CHAPTER 9

Assessment of Policy Options

The formulation of policy options requires policy makers to distinguish between a regulated and a more mature, competitive, and liberalized transport market:

• In a competitive environment with high traffic volumes, measures to improve road conditions and limit fuel prices are likely to yield significant results. Measures to reduce delays at borders or weighbridges would also help increase truck utilization.

• In a regulated environment, as in West and Central Africa, regulatory constraints (formal and informal) should be dismantled as they are the root cause of limited competition, poor service, and high transport prices.

This chapter analyzes policy options for West and Central Africa together because of the subregions’ similarity. East and South Africa are analyzed separately because although their transport markets have similarities, there are differences in the impact of specific policies. In presenting policies, this chapter also includes feedback from stakeholders’ workshops conducted in the four subregions. All four workshops were attended by a balanced representation of all major stakeholders involved with the road freight market and operations.
Policies for West and Central Africa

On the basis of the trucking survey data, this study assessed the possible impact of various transport policies and facilitation measures. The intention was to determine which policies or measures would most reduce transport costs and prices. Table 9.1 presents the expected approximate impact of the following measures: (i) road rehabilitation of the corridor from fair to good, (ii) 20 percent reduction in border delays, (iii) 20 percent reduction in fuel prices, and (iv) 20 percent reduction in informal payments. The expected impact varies among companies. The cost for carrying out the measures varies widely. Road rehabilitation, for example, is capital intensive and requires government funding, whereas a reduction in informal payments can be achieved at minimal or no cost to the government.

On transport costs, the most effective measures are likely to be a decrease in fuel costs, further road rehabilitation, and, to a lesser extent, reduction of border-crossing delays. The slight decrease in transport costs that improving the corridor would yield is an indicator that, irrespective of the impact of road improvement on prices, rehabilitation of the corridor may not be economically justified, either because the current road condition is good enough or the traffic level does not justify improvement, or both. On the contrary, despite the perceived effects of informal payments, reducing them by 20 percent would have a marginal impact on transport costs.1

The crucial point is that such measures have no impact on reducing transport prices. Indeed, without competition, truckers and trucking companies are likely to capture the reduction in costs and translate them into higher profits rather than lower prices. Consequently, where cartels still

Table 9.1  Expected Impact of Policies in a Regulated Environment

<table>
<thead>
<tr>
<th>Measures</th>
<th>Decrease in transport costs</th>
<th>Increase in sales</th>
<th>Decrease in transport price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rehabilitation of corridor from fair to good</td>
<td>−5</td>
<td>.</td>
<td>+/−0</td>
</tr>
<tr>
<td>20% reduction of border-crossing time</td>
<td>−1</td>
<td>+2/+3</td>
<td>+/−0</td>
</tr>
<tr>
<td>20% reduction of fuel price</td>
<td>−9</td>
<td>.</td>
<td>+/−0</td>
</tr>
<tr>
<td>20% reduction of informal payment</td>
<td>−1</td>
<td>.</td>
<td>+/−0</td>
</tr>
</tbody>
</table>

Source: Trucking survey data and own calculations.

Note: For the simulation, VOC data from the Tema/Accra–Ouagadougou corridor were used.

... Negligible (these items are unlikely to induce more turnarounds and then more sales).
prevail as in West and Central Africa, they should be dismantled because they prevent measures that would help the trucking industry reduce transport costs, needless to say transport prices.

Truckers in West and Central Africa may argue that currently there is competition, sometimes strong, in the transport market. The trucking survey shows, however, that whenever competition does exist, it is not based on price and quality of service, but on the capacity to circumvent the rules and capture loads with little or no negotiation on prices or services quality. Thus, creating a true, strong competitive environment is essential to reducing prices.

**Deregulating the trucking industry in West and Central Africa.** Breaking the regulatory status quo in many countries is difficult due to a coalition of interests opposing change. For example, truckers have strong leverage with high-level authorities who can block trade. This is the case because, in Africa, the trucking corridors under review often are the main, and sometimes the only, transport mode for international and domestic trade. Furthermore, governance problems occur in the trucking industry because some high-level authorities own or indirectly control trucks or trucking companies. These authorities benefit from the status quo and market-sharing schemes.

Deregulating the trucking industry in West and Central Africa is less a technical than a political and social issue. The main concern is the potential large decrease in the number of truckers. Participants in the stakeholders’ workshops in Ouagadougou and Bangui strongly emphasized the importance of mitigating the social impact that would result from a more efficient but reduced trucking industry. The coalition of interests in most West and Central African countries might not resist reforms as long as compensation schemes are introduced with the purpose of paying, at least partly, for the social costs of such reforms.

Fiscal incentives could be put in place to obtain the support of stakeholders for market deregulation. Such incentives should aim at encouraging a maximum utilization of trucks. This is not the case today because truckers pay the brunt of taxes through fuel. This high fuel tax favors underused trucks, which pay tax only when moving.

One possible reform is to convert the majority of tax revenue collected through fuel (variable costs) into truck ownership and registration taxes (fixed costs). For truckers, this change would be a major tax increase for operators who put less mileage on their trucks, but a significant saving for those with higher mileage—higher-efficiency truckers. The tax change would be fiscally neutral above a given level of truck utilization
(100,000 kilometers per year, for instance). Such a change in the taxation structure of the trucking activities would favor good performers and thus encourage a major structural change.

A queuing system would then be unable to protect low performers while encouraging all others to bypass it to access loads. Finally, the tour de rôle would disappear. Such a reform would be relatively politically easy (as all other road users would benefit from lower fuel taxes) but complex to design (as it would need a thorough review of a major component of the fiscal system to ensure good balance between revenue collection and transport policy targets). It might also be difficult to implement as the collection of high license fees would be a potential source of corruption.

Another possible and simpler fiscal reform would be to tax imports of trucks, not as a proportion of their purchase costs, but as a lump sum. If high enough, this tax would favor the purchase of more expensive, more reliable trucks. This would in turn increase the fixed costs share in total costs and therefore encourage higher use of the truck fleet. Such a reform might also result in a net increase in fiscal revenues for governments. In the current situation, new, expensive trucks are not imported at all, and therefore the import tax revenue coming from new trucks is almost zero. In addition, taxes on old, imported trucks do not generate much revenue.

Even in a case where balancing fiscal revenue is not an issue, countries’ policy on importing old vehicles should be reviewed in light of vehicle safety and extra pollution emission from aged vehicles. Some measures could be put in place to encourage import of “relatively young” second-hand trucks or to penalize the import of older ones. In such cases, import tariffs could be used not as a fiscal revenue generation target, but as a tool to control imports, as long as enforcement of such measures from customs administrations seems possible. For example, a country could set a target for import of secondhand trucks no older than eight years of age. It either could put a total ban on import of trucks more than eight years old, or it could progressively levy import tariffs for those who brought in trucks older than eight years. In sum, the study recommends a good review of secondhand truck import policy in Africa as it has implications for transport costs, in addition to road safety and the climate change agenda.

**Stakeholders’ workshops feedback.** Workshops conducted for West and Central Africa focused on the study’s conclusion that without a liberalization of the transport market, measures reducing transport costs would not lower transport prices. The stakeholders, notably the trucking companies and owner-operators, accepted the findings of the study but were concerned that appropriate compensation schemes should be developed to
mitigate the effects of the reform on the operators who would have to exit the road transport market. Participants strongly emphasized the importance of mitigating the social impact that would result from a streamlining of the transport sector on international corridors.

Further research and analysis will be needed to define in detail the possible compensation schemes to put in place so that some truckers exit the regional road transport market.

**Policies for East Africa**

The same policies or measures assessed in the highly regulated environment of West and Central Africa were tested in the deregulated environment of East Africa. The results are shown in table 9.2.

On costs, the most effective measures are likely to be road rehabilitation, reduction in fuel costs, and, to a lesser extent, reduction of border-crossing delays. Reducing informal payments would have a marginal impact on transport costs and prices. The higher impact of road rehabilitation and a drop in fuel prices in this region, compared with West and Central Africa, is explained by the higher volume of traffic and the bigger, more modern trucks in East Africa.

Reduced transport costs in East Africa are likely to translate into a reduction in transport prices, thanks to the deregulated market environment and contrary to the situation in West and Central Africa. Thus, such measures bring benefits throughout the economy, and can lead to a decrease in consumer prices. That is why it would be fully justified to invest in road rehabilitation on the major road corridors and to seek ways

<table>
<thead>
<tr>
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<th>Decrease in transport costs</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Rehabilitation of corridor from fair to good</td>
<td>−15</td>
<td>..</td>
<td>−7/−10</td>
</tr>
<tr>
<td>20% reduction of border-crossing time</td>
<td>−1/−2</td>
<td>+2/+3</td>
<td>−2/−3</td>
</tr>
<tr>
<td>20% reduction of fuel price</td>
<td>−12</td>
<td>..</td>
<td>−6/−8</td>
</tr>
<tr>
<td>20% reduction of informal payment</td>
<td>−0.3</td>
<td>..</td>
<td>+/−0</td>
</tr>
</tbody>
</table>

*Source:* Trucking survey data and own calculations.

*Note:* For the simulation, VOC data from the corridor Mombasa–Kampala were used.

.. Negligible (these items are unlikely to induce more turnarounds and then more sales).
to reduce fuel prices. Measures to reduce border delays should also be a priority and would help decrease transport prices.

Public authorities should scrutinize the efficiency of weighbridge operations in order to limit delays. Finally, transporters should be encouraged to use trucks with lower operating costs.

**Stakeholders’ workshop feedback.** The stakeholders agreed with the findings of the study and proposed specific additions on a country basis:

- **Kenya/Uganda**
  - Implement the one-stop border post in Malaba (a key point in the economics of trucking in East Africa) while taking care of the infrastructure needs and minimized procurement. An extension of the status of “authorized economic operators” to several companies should lead to a reduction in waiting time at the Uganda–Kenya border.
  - Introduce along the northern corridor simplified documentation requirements as stated in the northern corridor Transport and Transit Agreement in order to reduce delays.
  - Establish a long-term investment plan to ensure that the Mombasa–Kampala corridor remains at least in fair condition in the medium and long term.

- **Kenya**
  - Review and probably lift the customs regulation that prohibits trucks from taking backloads in Kenya as this rule severely affects transport service costs along the northern corridor.

- **Uganda**
  - Review taxes on fuel and study the possibility of introducing a road fund levy within the limit of the existing level of taxation on fuel.

**Policies for Southern Africa**

The same measures assessed in the highly regulated environment of West and Central Africa were tested in the deregulated environment of Southern Africa. The results are shown in table 9.3.

The most effective measures are likely to be a reduction in fuel costs, increased road rehabilitation, and a reduction of border-crossing delays. Reducing informal payments would have a marginal impact on transport costs and prices. The higher impact of road rehabilitation and fuel price changes in this region, compared with West and Central Africa, is explained by the higher volumes of traffic and the larger and more modern fleet.
The reduction in transport costs in Southern Africa, thanks to its deregulated market environment and contrary to the situation in West and Central Africa, is likely to translate into a reduction in transport prices, especially in the case of lower fuel costs or smaller border-crossing delays.

Measures to reduce border delays should be a top priority in Southern Africa as they are much higher than in East Africa (the crossings at Beit Bridge and Chirundu take a minimum of four days, which is at least twice as long as the Malaba crossing in East Africa). Reducing such delays, taking into account the high fixed cost of the Southern African trucking operators, would significantly help improve utilization of the fleet and staff and would lower transport prices.

**Stakeholders’ workshop feedback.** As in East Africa, stakeholders agreed with the findings of the study and proposed specific additions on a country basis:

- **North-South Corridor (South Africa/Zambia/Zimbabwe)**
  - Implement the one-stop border-post principle (especially for Beit Bridge and Chirundu border crossings) along the north-south corridor.
  - Prepare and sign as soon as possible, taking into account the strong political will to facilitate trade along the corridor and the work undertaken by a consultant, a trilateral agreement to create a Corridor Management Institution along the corridor. This institution should be financially sustainable and based on a cost recovery principle whereby road users pay for the operation costs of the corridor management facilities.

### Table 9.3 Expected Impact of Policies in Southern Africa

(Percent)

<table>
<thead>
<tr>
<th>Measures</th>
<th>Decrease in transport costs</th>
<th>Increase in sales</th>
<th>Decrease in transport price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rehabilitation of corridor from fair to good</td>
<td>−3/5</td>
<td></td>
<td>−2/−3</td>
</tr>
<tr>
<td>20% reduction of border-crossing time</td>
<td>−3/4</td>
<td>+18</td>
<td>−10/−15</td>
</tr>
<tr>
<td>20% reduction of fuel price</td>
<td>−10</td>
<td></td>
<td>−5/−7</td>
</tr>
<tr>
<td>20% reduction of informal payment</td>
<td>−1</td>
<td></td>
<td>+/−0</td>
</tr>
</tbody>
</table>

*Source:* Trucking survey data and own calculations.

*Note:* For the simulation, VOC data from the north-south corridor were used (using Zambia operators’ data).

... Negligible (these items are unlikely to induce more turnarounds and then more sales).
• Review the implementation of bilateral transport agreements, road-user charges guidelines, and levies and taxes paid at border crossings.
• Support a strong technical link between donors, authorities, and the Southern African Development Community (SADC) Secretariat (through the trade and transport panel of experts).
• **Zambia**  
  • Review taxes on fuel.
• **South Africa**  
  • Review procedures at the main international border crossings.

**Notes**

1. However, if roadblocks induce significant transport unpredictability, nontransport logistics costs may increase exponentially and have a major impact on transport and logistics. See Arvis et al. (2007) for more details.
2. Workshops were carried out in Bangui for Central Africa in January 2008 and in Ouagadougou for West Africa in February 2008.
3. As Oyer (2007) points out, some sections of the northern corridor road could be realigned to shorten the distance traveled and reduce repeated gear changes. This would lower VOCs by reducing fuel and tire consumption.