

CHAPTER 11

Conclusions, Recommendations, and the Role of International Development Agencies

Key Findings and Conclusions

This study measured the level of costs and prices and disaggregated them into three tiers: (i) VOCs, (ii) overall transport costs, and (iii) the transport price paid by end users. The study identified factors that cause high transport prices in Sub-Saharan Africa, analyzed the differences in the cost and price structure among the four subregions, and produced recommendations to lower transport prices. The study's main findings and conclusions are summarized in this chapter.

Key Findings

Our key findings are as follows:

- There is a substantial disconnect between transport costs and prices in numerous African countries. For example, transport costs in Africa are not abnormally high, whereas transport prices are high along some corridors, indicating a strong seller's market.
- Despite many poor efficiency factors (low yearly vehicle utilization rate, aging vehicle fleet, unbalanced trade . . .), trucking companies in Africa can still charge high prices and have relatively large profit margins along some corridors.

- Market regulation is an eminent price determinant. It hinders efficiency improvements in the trucking industry and stifles competitiveness, leading to high transport prices in Africa.
- The poor condition of road infrastructure might not necessarily be a critical factor for high transport costs.
- Age of the truck fleet and low utilization of vehicles seem to be significant determinants for transport costs, especially in West and Central Africa.

Conclusions

The trucking industry in West and Central Africa is characterized by cartels offering high prices and low service quality. In East Africa, the trucking environment is more competitive and the market more mature. The main transport corridors in Southern Africa are the most advanced in terms of efficiency, competitive prices, and service quality.

In West and Central Africa, there is a strong disconnect between transport costs and prices. Transport costs are not abnormally high, but transport prices are, suggesting the existence of a strong seller's market. In these subregions, despite poor efficiency in the operations, reflected by low truck utilization rates and aging vehicle fleets, trucking operators can charge high prices and have relatively large profit margins. This is possible because the cartels control the supply of transport services. Although in theory there is open entry to the road freight market, in practice the cartels make it almost impossible for new entrants to gain access to freight. It is possible to identify measures that will produce some reduction of transport costs, such as lowering fuel prices, but because of the self-regulated trucking market, reducing transport costs does not lower prices.

In East and Southern Africa, measures to improve road conditions and reduce fuel prices or delays at border posts help lower transport costs, but the two regions differ as to the level of impact of policy measures on costs, and more so on prices.

Poor condition of the road infrastructure may not be the most critical factor behind transport prices. This is a major finding since much road investment in Sub-Saharan Africa has been predicated on the assumptions that better roads lower transport costs and that truckers' cost savings are passed on to consumers as lower transport prices. The study finds these assumptions are far from accurate where the market is strongly regulated or where a cartel captures the benefits of road improvement.

The trucking industry in some landlocked countries of East Africa is placed at a competitive disadvantage because fuel prices at the pump in neighboring coastal countries are not as high, allowing their trucking companies to benefit from lower operating costs.

More broadly, the study has identified the need to review the approaches to economic analysis of road projects, the impact of taxation policies on the transport market, and the need to regularly update data on the trucking industry.

Recommendations

The study's key recommendation is to initiate institutional changes. Rent-seeking behavior and governance of the trucking industry are at the core of the issues faced by many low-income African countries. Without increased competition and successfully liberalizing trucking services where regulation remains strong, transport prices will remain high, service quality will not improve, and road users will not reap all the benefits of costly investments in infrastructure rehabilitation.

Deregulating the trucking industry in West and Central Africa would be the first critical undertaking toward the positive institution and policy adjustment. However, there would also be many negative impacts from this major policy adjustment. A serious mitigating plan should be in place to minimize the effects of introducing competition, including a reduction in the number of trucking operators. Deregulation should also facilitate new entrants' access to freight. A first step would be the abolition of cartels. A next step could be changes in the tax structure to reward those who operate more modern vehicles and utilize them more intensively.

In East Africa, improvement of some critical road sections in the corridor where the investment is economically justified will lead to lower transport costs and transport prices. The same would happen in the Southern Africa road network, although the corridor road considered in this study is in good condition and thus would receive limited benefit from improvement. On the other hand, creation of one-stop border posts would help reduce delays in border crossing and would lead to significant reduction of transport prices, especially in Southern Africa.

In East Africa, there may be a case for lowering fuel taxes in landlocked countries where the price of fuel at the pump is high relative to the pump price in neighboring coastal countries, thus handicapping the domestic trucking operators. A potential review of fuel taxes has to account for the

fiscal impact and the need to ensure that fuel taxes actually are spent on road maintenance.

Studies should be carried out at the country level to assess (i) the specific situation of the trucking industry, (ii) the countries' taxation policy affecting fuel, and (iii) vehicle imports and their implications for transport costs and prices. Studies are also needed to look into ways and means to operationalize the findings presented in this report.

The Role of Development Partners

International development agencies, including the World Bank, should be encouraged to adapt their strategies in support of trade and transport on Africa's main international transport corridors in a way that maximizes the effect of their interventions. Transport services have been neglected for years on the assumption that reduction in VOCs would automatically lower transport prices. A better identification of interventions that lower the price of transport is essential so that they benefit the economy at large rather than a group of transport providers.

Where the appropriate intervention is to support the deregulation of the transport market, development agencies should provide technical assistance and help fund any compensation schemes required to mitigate the social effects of deregulation. Without coordinated efforts from the donor community, changes in regulation are unlikely to be implemented. Successful institutional change such as trucking deregulation requires patience, policy dialogue, and support from the donor community.

This study has identified the need to review the economic analysis of road projects and to assess the impact of fiscal policies on the transport market. It has also identified the need for countries to regularly update trucking data. The development agencies are well positioned to support this work by financing at the country level the review of relevant fiscal policies and the data collection, as well as refining the current methods of economic analysis of projects so as to facilitate a more effective investment decision.