Policy Priorities and Funding Instruments for Transport in LMICs
Opportunities and Challenges

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Outline

- Policy priorities, sector performance, needs and funding instruments
- Fuel taxation, carbon pricing and government revenues
- Fuel and vehicle taxation in Sub-Sahara Africa
- Road funds and budget laws
- Pricing road usage
- Some selected WB initiatives

Funding transport:
Policy priorities, sector performance and needs

- **The universe of LMIC is not homogenous when it comes to transport policies**
  - Connectivity – access to infrastructure and services
  - Affordability
  - Resilience (climate, financial)
  - Transition to low carbon solutions (local pollution, greenhouse emissions)
- **Different although large investment needs in infrastructures and services**
  - Passengers and freights
  - Interurban and urban space
  - Basic urban transport infrastructure: sidewalks, crosswalks, bike lines, traffic signal, others.
- **Insufficient or inexistent public transport solutions and poor urban planning**
  - Informal transit provision
  - Growing motorization rate

Funding transport:
Policy instruments

- **Informal economy and missing taxation/funding opportunities**
- **Higher marginal (shadow) cost of public funds:**
  - preference over user fees rather taxation,
  - user fee and affordability,
  - cross subsidization among user
- **Efficiency and equity consideration**
  - Taxation of assets and usage
  - High taxes – aviation and vehicles in SSA
- **Tax revenues and implementation capacity**
  - More transport taxation do not mean more transport resources
  - Multiple competing demands for public funding
  - Fiscal/spending decentralization
  - More funding does not imply more implementation capacity

Characteristics of funding instruments*

Funding instrument	Government level involved	Resource level	Stability	Political acceptability	Administra-tive ease	Efficiency	Equity	Environmen-tal impact
Property taxes	Local/ national	3/4	lower	medium	medium	lower	medium	lower
Parking charges	Local	1/4	medium	lower	lower	higher	higher	medium
Road Pricing	Local/ national	3/4	medium	lower	medium	higher	higher	higher
Congestion charges	Local	3/4	medium	lower	lower	higher	higher	higher
Fuel taxes/surcharges	National	4/4	higher	lower	lower	higher	higher	higher
Vehicle Taxation	Local/ national	4/4	medium	lower	medium	medium	higher	higher
Farebox revenue	Local/ private	3/4	medium	medium	lower	medium	medium	medium
Advertising	Local/ private	1/4	higher	higher	medium	lower	lower	medium
Tax on payrolls	Local	1/4	higher	medium	medium	medium	medium	medium
Land value tax	Local/ national	4/4	medium	lower	lower	medium	medium	medium
Tax increment financing	Local	4/4	medium	medium	lower	medium	lower	medium
Special assessment	Local	1/4	lower	medium	lower	medium	lower	lower
Transportation utility fees	Local	1/4	lower	lower	lower	medium	lower	medium
Development impact fees	Local/ national	1/4	lower	medium	medium	medium	medium	lower
Negotiated exactions	Local	3/4	medium	medium	lower	medium	medium	medium
Air rights	Local/ national	3/4	medium	medium	lower	medium	lower	medium

Legend higher: ● medium: ● lower: ●

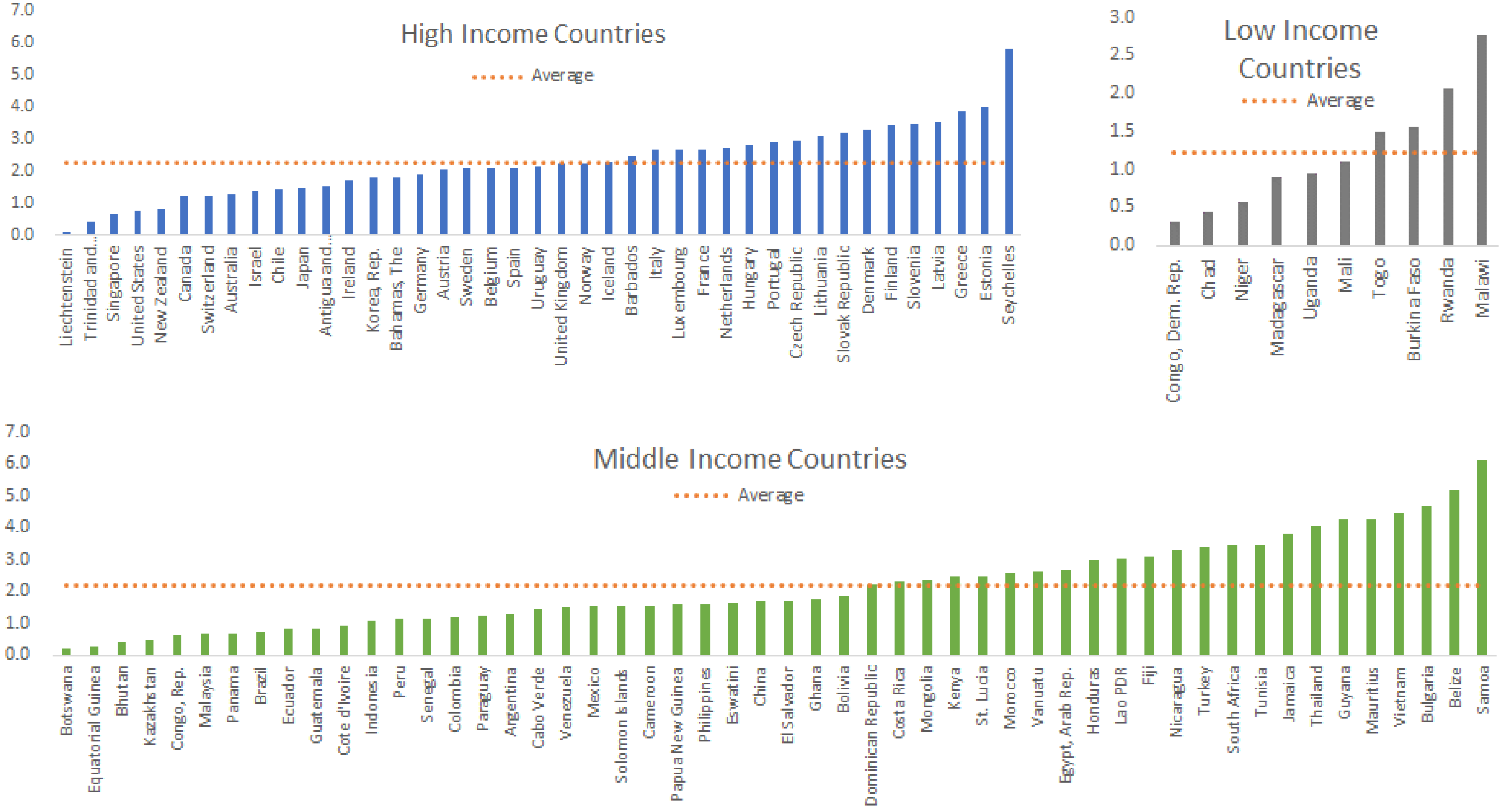
- Lack of systematic data collection of fundings from different instruments
- Efficiency and equity consideration: LVC, road and public transport pricing

*Ardila-Gomez & Ortegon Sanchez, Sustainable Urban Transport Financing from the Sidewalk to the Subway: Capital, Operations, and Maintenance Financing, 2016.

Fuel taxation: increase in fuel rate and elimination of subsidies are available options for some LMIC

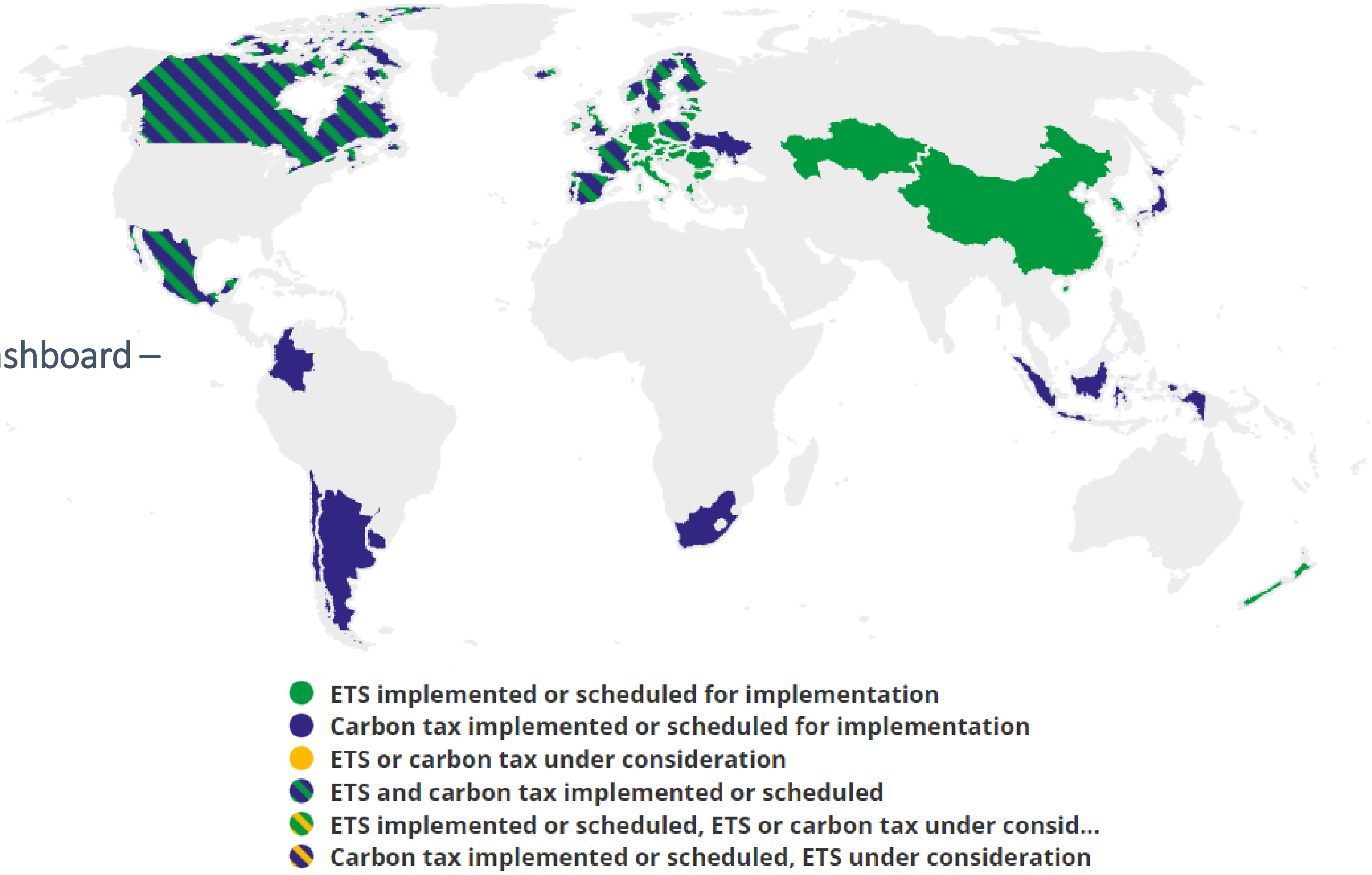
- Political/ macro environment make these options less convenience in most countries
- Tax collection represents a large share of government funding
- On average, similar tax revenue collection (GDP per capita) in HIC and MIC
- In some cases, fuel tax rates could be consistent with carbon prices
- Scattered evidence show that 40-80 percent of tax collection return to transport as investments and affordable fares in LMIC

Oil and fuel taxes as % of GDP in 2019 or latest available information – Source OECD (2021)



A few LMIC have scheduled or implemented carbon pricing mechanisms

Carbon Pricing Dashboard – World Bank 2021



Fossil fuel and vehicle taxation in Sub-Saharan Africa*

1. **Taxes on fuel and vehicles are already a significant revenue-raiser**
   - Ethiopia, Ghana, Rwanda and Uganda, fuel and vehicle taxes raise between 0.8% and 2.1% of GDP. This is like levels for high-income countries
2. **SSA countries have, on average, official fuel tax rates that are lower than those in more developed countries in nominal terms but higher relative to per-capita GDP.**
   - Effective fuel tax rates can be lower due to subsidies, price stabilization and under-collection.
3. **The level of vehicle ownership taxes is on average one-quarter of developed countries in nominal terms, but much higher as a percentage of GDP.**

Based on Green' motor taxation: issues and policy options in sub-Saharan Africa. TaxDev IFS Report R194 – September 2021

Fossil fuel and vehicle taxation in Sub-Saharan Africa (con't)

4. **Import and purchase taxes on vehicles are the only tax category in which taxes are higher in SSA than in HICs and MICs in both cash terms and relative to GDP per capita**
    - Ease of taxing imports and vehicles' perceived status as luxury goods, as well as industrial policy concerns

5. **Vehicle import / purchase taxes are generally based on the engine size and age of the vehicle in SSA**
    - In middle- and high-income countries generally have more complex systems that consider the CO2 emissions of the vehicle, and sometimes Euro standards

A few key policy options that could be considered

a. **Increasing the effective tax rate on fuel**

b. **Introducing or increasing taxes on vehicle ownership**

c. **Implementing parking charges and other congestion management schemes**

d. **Governments with very high motor vehicle import taxes could consider redesigning these taxes**
   - If taxes on vehicle ownership and fuel taxes are raised, there may be scope for reducing the taxes on vehicle purchase, facilitating the replacement of older lower-quality vehicles.
   - Even if vehicle import tax levels were set to raise the same revenues overall, governments could improve their design by basing them on CO2 and particulate emission standards, rather than engine size or vehicle age

e. **World Bank proposal to financing fleet renewal (public transport and freight) in SSA**

Transport funds and budget laws

Predictability and flexibility

- **Road Funds (RFs) were created as part of the road maintenance initiative in the late 80s – mostly in LAC and SSA**
  - Insufficient funds for road maintenance
  - Unpredictable treasury transfers
- **RF: from a funding institution to an implementation agency**
  - RF collects some share of transport related taxes/fees into a fiduciary multi annual account
  - Some road funds can borrow on commercial terms - Liberia
  - RFs have not been very popular among ministries of finance
- **Some countries have created fuel funds to finance road investments and public transport**
- **Budget law for public transport funding in Chile and Panama**

Pricing road usage in LMICs

- **The experience in LMICs is limited to tolling few highways – mostly interurban, and bridges**
  - With a few exceptions, the revenues collected are sufficient to cover the capital cost, and when done, the surplus is mostly used to fund other road projects
  - Toll fares: dynamic fares or peak-load pricing schemes have raised many equity concerns

- **EV and tax fuel collection: a concern for many governments but there is no major discussion on policy options**
  - Funding solutions: vignette, Distance based charges (DBC), additional tax on power
  - DBC (transponder): technology, fleet age, social acceptability
  - Equity consideration during the transition
  - Maybe a good opportunity to cover the primary and secondary/tertiary networks

A few selected WB initiatives

- Carbon pricing in maritime shipping
- Flagship report on the economics of E-mobility
- Transport governance and funding solutions in the urban space
- World Bank proposal to financing fleet renewal (public transport and freight) in SSA

THANK YOU