



Eastern Africa Policy Centre
Freedom and Development

2014

STRUGGLING WITH FORMAL AND INFORMAL TRADE BARRIERS



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*Challenges Facing the
Long Distance Trucking
Industry in East Africa
Community*

8/26/2014

Executive Summary

Formal and informal trade barriers remain major obstacles to economic growth and social development in the East African Community (EAC). In the *World Economic Freedom Report 2013*, EAC countries -- Burundi, Kenya, Rwanda, Tanzania, and Uganda -- ranked in the bottom 60 in the freedom-to-trade index among the 152 countries surveyed.ⁱ Although tariffs on major commodities have declined significantly under the East Africa Common Market Protocol (EACMP), which aims at the “free movement of people, goods, services and capital”, economic models consistently show that trade between East African economies falls far short of its potential.ⁱⁱ That potential is being thwarted by a variety of impediments to free trade among the region’s economies.

Further trade liberalization in East Africa requires not only reducing duties but also getting rid of trade barriers of all kinds. Moreover, intraregional trade will not flourish without eliminating licensing fees, complex custom procedures, and delays at borders, even if these are not explicitly intended to impede trade. Thus a well-integrated transport infrastructure and improved logistical performance are critical for the EAC’s further trade integration and economic development.

We believe that government initiatives, including the EACMP, have not effectively addressed nontariff barriers that continue to cost millions of dollars in waste to businesses and consumers every year. In this paper we examine the challenges that trucking businesses, the most important inland facilitators of trade, face when operating along two major EAC corridors. Further analysis will address concrete steps to assist the EAC in decreasing transportation obstacles in order to permit more inland trade.

Overview of the Problems

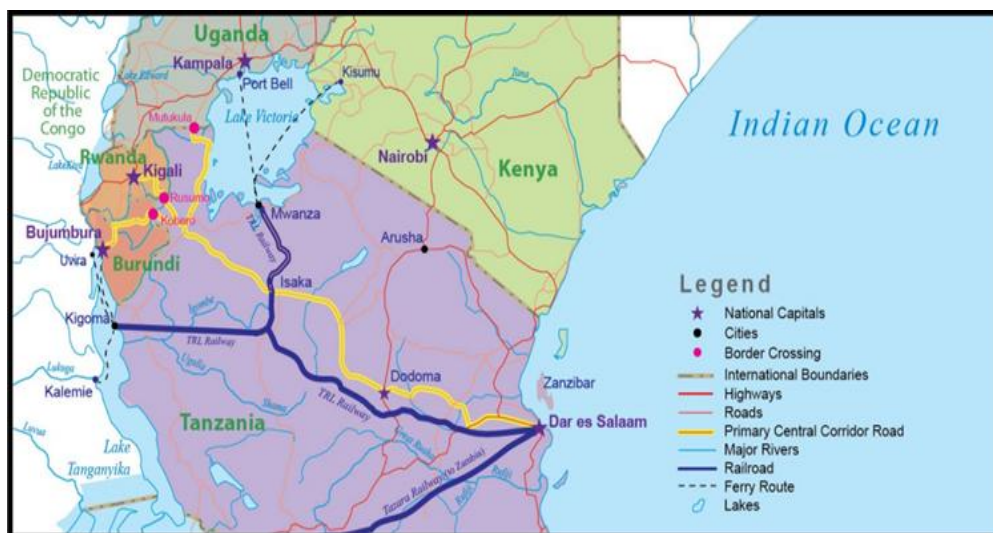
Because of an unpredictable railway system, over 95 percent of the East African Community (EAC) trade moves by road every year, and more than 70 percent of it traverses two major corridors:

- Northern Corridor: Mombasa–Malaba–Kampala, which links Kenya, Uganda, and Rwanda
- Central Corridor: Dar es Salaam–Mutukula–Masaka, which links Tanzania, Uganda, Rwanda, and Burundi

The Northern Corridor (1,738 km long) begins at the Port of Mombasa, Kenya, and is East Africa's principal trading route. It is estimated that the Northern Corridor links 200 million people and carries 75 percent of the EAC's inland trade. The route also serves as the bloodline for Kenya, Uganda, Rwanda, and Burundi, and transports goods to Ethiopia, South Sudan, and eastern Democratic Republic of the Congo (DRC).

The Central Corridor (3,026 km long) begins at the port of Dar es Salaam, Tanzania, and connects that country, Zambia, Rwanda, Burundi, and eastern DRC. This corridor carries only 25 percent of the trade in the EAC; however, it is the main trading route for Tanzania, Burundi, and Rwanda.ⁱⁱⁱ

Source: United State International Trade Commission, 2012



Source: Commission staff.

East African countries have reduced tariffs on major commodities, including rice, sugar, and cement from over 100 percent to 25 percent, however, little increase in regional trade has been seen over the past few years. In 2010 only 23 percent of the region’s total export and 10 percent of total imports were internal.^{iv} (See Chart 1.) Moreover, exports to advanced economies are primarily natural resources, while inland trade primarily focuses on nonfuel products, especially essential goods critical to the lives of Africans. See Table 1 for major export and import commodities.

Chart 1

Source: EAC Investment Guidebook, 2013

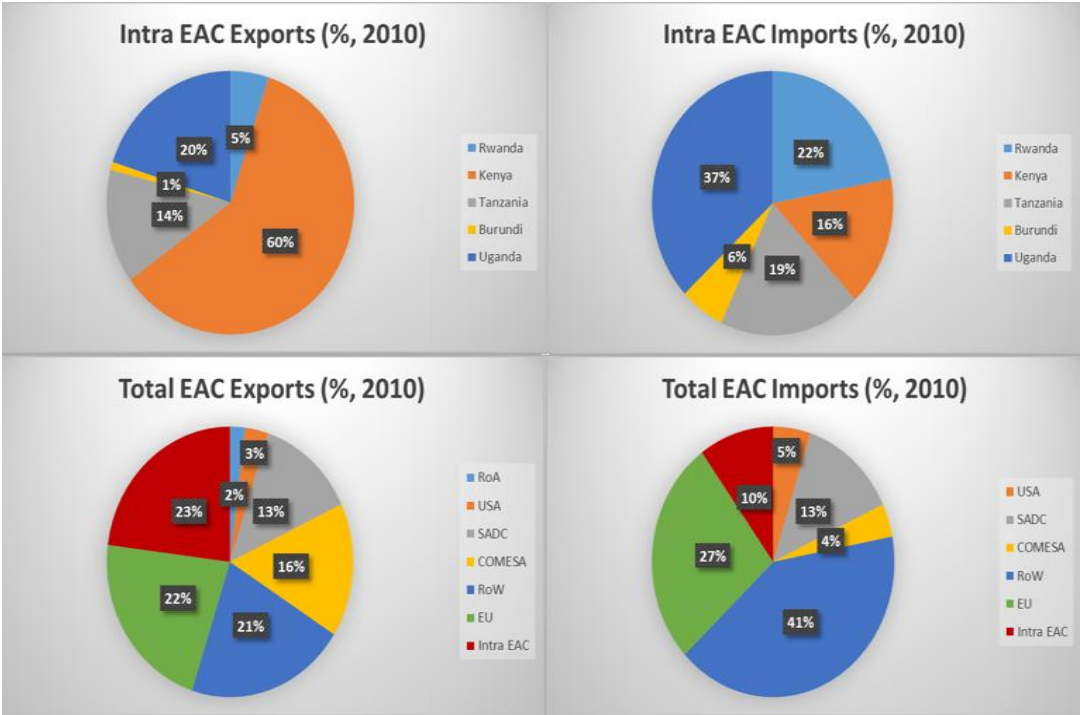


Table 1: Top commodity exports in Intra-regional trade (by value, 2004-2008 average)

Destination Origin	Kenya	Tanzania	Uganda	Rwanda	Burundi
Kenya		Soaps/cleansers/ polishes; articles of apparel, rolled plated manufactured steel	Lime/Cement/ Construction materials; Petroleum products; articles of apparel; rolled plated manufactured steel	Petroleum products, soaps/ cleansers/ polishes	Roll plated manufactur ed steel, petroleum products
Tanzania	Tea and mate, cotton, fish, made-up textile articles, maize except sweet corn		Elements/oxides/ halogen salt, made-up textile articles	Elements/ oxides/ halogen salt, maize except sweet corn	Elements/ oxides/ halogen salt, maize except sweet corn
Uganda	Tea and mate, cotton, fish, made-up textile articles, maize except sweet corn	Electric current; maize except sweet corn; tobacco, rolled plated manufactured steel		Roll plated manufacture d steel; Vegetables	Maize except sweet corn, vegetables, roll plated manufactur ed steel
Rwanda	Tea and mate, hides/skins, petroleum, coffee and substitutes	Coffee and coffee substitutes; ores and concentrates of base metal	Ores and concentrates of base metal, petroleum products, hides/skin, coffee and coffee substitutes		Petroleum products
Burundi	Gold nonmonetary; hides/skin; tea and mate	Coffee and coffee substitutes; Tea and mate	Coffee and coffee substitute	Sugar/ molasses/ honey	

Source: 4th EAC Development Strategy, 2011; Commercial Trade database , 2010

One important cause of lower intraregional trade is the extremely poor logistical quality. Among 160 countries observed by the World Bank in 2013, EAC countries ranked in the bottom 60 in the Logistic Performance Index (LPI).^v Their performances are significantly lower than in advanced countries for customs processing, infrastructure, border services, and timeliness.^{vi} Improving logistical performance by 50 percent would increase trade an estimated 15 percent and GDP 5 percent.^{vii} (See Table 2.)

Much of the cost imposed by low logistical performance is borne by long-distance trucking businesses and in turn by African consumers through higher prices. Therefore, understanding the cost structure and barriers to trade remains critical. Removing those barriers would significantly reduce the cost of inland trade as well as lower the prices of consumer goods critical to Africa's social and economic development.

Table 2: Logistic Performance Index & Rankings 2014

	overall LPI score	Customs	Infrastructure	Logistics quality and competence	Timeliness
EAC	2.58 (106)	2.40 (105)	2.37 (107)	2.52 (106)	2.95 (104)
Germany	4.12 (1)	4.10 (2)	4.32 (1)	4.12 (3)	4.36 (4)
United Kingdom	4.02 (4)	3.94 (5)	4.16 (6)	4.03 (5)	4.33 (7)
United States	3.92 (9)	3.73 (16)	4.18 (5)	3.97 (7)	4.14 (14)
Canada	3.86 (12)	3.61 (20)	4.05 (10)	3.94 (10)	4.18 (11)
Hong Kong SAR, China	3.83 (15)	3.72 (17)	3.97 (14)	3.81 (13)	4.06 (18)

Source: Institute of Trade Development, 2012

Challenges Facing Long Distance Trucking Businesses

1. High Variable Cost

Border fees and bribes remain a large part of cost of trade in Africa. The variable/fixed cost ratio for trucking businesses in the East Africa is around 60/40, compared to the 70/30 ratio in West and Central Africa. In contrast, in developed systems the ratio is 15/85. A higher variable/fixed cost ratio is often an indication of higher transportation cost, especially from informal trade barriers. Fuel and lubricants are the main variable cost, accounting for around 35 percent of the total variable cost.^{viii} However, *we found that other overhead and bribes account for almost 19 percent of the companies' total operation cost.* Drivers who were interviewed by the appellant claimed that many unexpected overcharges and bribes have to be paid at check points and weighbridges on the borders. (See Table 3.)

Table 3: Variable Cost Structure/Trip/Standard Load

Item	Amount (USD)	Percentage (2 Decimals)
Fuel	2,275	34.5
Maintenance & Tyres	650	9.9
Depreciation & Insurance	1,040	15.8
Toll road charges	465	7.0
Staff	910	13.8
Other Overheads including Bribes	1,250	19.0
Total	5,680	100.0

Source: Field Data, Eastern Africa Policy Center

Small companies with ten to one hundred trucks, which constitute 80 percent of the market, operate on thin margins and are therefore more vulnerable than larger firms to these charges, as well as to the needlessly complex customs procedures and bureaucratic hoops that raise the cost of doing business. (See Table 4.)

Table 4: Variable Cost/Mile Breakdown in Percentage (Big Vs. Small Truck Businesses)

	Big Businesses	Small Businesses
Fuel	35	36
Maintenance & Tyres	10	12
Depreciation & Insurance	16	10
Toll Road Charges	7	7
Staff Costs	14	9
Other Overheads Including Bribes	19	26
Total	-	-

Source: Field Data, Eastern Africa Policy Center, 2014

2. Delays

Delays at borders constitute a major trade barrier in the region. An estimated 40 percent of the cost of transport along the Northern Corridor consists in fixed port charges and delays at the Mombasa port due to inadequacies of infrastructure, burdensome documentation rules, inefficient cargo clearance, and lengthy customs procedures. More than 90 percent of all delays along the Northern Corridor are estimated to be at ports, most of which are run by two or three government transportation- and finance-related agencies.

The wait for loaded trucks at Malaba, the main border post between Kenya and Uganda normally runs one to two days. The average wait at the borders between EAC countries is about 13 hours, about 12 times longer than the wait at most OECD countries.^{ix} (See Table 5.) It is often hard to predict the time between the placement of an order with a supplier and the arrival of the goods. That increases the prices of the goods dramatically.

Table 5: Average Time Delay at the Borders

Country	Time to Cross the Borders (hrs)	Time(hrs) Waited to Pick Up Freight Once in the Border
Uganda	15.25	11.75
Kenya	8.18	5.93
Tanzania	16.25	15.35
Rwanda	10.25	5.5
Burundi	16.25	13.50

Source: World Bank Report, 2013

Highly complex clearance procedures cause delays and severe logistical constraints. For instance, 52 documents and signatures are required for a single trip between Mombasa, Kenya, and Kigali, Rwanda. (See Table 6.) Despite recent simplification through the creation of one-stop centers at ports, truckers still must go through many steps before crossing borders. They must wait in central Mombasa for customs and the container terminal in the port for approvals from other agencies. Messengers have been hired to assist government-employed operators to help move documents from one counter to the next.^x

Table 6: Document Clearance at Borders of Kenya

Documentation Clearance	Number
Docs for Export	14
Signatures for Export	14
Time for Export(Days)	6
Documents for Import	9
Signatures for Import	9

Source: Field research, Eastern Africa Policy Center, 2014

For those reasons, road transport in the EAC is significantly more expensive than ship and air transport to advanced economies such as the United States and European Union. For instance, to transport a 20-tonne container via road from Mombasa to Kigali costs \$3,400-\$6,500. However, to make a shipment by sea of the same tonnage from Mombasa to the United Kingdom often costs only \$2,000- \$4,000.^{xi}

We estimated that significantly reducing transport delay in East Africa may increase the trucking businesses' yearly mileage by at least 20,000 kilometers. This means more consumer goods would be exchanged at lower prices. Trucking company owners would also improve their vehicle capital-utilization rate and have more capital to reinvest in trucks and management. We estimate that reducing needless delays at EAC borders would cut transport prices and increase sales 10-15 percent.^{xii} (See Table 7.) That could generate lower consumer prices in East Africa than market reforms in the last decade generated in North and West Africa.

Table 7: Impact of Barrier Reduction in East Africa

Measures	Decrease in transport cost (%)	Increase in sales (%)	Decrease in transport price (%)
Rehabilitation of Corridors from Fair to Good	-15	NS	-7/-10
20% reduction of border-crossing time	-1/-2	+2/+3	-2/-3
20% reduction of fuel price	-12	NS	-6/-8
20% reduction of informal payment	-0.3	NS	+/-0

Source: Africa Infrastructure Country Diagnostics, World Bank, 2009

3. Road Conditions and Border Facilities

Road conditions are not considered the primary cause of high transportation costs in the EAC.

Table 9: Africa Road Conditions By Regions

Region	Origin	Destination	Percentage of road in good/ fair condition
West Africa	Tema/Accra	Ouagadougou	82
	Tema/Accra	Bamako	53
Central Africa	Douala	ND'jamena	45

The more urgent need is investment to improve border facilities. Indeed, road conditions in the EAC are among the best in Africa, only slightly below those of South Africa. More government investment in road improvement would only marginally reduce inland transport cost. (See Table 9.)

	Douala	Bangui	53
	Ngaondere	Mondou	100
	Ngaondere	ND'jamena	61
East Africa	Mombasa	Kampala	86
	Kampala	Kigali	75
South Africa	Lusaka	Johannesburg	100
	Lusaka	Dar-es-salaam	Not Available

Source : World Bank Report,2012

Table 10: EAC Road Conditions and Implicit Velocity

Despite its better road conditions, East Africa has the second lowest trade density among African regions, which indicates the great potential for further trade integration if inland transport costs were significantly reduced. Currently, only \$5.7 million per kilometer was transported along its corridors, compared to \$8.2 million in the western region and \$27.9 million in southern region. (See Table 10.) There is no doubt that rehabilitating the infrastructure at the borders and improving management facilities to reduce delays to zero would significantly improve flows of trade in the region.

Corridor	Length (Km)	Road in Good Condition	Trade Density (USD/Km)	Implicit Velocity (Km/Hr.) ^{xiii}	Freight Tariff (USD/Tonne-Km)
Northern	3,280	49	4.2	6.1	0.13
Western	2,050	72	8.2	6.0	0.08
Eastern	2,845	82	5.7	8.1	0.07
Southern	5,000	100	27.9	11.6	0.05

Source: EAC Road Conditions and Implicit Velocity, AfDB Report, 2012

Conclusion

Even though the EAC Sectorial Council approved two bills that aim at protecting truckers from overcharges and at reducing delays at the borders – the One-Stop Border Post Bill and the Vehicle Load Control Bill -- implementation of the policies has been slow.^{xiv} It is unclear how long it will take to phase out both tariff and nontariff barriers within the EAC. Apparently, 100 percent of roads and border facilities are currently managed by government-owned entities, which are much less efficient than profit-oriented privately owned facilities and infrastructure would be.

We believe that deregulating transport and privatizing roads would create a competitive environment and incentives for road managers to provide services of higher quality. The only deregulation experiment in Africa so far took place in Rwanda in 1994; as a result transportation prices fell and the influence of cartels declined.^{xv} Consumer prices declined by more than 30 percent in nominal terms and by almost 75 percent in real terms, when taking into account the continued increase in input prices.

Cooperation by African governments and multinational organizations has already brought about some reduction of tariff barriers. However, for more people of the EAC to benefit through trade, governments need to further deregulate transportation and eliminate entry barriers for private and multinational businesses.

Notes

ⁱ See James Gwartney, Robert Lawson, and Joshua Hall, “2013 Economic Freedom Dataset, published in Economic Freedom of the World: 2013 Annual Report,” *Fraser Institute* (2013), http://www.freetheworld.com/datasets_efw.html.

ⁱⁱ See “Accelerating Growth through Intra-African Trade”, Africa Growth Initiative at Brookings Institute, January 2012; http://www.brookings.edu/~media/research/files/reports/2012/1/intra%20african%20trade/01_intra_african_trade_full_report.pdf

ⁱⁱⁱ See Trade Facilitation in the East African Community: Recent Developments and Potential Benefits”, U.S. International Trade Commission, Investigation No. 332-530, Publication No. 4335, July 2012; <http://www.usitc.gov/publications/332/pub4335.pdf>

^{iv} See “East African Community (EAC) Investment Guidebook”, African Development Bank, Washington DC, 2013.

^v See The World Bank, “Logistics Performance Index,” *The World Bank Group*, (2014), <http://lpi.worldbank.org/>.

^{vi} See Jean-François Arvis, Daniel Saslavsky, Lauri Ojala, Ben Shepherd, Christina Busch and Anasuya Raj, “Connecting to Compete 2014: Trade Logistics in the Global Economy”, World Bank, 2014 <http://www.worldbank.org/content/dam/Worldbank/document/Trade/LPI2014.pdf>.

^{vii} See “Enabling Trade: Valuing Growth Opportunities”, World Economic Forum, Bain Company and World Bank, 2013, http://www3.weforum.org/docs/WEF_SCT_EnablingTrade_Report_2013.pdf.

^{viii} Supee Teravaninthorn and Gaël Raballand, “Transport Prices and Costs in Africa: A Review of the Main International Corridors”, Africa Infrastructure Country Diagnostic (AICD), Working Paper 14, July 2008.

^{ix} See “Transport Prices and Costs in Africa A Review of the International Corridors”, the World Bank, 2009.

^x See “Kenya: Issues in Trade Logistics”, Turku School of Economics and Business Administration (TSEBA) in Finland, 2012, http://siteresources.worldbank.org/INTTLF/Resources/Kenya_Final_Report_Jul05.pdf.

^{xi}The East African Team, “Nightmare of moving cargo from Mombasa”, *The East Africa*, October 2011; <http://www.theeastafrican.co.ke/business/Nightmare+of+moving+cargo+from+Mombasa+/-/2560/1246550/-/vnef5kz/-/index.html>.

^{xii} See “Transport Prices and Costs in Africa A Review of the International Corridors”, the World Bank, 2009.

^{xiii} The total distance divided by the total time taken to make the trip, including time spent stationary at the ports, border crossings, and other stops.

^{xiv} See “Sectorial Council Clears Bill for One Stop Border Posts” , East African Community Secretariat, February 2012; http://www.eac.int/index.php?option=com_content&id=929:sectoral-council-clears-bill-for-osbps&Itemid=194.

^{xv} See “Rwanda: From Post-Conflict Reconstruction to Development,” International Development Association (IDA), World Bank, (August 2009), <http://siteresources.worldbank.org/IDA/Resources/ida-Rwanda-10-02-09.pdf>.