

The Motor Vehicle User's Charge: Some issues and recommendations

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Road funds financed through taxes on road users, like the Motor Vehicle User's Charge (MVUC) Fund in the Philippines, are a kind of reserved (or earmarked) funds for specific programs or projects. In public finance, the pros and cons of earmarking are contrasted with general fund financing or the pooling of tax revenues into a general fund and allocating this for government programs and projects. The common argument for earmarking is that because it directly links tax revenues to public spending, earmarking is better able to protect spending priorities.¹ It is also easier to get support from the voting public when the use of the taxes is readily identified. A different view is offered by the efficiency argument. This idea contends that the taxation decision should be separate from the expenditure allocation decision to have flexibility on funding priorities. This

will avoid a less-than-favorable allocation of resources that may be inherent in earmarking when there are excess funds. Excess funds are parked under earmarking. In contrast, such funds yield a higher social return under general fund financing because these are placed in more urgent public projects. The discussions are far from over. However, it appears that earmarking can be crucial in countries with either weak institutions or with tight budget constraints, or both—characteristics that are present in developing countries like the Philippines.

¹ This is known as the commitment solution in public finance theory.

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This *Policy Note* presents the key findings of and policy implications from an assessment of the utilization and impacts of the MVUC in the Philippines.²

The MVUC in a nutshell

This earmarked road fund is sourced from a particular group of road users—the motor vehicle owners. As stipulated in Republic Act (RA) 8794 enacted in 2000, the MVUC is imposed through the registration fees of vehicles and penalties for overloading. It is annually collected by the Land Transportation Office (LTO). The collected monies are deposited in government banks and remitted to the Bureau of Treasury (BTr) under four special accounts: Special Road Support Fund

² A more extensive discussion is presented in the PIDS Discussion Paper titled “Results of the assessment of the utilization and impacts of the Motor Vehicle User’s Charge in the Philippines.”

(SRSF), Special Local Road Fund (SLRF), Special Road Safety Fund (SRSaF), and Special Vehicle Pollution Control Fund (SVPCF).

Table 1 summarizes the purpose of each fund type, its allocation, and the agency in-charge of its disbursement.

The law also created a Road Board “to implement the prudent and efficient management and utilization of the special funds”. The Road Board is composed of seven members: the DPWH secretary as ex-officio head; the secretaries of the Departments of Finance, Budget and Management, and Transportation and Communications as ex-officio members; and three other members from transport and motorist organizations. The Road Board established the Road Board Secretariat (RBS), which is responsible for the day-to-day management of the funds and the implementation of the decisions of the board.

Table 1. Special funds for allocating the MVUC collections

Responsible Agency	Fund Name	Allocation (in percent)	Purpose
Department of Public Works and Highways (DPWH)	Fund 151 Special Road Support Fund	80	Road maintenance and improvement of drainage of national primary and secondary roads (70% of SRSF for national primary roads, 30% of SRSF for national secondary roads)
	Fund 152 Special Local Road Fund	5	Maintenance of local roads, traffic management, and road safety devices
	Fund 153 Special Road Safety Fund	7.5	Installation of traffic signs, pavement markings, and safety devices
Department of Transportation (DOTr)*	Fund 151 Special Vehicle Pollution Control Fund	7.5	Air pollution control

* What appears in the MVUC law is Department of Transportation and Communications (DOTC). RA 10844 renamed the DOTC as the Department of Transportation and transferred its communications functions to the newly created Department of Information and Communications Technology.

Sources: RA 8794, Road Board (2013)

The operating expenses of the Road Board and the RBS are charged against the SRSF. The implementing rules and regulations (IRR) of the MVUC law states that the RBS executive director shall be appointed by the Philippine president.

Key findings

The LTO and the BTr records on the deposit of MVUC monies do not match. In 2009, the Commission on Audit (COA) reported the mismatch and showed that by the end of 2008, the BTr record was short of PHP 1.288 billion relative to the LTO record (COA 2009). Data for 2009–2014 show that the cumulative unreconciled difference has increased to PHP 4.032 billion by the end of 2014.

Two of the special funds are seriously underutilized. A total of PHP 112.5 billion was deposited to the MVUC fund from 2001 to 2014.³ In the same period, PHP 105 billion was disbursed (93.3% of total), resulting in a fund balance of PHP 7.5 billion. Figure 1 presents the utilization rates (ratio of disbursement to allocation) of the funds and shows the large underutilization of the SVPCF and the SLRF.

Some of the prescribed procedures on project identification and prioritization are not being followed. In the case of SRSF and SRSaF projects, the IRR of RA 8794 requires the DPWH-Road Program Office (RPO) to generate a list of priority road projects. In addition, the Road Board's 2013 Operating Procedures Manual⁴ prescribes the use of the Highway Development Management 4 (HDM-4) planning tool.⁵ In reality, the HDM-4 is not being

used. The DPWH district and regional offices submit proposed projects directly to the RBS, which, in turn, submits the compiled list of proposals to the DPWH-RPO for checking and validation. The Traffic Accident Recording and Analysis System (TARAS) is also a tool within the DPWH that can help in road safety project identification, but it has been decommissioned because the input data are incomplete and, thus, do not provide the complete picture of the road safety situation in the country.

On the SLRF projects, implementers find project identification and prioritization using the prescribed formula⁶ difficult because of the absence of a comprehensive and validated database on local road conditions and the difficulty in ascertaining the accuracy of number of motor vehicles that are actually used in the city/municipality. In the case of SVPCF projects, the setting up of the Vehicle Pollution Control Fund (VPCF) Committee got delayed. When it was eventually created in 2007, it crafted a multiyear plan covering 2007–2010. But despite the use of the

³ The LTO started collecting MVUC in 2001 following the completion of the first version of the Operating Procedures Manual.

⁴ Interview with RBS officers revealed that a comprehensive operating procedures manual was released only in 2013.

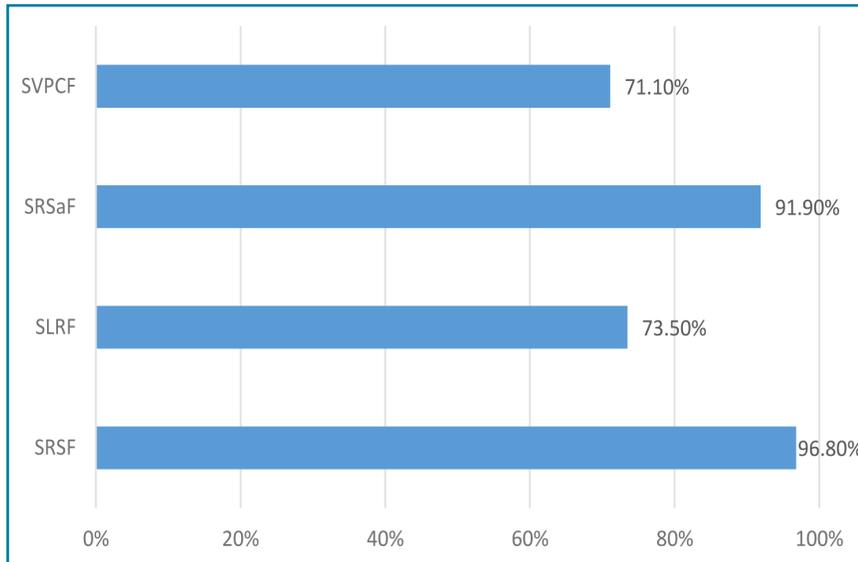
⁵ HDM-4 is a software package that is used to evaluate the economic viability of road projects and optimize economic benefits to road users. Such information on benefits can be used to prioritize projects.

⁶ The following is the allocation formula for project proposals under the SLRF:

$$LGU \text{ allocation} = \text{Annual SLRF} (0.30PI + 0.20VHI + 0.50RLI)$$

where *PI* = performance index
VHI = vehicle population index
RLI = road length index

Figure 1. Utilization rate per special fund (2001–2014, cumulative)



Source: Authors' compilation from various Road Board reports

multiyear plan, some portion of the funds were misused, as revealed in the 2009 COA Special Audit Report. The then DOTC reconstituted the VPCF Committee in 2013 and crafted new guidelines for project identification and prioritization in 2015.

The expansion of the RBS's functions to include project implementation creates potential overlaps with the functions of regular implementing agencies. The 2012 amendment of the IRR includes this as a function of the secretariat: implementing special projects upon the direction and supervision of the

⁷ The case studies are the following: SRSF Case Study 1 - Upgrading of Road Shoulder along Marcos Highway; SRSF Case Study 2 - National Road Lighting Program in Roxas Boulevard; SLRF Case Study: Baguio City's Experience as SLRF Recipient; SRSaF Case Study - Installation of Road Safety Devices along Daang Maharlika; and SVPCF Case Study - Motor Vehicle Inspection System-North National Capital Region. See Napalang et al. (2016).

board. This expands the secretariat's functions. One project where overlap is apparent is the "Supply and Delivery of Road Signages along National Roads Nationwide". The overlap is with the DPWH as the country's premier authority on road safety and the agency responsible for national roads.

Transparency and accountability measures need improvement. For example, the IRR requires that annual reports be disseminated in popular form, but these are not easily accessible to the general public and not available online.

The Operating Procedures Manual also does not indicate clear schedules for proposal submissions and approvals. In the case study on the Installation of Road Safety Devices along Daang Maharlika, it was found that the project approval and subsequent release of the Special Allotment Release Order took about 21 months.

The monitoring has focused mostly on project implementation, and impact evaluation is rarely done. The IRR requires the DPWH and the DOTr to submit quarterly reports detailing the physical and financial progress for each major project; the key informant interviews revealed that submissions had not been regular. The RBS conducts spot checks, but the huge number of projects overwhelms the monitoring staff. This study examined five cases.⁷ Of the five, only one project

(Upgrading of Road Shoulder along Marcos Highway) has an impact evaluation system. Nevertheless, field visits and interviews with beneficiaries (e.g., local residents and truck drivers benefiting from a road safety project) reveal that there are positive benefits from the MVUC mechanism.

Recommendations

The recording of MVUC deposits has to be more transparent and efficient through automation, accurate recording, regular LTO-BTr reconciliation of records, and random audits.

During the study team's interviews, the concerned officials and personnel explained that the LTO and BTr are discussing the issues and the BTr has already issued several journal entry vouchers to adjust the records. Given the recurring problems of variances in records, the delays in reconciling them, and the billions of pesos involved, the system of recording is a weak link that can be taken advantage of by those with vested interests. It is important to strengthen the foundations of the recording system based on the principles of transparency, efficiency, timeliness, and accountability.

Discussions with key personnel from the concerned agencies revealed the following explanations for the past differences in records:

- Collecting MVUC began in January 2001, shortly after enacting the law, and the four special accounts were not created yet. The collections prior to the establishment of the special accounts were deposited to the General Fund (Fund 101).

- The LTO's abstract of collection is automatically generated, but the list of deposited collections is manually encoded by the BTr and the manual encoding is prone to human error.
- LTO collection officers sometimes use incorrect transaction/agency code and this results in error in the eventual encoding of MVUC collections.
- Some portions of the Friday collections get deposited to the General Fund rather than the special accounts. The LTO deposits weekly collections every Friday at 3:00 p.m. although LTO offices still receive MVUC payments until the close of business day. The early deposit is to ensure that no large amount of money is kept at the LTO offices over the weekend. The post-3:00 p.m. monies are deposited on the next Monday. Due to the use of different documentations for the advance and late deposits, the BTr places the advance deposits to Funds 151, 152, and 153 and places the rest to Fund 101.

To reduce human errors, it is strongly recommended that the automation of the recording system be expanded and the use of

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codes be improved. The recording procedure on the Friday MVUC collections should be sufficiently addressed. This could simply involve devising an appropriate corrective procedure for the advance Friday deposits and the Monday deposits of the remaining Friday collections and then consistently and deliberately adopting the procedure.

To make drastic improvements in the MVUC deposit recording system, a system improvement project should be formulated, funded, and implemented. This project can have the following activities:

- documentation of existing procedures and coding system in the recording of collections and deposits,
- documentation of existing procedures in the timely reporting of inconsistencies or fraud,
- analysis of gaps and weaknesses in the existing systems and procedures,
- modernization of the recording and reporting systems,
- development of a system for the timely reconciliation or reporting of the discrepancies in reports on collections and deposits, and

...It has been raised during consultations that the current process for the release of the SLRF is cumbersome and open to political interference. One recommendation that surfaced is for the SLRF to be downloaded like the internal revenue allotment. Its legality and the institutional repercussions, however, need to be studied more thoroughly.

- recommending measures to improve accountability.

Moreover, a random audit of how well the recording system is being adopted can be designed.

Improve the use of the MVUC funds by coming up with a dynamic pipeline of projects, which, in turn, requires early planning and advanced project development activities. Project identification and investment programming need to adhere to the recommended procedures in the operating manual. For the SRSF and SRSaF under the DPWH, advanced planning, programming, and project proposal development should be done within the DPWH, with the RPO and regional/district offices closely coordinating with one another. The DPWH secretary issued a memorandum similar to this on December 14, 2015. This should discourage the local units' direct submissions of proposals to the RBS. Moreover, the use of modern tools like the HDM-4 and TARAS needs to be reinstated; the updating of TARAS as a project under Work Category 59-Road Safety Management of the SRSaF can be explored. Adopting projects without validation through the HDM-4 or a network perspective of accident black spots (i.e., places where traffic accidents have historically been concentrated) may lead to projects that are not of the highest priority, which can, in turn, defeat the purpose of the fund.

Advanced project preparation should also apply to local government units in the case

of SLRF projects. But it has also been raised during consultations that the current process for the release of the SLRF is cumbersome and open to political interference. One recommendation that surfaced is for the SLRF to be downloaded like the internal revenue allotment. Its legality and the institutional repercussions, however, need to be studied more thoroughly. For the SVPCF, which has the highest underutilization rate, a more vigorous project development activity is recommended. Coordination and possible project development partnerships with the Department of Environment and Natural Resources, which spearheads the implementation of the Clean Air Act, must be explored.

To improve transparency and accountability, the RBS must stick to its secretariat functions, including timely processing and reporting of information, and leave the regular project implementation functions with the implementing agencies. Specifically, the following would help: publication of information on projects undertaken for the last five years on the Road Board website, formulation in the operating manual of a clear timeline from submission of project proposal to Road Board decision, and an online verification system for the status of project proposals.



The Special Road Safety Fund, one of the special accounts sourced from MVUC collections, allocates funds for road projects, such as the road lighting project along Roxas Boulevard.

Establish an impact evaluation system.

Implementers can be required to have an appropriate impact evaluation plan, where expected outputs and outcomes are stated, when applying for fund allotment.

Reform the administration of the MVUC. The administration of the MVUC is in dire need of institutional reforms. Frustration with the MVUC's performance even led to a proposal, Senate Bill 3131 in the 16th Congress, to amend RA 8794 particularly for the purpose of abolishing the Road Board. The Senate bill, however, does not propose an oversight arrangement for the MVUC. Rather than abolish the Road Board, the more rational option could be to strengthen its oversight capability and transparency. For instance, its membership can be restructured to include other road users, such as business users and

the logistics and supply chain sector. Country experiences show that there is usually a strong representation of the road users in the oversight body.

An examination of successful cases in other countries⁸ also reveals good practices that are worth looking into, such as ensuring that the road fund administrator is strictly an administrator rather than a project implementer, advanced preparation of a long-term vision and short- to medium-term road investment programs, and variations of the reimbursement-basis payment system that are supported by strong audit systems.

The law provides for increase in MVUC rates. Given that the new administration will need an even greater fiscal space to implement projects, it will only be a matter of time before adjusting the MVUC rates is viewed as a source of additional resources. Section 3 of the law states that the Philippine president may adjust the MVUC rates not more than once every five years. At this point, there is a need to demonstrate first that the MVUC can

be made effective and efficient through an overhaul of the processes and institutional setup. Afterwards, the public must be made aware of the improvements and the concrete effects of the changes implemented to gain its support for any proposed increase in the MVUC rates. 📄

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⁸ An in-depth discussion of good practices in other countries is provided in the discussion paper (Napalang et al. 2016).

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