612 384	943 642 504
Management of the national road network (Roads Authority)	3 758 735 211	846 133 280	792 227 520	830 755 336	631 768 243	657 850 832
Administrative Expenditure of the RFA	108 059 014	22 100 000	29 160 000	17 496 000	18 895 680	20 407 334
Contributions to other Approved Authorities	674 956 558	92 130 000	115 560 000	143 933 760	155 448 461	167 884 338
Other approved expenditure	0	0	0	0	0	0
Loan interest payments (RFA Act sec. 29(2) loans)	0	0	0	0	0	0
Loan / bond interest payments	451 750 000	68 250 000	91 000 000	97 500 000	97 500 000	97 500 000
SURPLUS / (DEFICIT) FROM RUCS	(56 939 144)	(342 661 640)	(96 171 720)	(2 569 336)	202 790 016	181 673 536

FINANCING OF SURPLUS / DEFICIT FROM RUCS	Business Plan Total	2004/05	2005/06	2006/07	2007/08	2008/09
Inflows	453 557 440	342 661 640	100 000 000	2 569 336	0	8 326 464
Loans	350 000 000	250 000 000	100 000 000	0	0	0
Foreign concessional loans	0	0	0	0	0	0
RFA bonds/loans	350 000 000	250 000 000	100 000 000	0	0	0
Drawdown from RUCS Reserves	103 557 440	92 661 640	0	2 569 336	0	8 326 464
Outflows	396 618 296	0	3 828 280	0	202 790 016	190 000 000
Loan capital repayments (RFA Act sec. 29(2) loans)	0	0	0	0	0	0
Loan / bond capital redemption / sinking fund deposit	380 000 000	0	0	0	190 000 000	190 000 000
Deposit to Reserves	16 618 296	0	3 828 280	0	12 790 016	0
TOTAL FINANCING OF SURPLUS / DEFICIT FROM RUCS	56 939 144	342 661 640	96 171 720	2 569 336	(202 790 016)	(181 673 536)

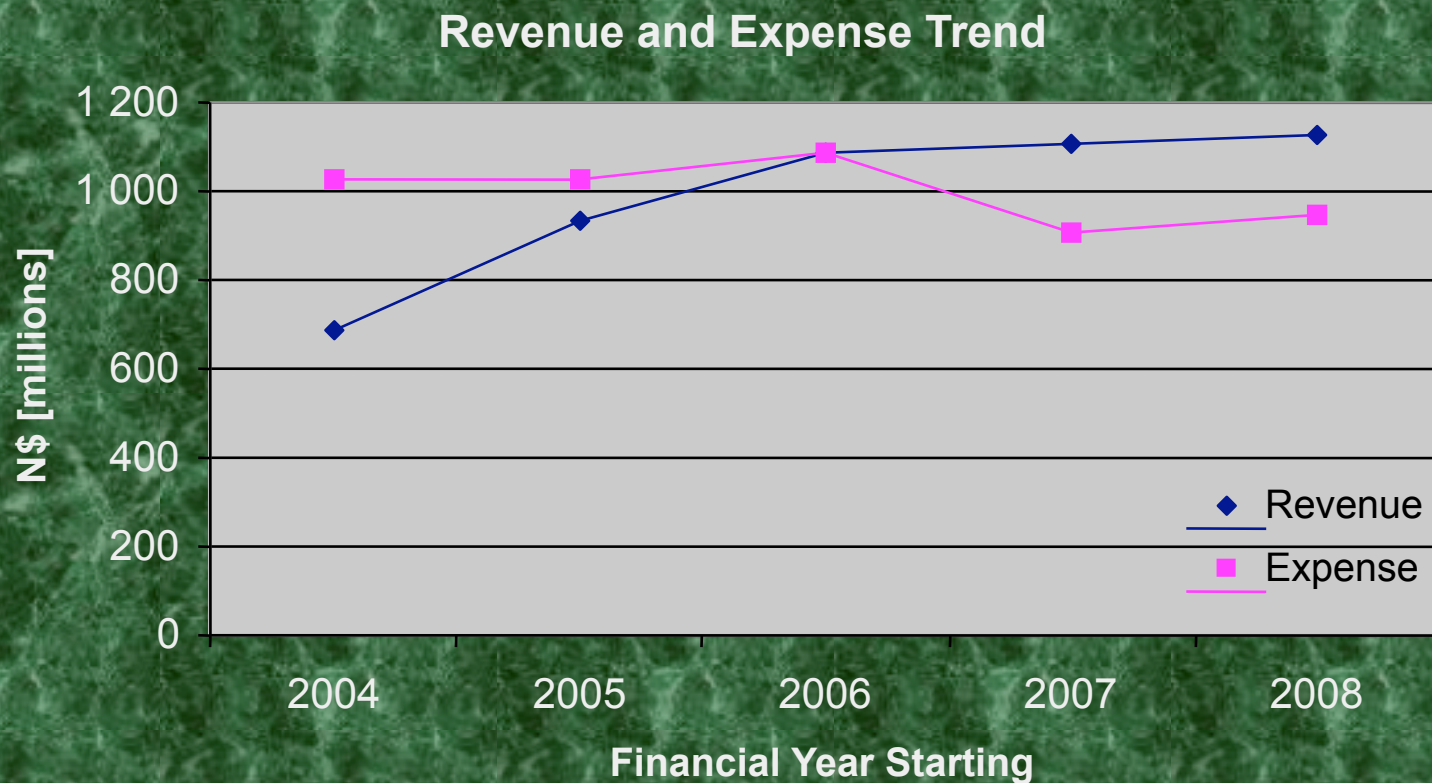


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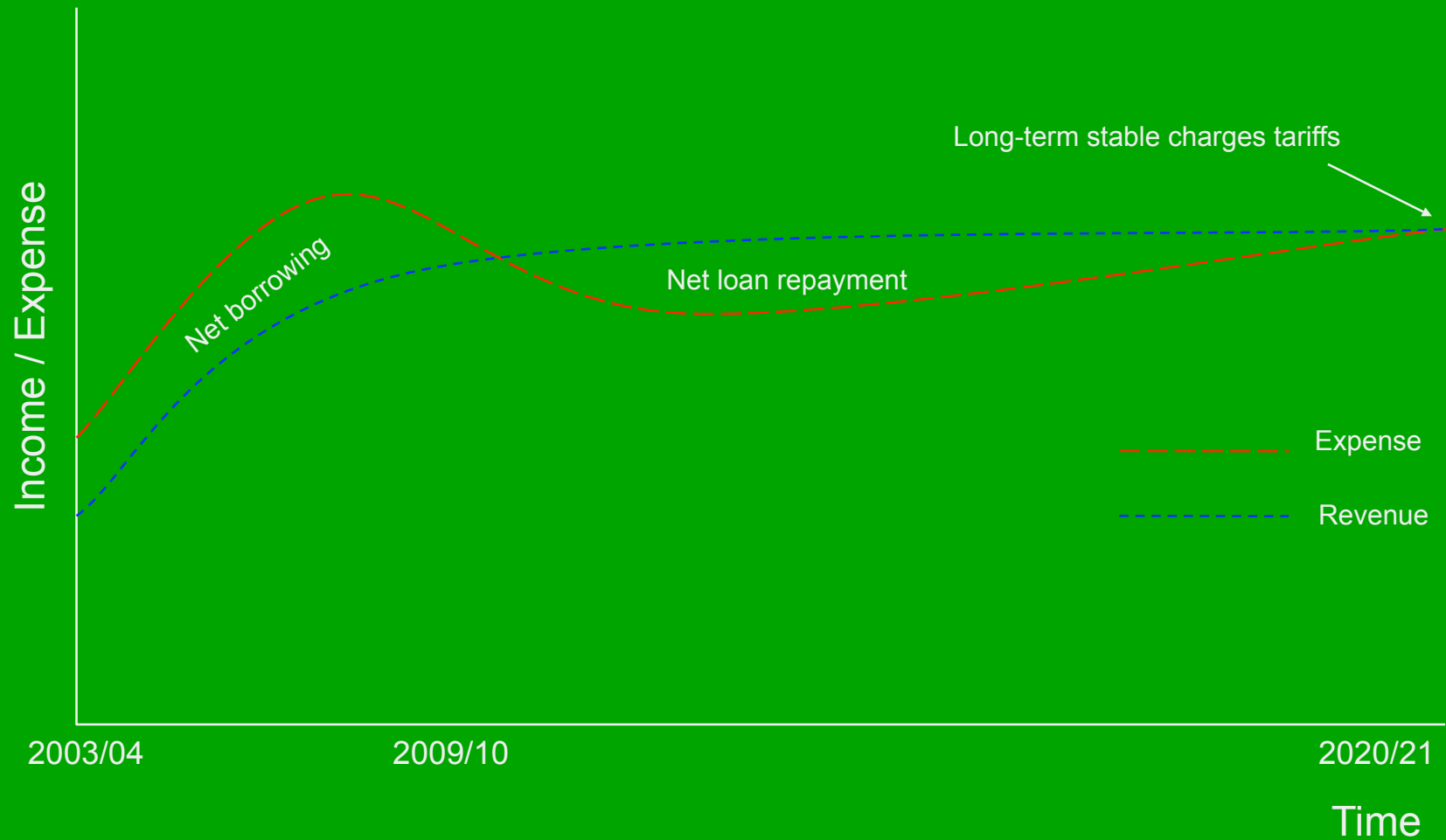
Trend of Revenue and Expense Inside Road User Charging System 2004/05 – 2008/09



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MLTRMP Funding Prediction



Summary of Revenue and Expense Outside Road User Charging System 2004/05 – 2008/09

REVENUE AND EXPENSE: OUTSIDE ROAD USER CHARGING SYSTEM	Business Plan Total	2004/05	2005/06	2006/07	2007/08	2008/09
TOTAL REVENUE OUTSIDE RUCS	536 138 323	250 761 551	175 170 808	30 994 972	34 419 353	44 791 639
Monies appropriated by Parliament:	481 801 709	238 704 359	164 021 760	21 405 773	24 063 019	33 606 798
Donations/Grants in respect of any project or programme	6 106 160	3 836 000	2 270 160	0	0	0
Other revenue (channelled through the RFA)	48 230 454	8 221 192	8 878 888	9 589 199	10 356 334	11 184 841
TOTAL EXPENDITURE OUTSIDE RUCS	1 730 116 781	672 125 551	728 161 048	193 542 143	54 940 061	81 347 978
Management of the national road network	1 577 887 908	646 297 840	700 110 000	163 247 011	22 221 320	46 011 737
Traffic information systems	7 403 474	1 261 824	1 362 960	1 471 997	1 589 757	1 716 937
Traffic law enforcement/overloading control	2 874 634	490 000	529 200	571 536	617 259	666 640
Vehicle testing and driving testing:	100 872 824	17 073 887	18 596 728	20 084 466	21 691 223	23 426 520
Loan / bond interest payments	0	0	0	0	0	0
Drivers' Licences (channelled through the RFA)	41 077 940	7 002 000	7 562 160	8 167 133	8 820 503	9 526 144
SURPLUS / (DEFICIT) OUTSIDE RUCS	(1 193 978 457)	(421 364 000)	(552 990 240)	(162 547 171)	(20 520 708)	(36 556 338)

FINANCING OF SURPLUS / DEFICIT OUTSIDE RUCS	Business Plan Total	2004/05	2005/06	2006/07	2007/08	2008/09
Inflows	1 193 978 458	421 364 000	552 990 240	162 547 171	20 520 708	36 556 338
Loans	1 152 698 458	380 084 000	552 990 240	162 547 171	20 520 708	36 556 338
<i>Foreign concessional loans</i>	1 152 698 458	380 084 000	552 990 240	162 547 171	20 520 708	36 556 338
Outflows	0	0	0	0	0	0
Loan capital repayments	0	0	0	0	0	0
TOTAL FINANCING OF SURPLUS / DEFICIT OUTSIDE RUCS	1 193 978 458	421 364 000	552 990 240	162 547 171	20 520 708	36 556 338



Budget 2004/05: Revenue

REVENUE FROM ROAD USER CHARGES		Financial Year 2004/5		
Road User Fuel Levy	Increase (%/a)	RUC (N\$/l)	Consumption (Mill l/a)	Revenue (N\$/a)
Diesel - Q1	0.00%	0.73	59 348 000	43 324 040
Diesel - Q2	20.00%	0.88	59 348 000	52 226 240
Diesel - Q3	0.00%	0.88	59 348 000	52 226 240
Diesel - Q4	0.00%	0.88	59 348 000	52 226 240
Petrol - Q1	0.00%	0.73	74 824 000	54 621 520
Petrol - Q2	20.00%	0.88	74 824 000	65 845 120
Petrol - Q3	0.00%	0.88	74 824 000	65 845 120
Petrol - Q4	0.00%	0.88	74 824 000	65 845 120
Revenue from RUC fuel levy				452 159 640
Other Road User Charges	Increase (%/a)			Revenue (N\$/a)
Mass-distance charges	0.00%			50 000 000
Abnormal load charges	15.00%			1 175 000
Cross-border transport charges	15.00%			19 573 000
Vehicle Licence Fees	15.00%			85 100 000
TOTAL REVENUE FROM ROAD USER CHARGES				608 007 640
ADDITIONAL REVENUE DEEMED RUCS REVENUE				
Sale of assets of the Administration				0
Sale of assets of the Roads Authority				0
Interest: Road user charges investment				4 053 000
Interest: Reinvestment of RFA loan stock				6 067 000
Compensation for damage to roads				0
VAT refunds				67 824 000
TOTAL ADDITIONAL REVENUE DEEMED RUCS REVENUE				77 944 000
TOTAL REVENUE FROM ROAD USER CHARGING SYSTEM				685 951 640



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Budget 2004/05: Expenses

DETERMINATION OF MANNER OF FUNDING (RFA ACT SEC. 20(4)(B)) (NOMINAL AMOUNTS)			
EXPENDITURE ITEMS (Note: RUCS = Road User Charging System)	Financial Year 2004/5		
	Total for FY	Inside RUCS	Outside RUCS
Management of the national road network	1 492 431 120	846 133 280	646 297 840
Administration Costs of the RA	95 940 000	95 940 000	0
<i>Operational expenses</i>	68 240 000	68 240 000	0
<i>RA Office Accommodation (excl. Head Office construction)</i>	2 700 000	2 700 000	0
<i>RA Head Office Construction</i>	25 000 000	25 000 000	0
Network Planning & Compensation	4 910 000	4 910 000	0
Rehabilitation - Ongoing	270 498 000	160 597 200	109 900 800
Rehabilitation - New	97 058 000	84 854 000	12 204 000
Development - Ongoing	381 002 400	47 520 000	333 482 400
Development - New	191 010 000	19 750 000	171 260 000
Labour-based Works - Ongoing	18 882 720	12 988 080	5 894 640
Labour-based Works - New	17 145 000	5 589 000	11 556 000
Project Planning	5 400 000	3 400 000	2 000 000
Road Maintenance	397 830 000	397 830 000	0
<i>Unpaved roads</i>	248 400 000	248 400 000	0
<i>Bitumen roads</i>	106 700 000	106 700 000	0
<i>Miscellaneous</i>	41 530 000	41 530 000	0
Road Management System	12 755 000	12 755 000	0
Prevention of Excessive Damaging of Roads	0	0	0
Other Functions	200 086 519	182 480 000	17 606 519
Administrative Expenditure of the RFA	22 100 000	22 100 000	0
<i>Operational expenses</i>	17 800 000	17 800 000	0
<i>RFA Head Office Construction</i>	2 000 000	2 000 000	0
<i>Road User Charging System Development</i>	2 300 000	2 300 000	0
Local Authorities - Urban arterials	0	0	0
Local Authorities - Road maintenance	42 000 000	42 000 000	0
Traffic information systems	31 391 824	30 130 000	1 261 824
Traffic law enforcement/overloading control	20 490 000	20 000 000	490 000
Vehicle testing and driving testing	15 854 695	0	15 854 695
Road research	0	0	0
Road Safety Agency	0	0	0
Loan / bond interest payments	68 250 000	68 250 000	0
Claims for compensation	0	0	0
Insurance against claims for damage	0	0	0
Any other expenditure approved	0	0	0
TOTAL EXPENDITURE ESTIMATE	1 692 517 639	1 028 613 280	663 904 359



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Funding through RFA 10 Loan Stock

- Period during which Loan Stock will be issued: 4 years, from 2002/03 to 2005/06.
- Total amount to be raised by loan stock: N \$750-million.
- Sinking Fund for Loan Stock redemption: Deposits from 2007/08 to 2010/11.
- Estimated Loan Stock interest to be paid from 2002/03 to 2010/11: N\$620-million.

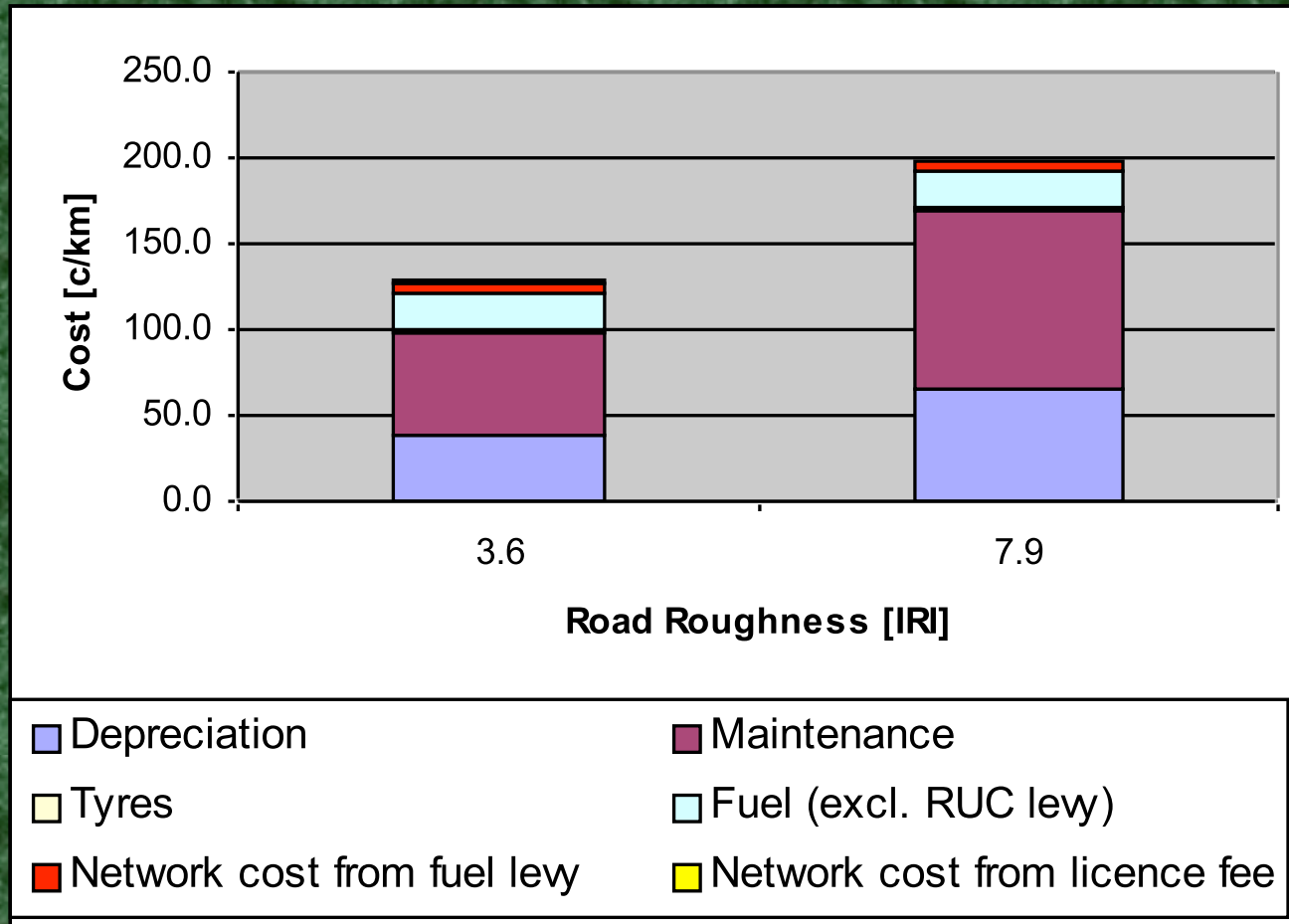
Loan Stock Funding Use

PROJECTS TO BE CO-FINANCED THROUGH ISSUING OF RFA 10 LOAN STOCK (Inside Road User Charging System)	2004/05			2005/06		
	Total	Road Fund	RFA Bonds	Total	Road Fund	RFA Bonds
	0	0	0	0	0	0
Rehabilitation - Ongoing	132 019 200	37 514 200	94 505 000	0	0	0
TR1/11: Ondangwa - Oshikango Rehabilitation - Construction (KfW)	44 776 800	37 514 200	7 262 600	0	0	0
TR8/6: Kongola - Katima Mulilo Rehabilitation - Construction (KfW)	87 242 400	0	87 242 400	0	0	0
Rehabilitation - New	83 284 000	0	83 284 000	72 083 520	70 795 520	1 288 000
TR1/6: Windhoek - Okahandja Improvements - Construction (BADEA)	13 284 000	0	13 284 000	72 083 520	70 795 520	1 288 000
TR1/7: Okahandja - Otjiwarongo Rehabilitation II - Construction	70 000 000	0	70 000 000	0	0	0
Development - Ongoing	47 520 000	0	47 520 000	37 908 000	0	37 908 000
Weighbridges for overload control - Construction	19 980 000	0	19 980 000	0	0	0
MR 100: Omakange - Opuwo - Construction	4 968 000	0	4 968 000	0	0	0
MR 118: Oranjemund Link Road - Construction (ADB & BADEA)	22 572 000	0	22 572 000	37 908 000	0	37 908 000
Development - New	19 750 000	0	19 750 000	60 804 000	0	60 804 000
DR 3616: Tsandi - Onesi Link - Feasibility & Design	2 000 000	0	2 000 000	0	0	0
MR 110 & DR 3405: Rundu - Siko - Nkurenkuru - Construction (Japan)	3 900 000	0	3 900 000	5 400 000	0	5 400 000
MR 120: Onhuno - Endola - Okatana - Construction	0	0	0	55 404 000	0	55 404 000
MR 123: Outapi - Tsandi - Okahao - Design	1 350 000	0	1 350 000	0	0	0
Cape Fria - Opuwo/Ruacana - Design	12 500 000	0	12 500 000	0	0	0
Labour-based Works - New	4 941 000	0	4 941 000	0	0	0
DR 3644: Ompundja - Eheke - Construction (KfW)	1 647 000	0	1 647 000	0	0	0
DR 3645: Onyanye - Onanke - Construction (KfW)	3 294 000	0	3 294 000	0	0	0
Totals	287 514 200	37 514 200	250 000 000	170 795 520	70 795 520	100 000 000

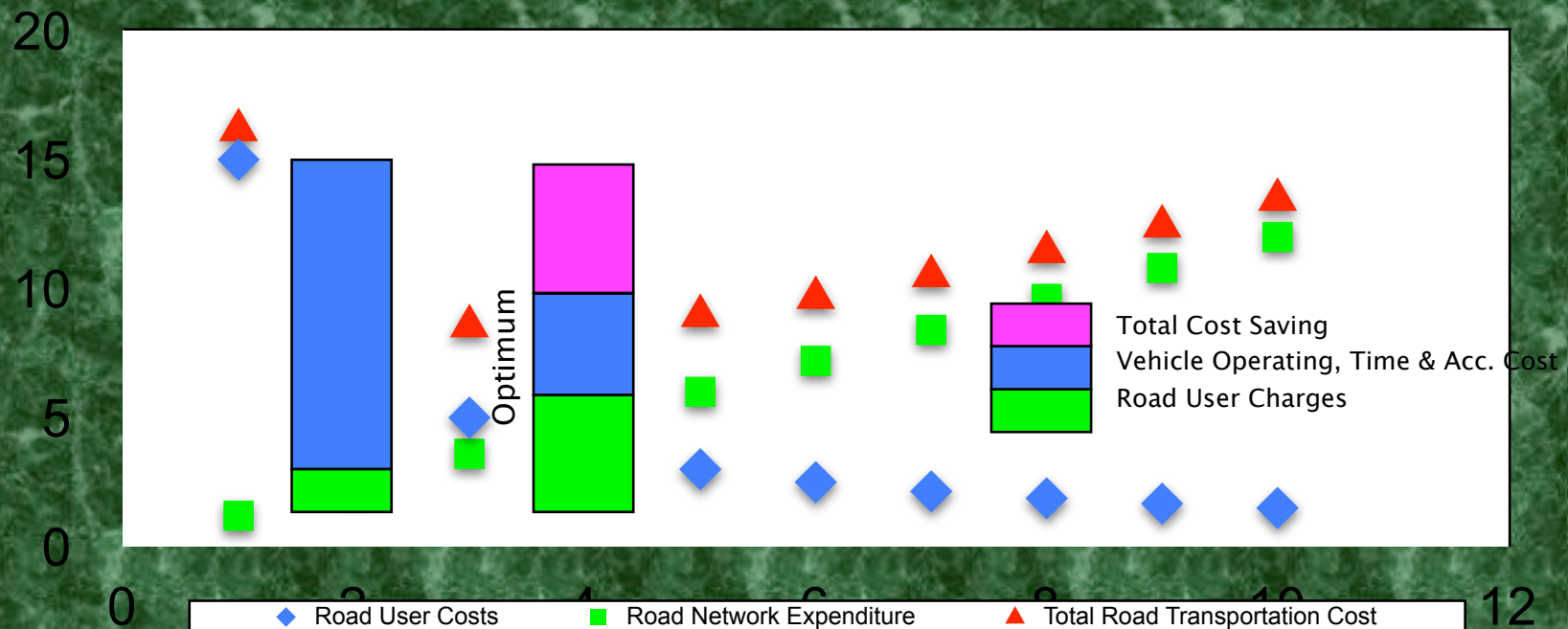
Road User Charges

Road user charges escalation	2004	2005	2006	2007	2008
Roadworks inflation rate estimate	8.00%	8.00%	8.00%	8.00%	8.00%
Mass-distance charges	0.00%	100.00%	20.00%	0.00%	0.00%
Abnormal load charges	15.00%	25.00%	20.00%	0.00%	0.00%
Cross-border charges	15.00%	100.00%	20.00%	0.00%	0.00%
Licence fees	15.00%	25.00%	20.00%	0.00%	0.00%
Diesel levy	20.00%	25.00%	15.00%	2.00%	2.00%
Petrol levy	20.00%	25.00%	15.00%	2.00%	2.00%

Principle of Funding Determination: Total Transport Cost Effects: e.g. Car



Principle of Funding Determination: Minimise Total Transport Cost



Projects and Programmes (1)

- Rehabilitation and Improvement:
 - until 2006/07, mostly projects committed by Government before the establishment of RA and RFA
 - most new projects deferred until 2010/11 due to inadequate funding
- Development:
 - Aus – Rosh Pinah road construction, which was committed by Government with donor agencies
 - Outapi – Tsandi – Okahao – Omakange – Opuwo road funded by Government as part of the Regional Roads Development Programme (RRDP)
 - Onhuno – Endola – Okatana added as RRDP priority
 - Most other new projects deferred Business Plan period due to inadequate funding

Projects and Programmes (2)

- Labour-based works:
 - All ongoing and new works continue as budgeted by Roads Authority
 - Some new projects started as Labour-based Roads Phase 2, co-funded by KfW
- Maintenance:
 - Continues as budgeted by Roads Authority
- Planning and Road Management System:
 - Continue as budgeted by Roads Authority

Projects and Programmes (3)

- The funding of **maintenance on urban roads** continues.
- The funding of the **traffic information system (NaTIS)** continues as budgeted.
- Funding of **traffic law enforcement functions** continues.
- No provision has yet been made for the funding of **road research studies** other than those contracted by the Roads Authority.
- No provision has yet been made for funding a **Road Safety Agency**.

Conclusions

- The Road Fund Administration is by law obliged to consult with stakeholders to which extent the business plan gives effect to the achievement of a safe and efficient road sector.
- The RFA has reason to believe that the business plan will **not give effect to a safe and efficient road sector**:
 - Most new rehabilitation and development has to be deferred to 2010/11
 - The economically optimal funding Scenario 5 of the Medium- to Long-term Roads Master Plan is unachievable under current funding constraints.

PART C

Options for Implementation of road user charges increases



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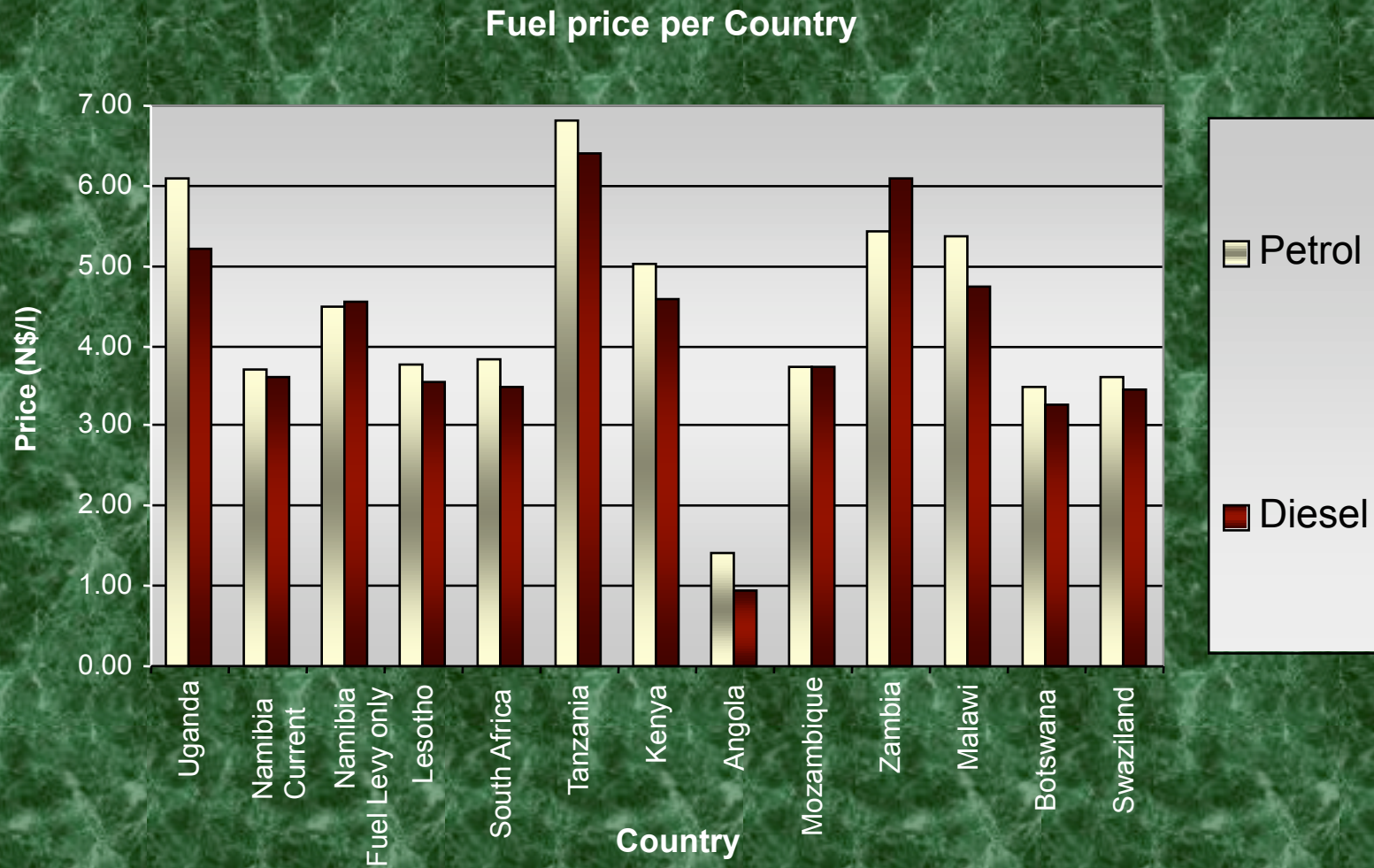
Road User Charging System Review

- In anticipation of the road user charges and economic implications of the Medium- to Long-term Roads Master Plan, the RFA has undertaken a review of the road user charging system.
- The review has led to a number of conclusions regarding optimal road user charges increases.
- **Main conclusions are presented herewith.**

Comparison of Charges Options

COST RECOVERY OPTIONS						
Item	Cost per Scenario per Annum (N\$ million)					
	Current + Fuel Levies increased	Current + Licence Fees increased	Current + MDC + Licence Fees increased	Fuel Levies only	Licence Fees only	MDC only
Additional System Cost	14.47	69.52	85.35	0.00	126.89	176.28
Equity Loss Change	25.89	20.64	-8.16	0.00	32.32	-36.01
NET EXCESS COST	40.36	90.16	77.19	0.00	159.21	140.27

Fuel Price Differential



Vehicle Operating Cost Effects

- For MLTRMP Scenario 2 (Theoretical Optimum)
- Short-term VOC increase:
 - Light Vehicles: Average 2.65% Max 3.57%
 - Heavy Vehicles: Average 3.82% Max 5.45%
- Medium- to long-term VOC savings due to better road condition:
 - Light Vehicles: 8% decrease
 - Heavy Vehicles: 11% decrease



Inflationary Effects

Inflation Type	% Increase in Inflation per Scenario	
	Funding MLTRMP Sc. 2 by Fuel Levies only	Moving to MLTRMP Scenario 2 vs. remaining in Current Situation
Sector Inflation	0.37%	0.94%
Consumer Inflation	0.49%	1.24%
Government Inflation	0.59%	1.49%

Social Equity Effects

- No strongly pronounced effects were found; however:
 - Longer term disadvantages of maintaining status quo significantly outweigh the short-term disadvantages of increasing road user charges
 - **Maintaining status quo will thus stifle development**
- Inflationary effect of maintaining status quo:
 - **Increased expenditure of the poor on housing, clothing and other expenses at the cost of decreased expenditure on food.**
- Introduction of MDC:
 - Heavy vehicles transporting most of the goods that the poor buy pay more.
 - **The poor are thus worst affected by introduction of MDC.**

Conclusions on Road User Charges (1)

- Increasing road user charges vs. Maintaining the status quo (current levels)
 - In the short term, has a slight inflationary effect
 - In the medium- to long-term, has an inflation-reducing effect of 2 – 3 times that of the initial inflationary effect
 - Improves the situation of the poor in the longer term
- Alternative funding to same extent from general State revenue:
 - Disadvantages negate some of the benefits, reducing the overall benefit.

Conclusions on Road User Charges (2)

- A system of road user charging based on fuel levies only is the most advantageous for the current Namibian situation:
 - Least cost to road users
 - Best advantage to the poor
 - Cost of inequity among road users is such that the losers would be paying less than for a more equitable system
 - Marked fuel price differential to neighbouring countries, but the impacts would still be manageable

Conclusions on Road User Charges (3)

- The current system of fuel levies and licence fees is the second best option:
 - Cost to road users increased by N\$ 15 m. / year
 - Inequity among road users increased by N\$ 26 m / year
 - Even with the increased inequity, losers would still pay less than for a system with lower inequity
 - Impact on the poor not much different from that of a system based on fuel levies only.
 - Fuel levy increases have negligible impact on fuel price differential with neighbouring countries.

Conclusions on Road User Charges (4)

- Introduction of Mass-Distance Charges is the least advantageous of the feasible options:
 - In the interim, current system with licence fee increases to approximate MDC would have to be implemented:
 - System cost increased by N\$ 55 m; however:
 - Inequity reduced by N\$ 5 m
 - It would be advantageous, as a stage subsequent to the interim system, to move to the introduction of MDC:
 - System cost increased by additional N\$ 16 m; however:
 - Inequity is reduced by an additional N\$ 29 million; i.e.:
 - Losers gain by paying for a more expensive but more equitable system

Conclusions on Road User Charges (5)

- A system including MDC:
 - has the highest cost to road users: N\$ 61 m / year more than for the current system with increased fuel levies
 - has the least inequity among road users: N\$ 34 m / year less inequity than for the current system with increased fuel levies; however:
 - the losers lose even more, because they pay more for a less inequitable system than they gain by the equity improvement
 - has the least beneficial effect on the poor

Recommendations

- To be formulated after consultation with Stakeholders
- To all Stakeholders:
 - Thank you for your interest and attention



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