The Macro-Economic Framework for Transport Policy in Africa

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Foreword and Introduction

The attached remarks were made at the opening session of the Conference on Transport in Africa organized in Brussels, in November 1991, to launch the Second Transport and Communication Decade for Africa. They are largely based on the work carried out under the Sub-Saharan Africa Transport Program. This Program was launched in 1987 by the Bank and the UN Economic Commission for Africa (ECA) to improve the response to key policy issues in the transport sector and to build up related capacities at the national and regional levels. The present foreword and introduction summarizes the gist of the paper and outlines the directions for further collaborative work on transport policy.

High costs, unreliability, and poor quality of transport services are stifling efforts to put African countries back on a growth path. The lagging performance of the transport sector hampers the development of domestic and regional markets and has become an impediment to the participation of the continent in world trade especially for land-locked countries. Lack of transport services in rural as well as urban areas reduces productivity, limits income-earning opportunities, and restricts access to social services especially for women. The large financial losses of parastatals put a severe strain on public finances. Restrictive regulations contribute to high costs and are a barrier to improvements and innovations as well as to the emergence of regional and sub-regional approaches.

A number of factors make transport in SSA a precarious and costly undertaking: difficult terrain, low density of demand, and scarcity of human and financial resources. It is clear however that the policies adopted to deal with these challenges have been largely inappropriate. Their reform stands at the center of Africa’s transport agenda. Institutional and regulatory reform are needed to build up maintenance capability, step-up resource mobilization, involve local communities, improve the functioning of the markets for transport services, restructure parastatals, and facilitate transit and documentation.

The present paper provides an overview of the overall framework under which policy makers and planners will have to address transport issues over the coming Decade. It briefly outlines the key tasks for the various sub-sectors and identifies cross-cutting policy goals with clear linkages to broader development objectives. In order to implement the broad policy agenda outlined above governments will have to assume the role of enabling agents rather than direct provider of services.

The institutional structure for transport planning and policy development will have to provide a higher measure of coordination among the public agencies involved and to develop mechanisms through which constituencies and interest groups are systematically informed and consulted. This in turn will call for better information on market demand, cost and quality of services, and productivity of assets. A concerted effort will be needed to build up capabilities for transport research and policy development.

Policy development will benefit from a regional framework. The value of collaborative action in this field has been illustrated by the Sub-Saharan Africa Transport Program (SSATP). Since it was launched by the Bank and ECA in 1987 with the support of major external support agencies engaged in the transport sector, the SSATP has provided a collaborative framework for formulating policy options and facilitating related reforms. The Program has provided valuable inputs for the preparation of the Second UN Transport and Communications Decade in Africa (UNTACDA II) especially the overall objectives and the sectoral and sub-sectoral strategies.
The Sectoral Working Groups organized under the Decade should provide a broader framework to pursue the regional collaboration on transport policies. Program planning will be based on three broad considerations. First, new initiatives will be needed to deal with important unaddressed issues in particular trade facilitation and public finance. Second ongoing efforts will have to be directed at emerging issues, e.g. redundancy management, implementation of privatization schemes, etc. Finally, in the design of these activities more attention will have to be paid to capability building through the involvement of African experts and more importantly by anchoring the Program’s activities within African institutions.

The Bank looks forward to pursuing its contribution to the efforts outlined above under the Regional Studies Program carried out by the Technical Department of the Africa Region.

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THE MACRO-ECONOMIC FRAMEWORK  
FOR  
TRANSPORT POLICY IN AFRICA

Mr. Chairman, Ladies and Gentlemen, Colleagues:

It is a privilege for me to address you in this forum. I would like to express my appreciation to our host the Royal Academy of Overseas Sciences, especially its Permanent Secretary Professor Symoens, and the Economic Commission for Africa (ECA), for organizing this Symposium.

Thanks to the cooperation established between the Academy and the ECA we are called not only to debate transport issues but to consider and lend our support to the Second UN Transport and Communication Decade in Africa. The Decade provides a framework to step up efforts to improve and expand transport services in support of regional integration and economic and social development.

The World Bank has a long history of involvement in Africa's transport sector. Its operational program runs at about 10 to 12 operations per year with annual lending ranging from US$400 to US$600 million. Bank operations typically cover components of a comprehensive program concerning one sub-sector, say roads or railway, or the entire sector. Close coordination with other donors is the norm. The Bank is also coordinating a collaborative effort to develop and disseminate improved transport policies under the SSATP (Sub-Saharan Africa Transport Program).

Transport is essential for development; H.M. Stanley was saying no less when remarking that "without a railway the Congo was not worth a penny". Inasmuch as transport is a derived demand, transport policies and programs have to support broad development objectives and be responsive to macro-economic policies. I propose therefore to try to point out some of the key elements of the framework under which policy-makers and planners will have to formulate and implement strategies and programs for the transport sector over the coming Decade. Having sketched the overall framework, I will review key policy objectives for the various sub-sectors and, finally, I will point out cross-cutting themes linking sector policies with macroeconomic objectives.

The Macro-Economic Context

During the 1980's Sub-Saharan Africa grew poorer. The dire economic situation has spurred many governments to undertake far-reaching structural adjustment programs. Countries persisting with these reforms are showing clear signs of improvements in economic performance. The 20 countries engaged in the Special Program of Assistance for Sub-Saharan Africa (SPA) have shown average GDP growth of 4% p.a. over the period 1988-90 with noticeable improvements in gross domestic investments which however are still at a low relative level. Despite encouraging results the resumption of growth has been slower than anticipated due to structural constraints that can only be addressed over the longer term.

The Bank's Long-Term Perspective Study (Sub-Saharan Africa: from Crisis to Sustainable Growth) is meant to provide a better understanding of these constraints. The central theme of the LTPS (as the study is known) is that achievement of sustainable growth with equity depends less on direction from the top than on the liberation of skills, energies and resources from the bottom. The LTPS underlines the importance of infrastructure services in creating the enabling environment for bottom-up development strategies. The LTPS also highlights key elements of "second generation" development strategies, namely:

- the deepening of adjustment to tackle the transformation of production structures, the rationalization of the public sector, and the initiation of measures to alleviate social impact;
- increased productivity of the agriculture sector to reach 4% annual growth thereby raising incomes and improving food security; agriculture accounts for 35% of GDP, 75% of employment and 40% of exports;
• the slow-down of demographic growth which is at present the highest in human history, and is weighing heavily against efforts to raise incomes and improve standards of living;
• the LTPS calls for investment in people especially women - in their education and their health - and suggests that core programs for human resources be doubled; and
• the LTPS points out that Africa is the fastest urbanizing region in the world with urban population growing at 5 to 7% p.a. The number of urban dwellers estimated at 140 million in 1988 will grow by over 100 million over the next Decade. Roughly two-thirds of the population growth is expected to be accommodated in urban areas.

The above trends will shape the demand for transport services and determine the constraints under which they will have to be provided.

Planners and policy-makers will also have to contend with a rapidly changing international environment. Three trends stand out:

• capital will remain scarce; the prospects for increases in aid flows are limited and access to capital markets will remain constrained;
• the emergence of global markets and the rapid pace of innovations in sourcing and distribution of manufactured products are heightening competition and opening up opportunities. Besides high-quality logistical services participation in international trade will require capacity for low-cost transmission of information, flexible production methods and short response time; and
• bio-technologies and material sciences will continue to displace traditional tropical commodities and dampen long-term trends for their price.

The implications of the LTPS for the Transport sector are considerable. The sector must provide freight services and the mobility needed by a growing and rapidly urbanizing population. The increases in population, if accompanied by the modest rise in income projected by the LTPS, would result in an annual rate of increase in personal travel of about 7% to 8%. Passenger transport demand would therefore be multiplied by a factor 10 by 2020. Rapid urbanization will lead to a major shift from on-farm consumption to marketed production. The resulting increase in freight transport will be substantially higher than the 4% forecast for agricultural production and will range from 6 to 8% depending on the specific cases and taking into account projected growth in manufacturing mining and exports.

Transport Sector Performance

The performance of the Transport sector impacts on production and economic growth in many ways:

• rural transport is needed to support the modernization of agriculture;
• the movement of people and goods in towns and cities and between cities and their hinterland strengthen markets and nurture small enterprises;
• inter-urban transport networks integrate economies; and
• intra-regional and overseas transport facilitates the expansion of trade and the emergence of regional markets.

Conversely the poor performance of the sector stifles production and burdens the economy. In many countries the sector is characterized by:

• high unit costs and low quality of services in terms of speed, reliability and intermodal integration;
• deteriorating physical infrastructure; and
• low utilization of assets, weak institutions, and restrictive regulations.

The poor performance of the sector can be traced to inappropriate policies, in particular: reliance on public monopolies; administrative determination of prices and tariffs; indirect subsidization of services; regulatory protection of domestic operators and preference for national rather than regional or sub-regional approaches. These policies have run their course. Their reform should stand at the center of Africa’s transport agenda. Policy reform will be a necessary first step to allow effective use
of financial and human resources. Restructuring is needed to increase accountability and autonomy without which technical and managerial skills are laid to waste. Better policies are needed to improve financial viability; they will also attract discerning external support agencies. I would like to review quickly the key tasks ahead for the various sub-sectors.

Road Transport

Africa has a major road deterioration crisis on its hands. The backlog of deferred maintenance and rehabilitation ranges from 10 to 30% of GDP. Tackling this backlog and building up maintenance capabilities is the most compelling objective for Africa's transport planners and policy-makers over the next ten years. The stakes are considerable; recent programs in Ghana, Senegal and Tanzania would add between 1 to 3 percent to GDP annually. The policy dimensions of the problem are increasingly recognized. Governments are becoming aware of the punishing trade-off between neglect of maintenance and resulting increases in transport costs where $1 "saved" leads to $3 wasted. They are also ready to deal with the central issue of the ineffectiveness and inefficiency of road administrations through institutional reform and contracting of maintenance tasks.

Although Africa is underequipped with rural roads, it has difficulties in ensuring the upkeep of existing tracks and bridges. Rural road requirements need to be addressed within the framework of carefully designed longterm programs involving rural communities in planning, construction and maintenance through the use of labor-based methods. Rural transport strategies also need to address the promotion of transport services. Rural roads have often failed to enhance mobility and facilitate the movement of goods because of a lack of motorized services and intermediate means of transport (bicycles, oxcarts, etc.).

Africa's road transport industry accounts for more than 80% of total freight and passenger movement. The industry is essentially private and has shown remarkable resilience and dynamism. Its operating costs are high and capacity utilization is low. Efficiency gains which hold the potential for significant macro-economic impact (10% gain equivalent to about US$2 billion in annual savings), should be sought through reduced regulations and restrictions on entry and greater availability of spare parts. The emergence of domestic operators under the most adverse circumstances suggests that there is no rational whatsoever for parastatal trucking which is nevertheless found in a number of countries. In many cases an essential step towards more reliable road transport will be the dismantling of public fuel pricing and distribution systems.

Railways

The performance of most African railways declined sharply over the last ten years due to: competition from roads; prolonged economic downturn; government interference; and indifferent managerial performance. At present most railways make only a marginal contribution to the supply of transport services while remaining a heavy burden on public finance. In several countries railway restructuring is at the center of broad-based parastatal reform programs. The restructuring of African railways into commercially viable and competitive transport enterprises will require continued commitment over the next decade. This is the only way to ensure their future and to allow them to play their role in long-haul transit movements. This is particularly true in the case of the Southern system which stands to benefit from the technological and competitive pull of Spoornet, the railway system of the RSA.

Urban Transport

As cities grow, urban transport will become politically more sensitive. Urban Transport services are increasingly perceived as a key determinant of the productivity of urban areas. Lack of mobility curtails access to income opportunities and social services affecting above all the poor. The urban transport problem varies from one city to the other, however most cities need better traffic management capability. Also, in many cases the dominant issue is the rehabilitation and upgrading of urban roads serving newly urbanized areas. The requirements
Remarks by Jean H. Doyen

The Macro-Economic Framework for Transport Policy in Africa

are staggering and call for local resource mobilization. Parastatal restructuring and regulatory reform should encourage greater participation of private operators and reduce wasteful deployment of parastatal bus fleets. Finally, much greater attention needs to be given to road safety: 80% of road accidents occur in urban areas, most of them involving pedestrians.

Civil Aviation

Structural reorganization of SSA air transport is a high priority as the present system of small, poorly coordinated national airlines is inherently inefficient. The structural constraints of thin markets and small size can only be addressed through regional cooperation. The Yamoussoukro declaration of 1988 provides an appropriate framework for gradual integration through joint services and leasing. It is clear however that this will not alleviate the need to reform national firms through cost reductions and tighter management. The plan of action prepared recently for SADCC illustrates the potential benefits of leasing combined with structural reorganization. The serious problems faced by African carriers on the all important liaison to Europe as a result of regulatory changes concerning noise limits and liberalization of traffic rights, also call for a regional approach.

Ports and Shipping

African ports are generally in a less critical situation than railways: their monopoly status and their access to foreign exchange have facilitated their financial viability. Cost efficiency and the quality of services could however be very significantly improved. Rehabilitation will be necessary in some ports but in most cases investment will have to be directed at upgrading intermodal container handling facilities and communication systems to meet international standards for distribution logistics. Private sector involvement should be broadened with special focus on multi-modal facilities. Protection of the marine environment will be an important objective of port and maritime policies: regional cooperation will be necessary for the implementation of the MARPOL convention and ports will have to be equipped with waste reception facilities. In the longer term African ports will have to adjust to the emergence of regional container hub and feeder services. The primary decision concerning regional centers will be made by shipping lines. Port management strategies should concentrate on foreign trade efficiency rather than seeking a central transfer role through capacity upgrading.

Shipping regulations often hamper efficient operations of ocean shipping services and are seen as an obstacle to the introduction of technological upgrading. The time has come to review the economic impact of cargo reservation regulations: introduced under the Code of Conduct of Conferences. The lack of viability of national shipping lines and the ongoing world-wide reorganization of shipping services offer opportunities for regional approaches. A recent review of Angola's transport sector illustrates the high cost of such regulations; the premium paid by shippers for services rendered by national flag carriers is about US$90 per ton amounting to an annual implicit subsidy of about US$26 million.

Trade and Transport Facilitation

Trade and transport logistics have a major impact on trade performance. For example, in Côte d'Ivoire the preparation of the recent competitiveness program has revealed pervasive deficiencies in trade infrastructure: there is a costly cargo reservation system; custom formalities are cumbersome; freight forwarding and custom brokering and transit are expensive and riddled with restrictive practices; compulsory domestic insurance provides insufficient coverage thus requiring international re-insurance at higher overall costs; international trade documents are unduly complicated and are not in line with international norms. These deficiencies suggest that logistical arrangements can be improved without much investment. The main impediments are regulatory. The pay-off stands to be substantial.

Cross-cutting Goals for Sector Management

The policy agenda reviewed above would have to be pursued by sector agencies and by central policy
makers and planners. They will have to articulate sector policies around a number of cross-cutting goals showing clear linkages with broader development objectives and appealing to constituencies within and without the sector. Four goals are outlined here.

First, to improve the quality and cost effectiveness of transport services. Substantial improvements are needed to ensure that Africa is not further isolated from international trade. The opening up of competition will be essential to obtain quality and cost improvements. Institutional reform to enhance accountability and establish financial and managerial autonomy will be at the center of efforts to increase productivity.

Second, to find regional or sub-regional approaches to overcome the constraints due to small domestic markets and the limited financial base of national economies. Such approaches would require commitment to managerial and financial autonomy and would also require a higher degree of harmony in macro-economic policies, particularly concerning currency management.

Third, improved access to services by the poor and special attention to the role and needs of women. This goal would be particularly important for rural roads and urban transport. A better understanding of the determinants of availability of services would be needed. Recent sector studies suggest that macro-economic and regulatory constraints have a decisive impact. Direct public intervention through the parastatal provision of services and tariff control have generally been ineffective. Community involvement and the promotion of non-motorized intermediate means of transport would be important.

Fourth, improved resource mobilization. It is important here to take an overall perspective. If one accepts the emphasis placed by the LTPS on human resources and on the rationalization of public finance, then it is clear that some sectors will be called upon to be net contributors to public finance, largely through improved tax collection and well designed taxes on motor fuels. The situation across countries varies greatly. It seems clear that over the long run there is no benefit in undertaxing transport neither for the users nor for the economy at large. Countries which have subsidized or undertaxed road users seem to end up with inferior services and run down road networks. Financial autonomy and fiscal soundness are also the basis for even-field competition between modes.

The need to take a pro-active attitude toward resource mobilization also results from the overall size of expenditure needed over the Decade to meet the demands of improved productivity and capacity rehabilitation and expansion. Overall public expenditure requirements are roughly estimated at US$60 billion and stands substantially above current levels, around 2 to 2.5 times. The mobilization of this level of resources will be a major challenge. The mobilization strategy will vary from country to country, but will include:

- better financial management;
- improved cost recovery policies;
- higher user charges; and
- additional aid flows.

Two aspects require special attention. In many countries taxes on motor fuels and other road user charges offer room for increase and should more than cover road expenditure. If they are not increased, urban roads which account for about 20% of projected expenditure would have to be funded increasingly from local taxes which are almost non-existent. Unless local resource mobilization is improved, the level of infrastructure services will not keep up with the rapid expansion of urban areas.

Although the prospects for increase in aid flows are limited it is clear that these flows will be directed where they are likely to be used most effectively, that is toward countries with sound macro-economic and transport sector policies.

Institutional framework for Transport Policies

The broad policy agenda outlined above will have to be spearheaded by governments. They will have to assume the role of enabling agent rather than
direct provider and manager of services. The institutional structure for transport planning and policy development will have to evolve to provide a higher measure of coordination among public agencies involved, and to develop mechanisms through which constituencies and interest groups are systematically informed and consulted. As far as international transit is concerned, attention will have to shift from route allocation and physical planning to transit policies and facilitation issues.

In order to assume the new role outlined above, governments, sector agencies and operators and users will need:

- better information directed at market demands, quality and cost of services and productivity of assets; and
- research and studies on key issues and development of policy options.

Last but not least a concerted effort will be needed to build up capabilities for transport research and policy development at the regional and country levels.

Policy development will benefit from a regional framework. Countries have much to gain from each other’s experience. The case for collaborative action and policy coordination among external support agencies is compelling. The effort initiated by the Bank and the ECA in this area will be pursued under the broader framework of the Decade.

In conclusion, Mr Chairman, the framework within policy makers and planners will have to face Africa’s transport needs is one of opportunities and constraints.

The deepening of adjustment offers the opportunity to implement structural reforms to heighten competition and shift the delivery and management of services to the private sector.

The continued pressure on public finance and the scarcity of funds call for better utilization of assets, stepped-up resource mobilization, and concentration on high return investments.

The renewed political commitment for regional economic integration should facilitate regional approaches to obtain benefits from economies of scale.

Finally, policies and programs for urban transport and rural roads should be designed so as to ensure access to services by the poor.

Resource constraints will bear heavily on what can be achieved, but policy-makers and planners will, first and foremost, have to introduce sound policies.