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on

**Trade Facilitation Opportunities for Landlocked and
Transit Developing Countries**

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**The need of a new approach to tackle the
cost of being landlocked**

by

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The Need of a New Approach to Tackle the Cost of Being Landlocked

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Presentation outline

- I – The current paradigm and its limited impact
- II - Facts and myths; what does really matter for landlocked countries?...
- III – Why is it difficult to improve transit facilitation in developing countries? A new approach to define.

Current paradigm to mitigate the costs of being landlocked

Two main sets of actions:

- 1. developing a legal framework in treaties and regional agreements aimed at ensuring freedom of transit, so as to overcome its disadvantageous geographical position.
- 2. developing and advocating for regional transport infrastructure.
WBG alone invested close to USD14 billion from 1970-2007 in Africa.

What has been the result of the past initiatives?

- Being landlocked still implies high transaction costs,
- Transport prices in Africa remain the highest in the world,
- Most regional transit agreements remain on paper.

What does really matter for landlocked countries? Not road condition as such...

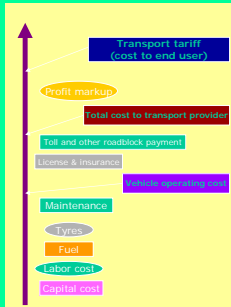
- Delays in ports and not on the road

	Port	Trans	Dry port	Border	Transp	Clear.	TOTAL TIME
Douala-Ndj	24	4	8			3	39
MSA-Kam	13	4	1		1	2	21
DeS-Kam	17	5	2		1	2	27

What does really matter for landlocked countries?...

Trucking services market structure and regulation

The need to end a confusion



Starting with the design of the trucking survey questionnaires which is critical to capture the details of various types of cost:

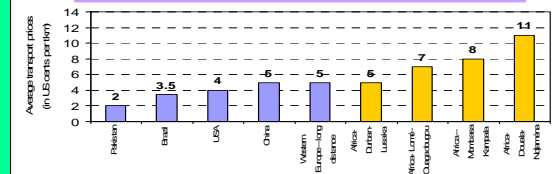
- Vehicle operating costs (VOCs)** include various direct costs to operate a given vehicle, notable labor, capital, fuel, tyres, maintenance & depreciation cost.
- Transport costs (TCs)** = VOCs + other indirect costs, such as license, insurance, road toll, road blocks payment, etc.
- Transport prices (TPs)** are the rates charged by a transport company or a freight forwarder to the shipper or importer. Normally Transport prices = TCs + operator's overheads and profit margin.

The transport paradox – The African case

Transport costs are not excessively high comparing to France

	Central Africa	East Africa	West Africa	Southern Africa	France
Variable costs (USD per veh-km)	1.31	0.98	1.67	1.54	0.72
Fixed costs (USD per veh-km)	0.57	0.35	0.62	0.34	0.87
Total transport costs (USD per veh-km)	1.88	1.33	2.29	1.88	1.59

However, average transport prices in Africa are high



The neglected factor: the trucking industry

Although low efficiency, profit margin of trucking companies is usually high

Corridor	Gateway - Destination	Price (USD/veh-km)	Variable cost (USD/veh-km)	Fixed cost (USD/veh-km)	Average yearly mileage ('000)	Profit margin (%)
West Africa	Tema/Accra - Ouagadougou	3.53	1.54	0.66	30-40	80%
	Tema/Accra - Bamako	3.93	1.67	0.62	40-50	80%
Central Africa	Douala - N'Djaména	3.19	1.31	0.57	60-70	73%
	Douala - Bangui	3.78	1.21	1.08	50-60	83%
East Africa	Ngaoundéré - N'Djaména	5.37	1.83	0.73	20-30	118%
	Ngaoundéré - Moundou	9.71	2.49	1.55	10-20	163%
Southern Africa	Mombasa - Kampala	2.22	0.98	0.35	130-140	86%
	Mombasa - Nairobi	2.26	0.83	0.53	90-100	66%
Southern Africa	Lusaka - Johannesburg	2.32	1.54	0.34	160-170	18%
	Lusaka - Dar-es-Salaam	2.55	1.34	0.44	160-170	62%

An interesting observation, trucks with lower average yearly mileage have the higher profit margins

Some myths on transport costs in Africa

Corridor	Gateway - Destination	Fuel	Tyres	Maintenance	Informal payment
West Africa	Tema/Accra-Ouagadougou	74%	16%	4%	6%
	Tema/Accra-Bamako	80%	9%	5%	6%
Central Africa	Douala - N'Djaména	60%	17%	10%	13%
	Douala-Bangui	60%	19%	9%	12%
	Ngaoundéré - N'Djaména	53%	11%	14%	22%
East Africa	Ngaoundéré - Moundou	38%	12%	23%	27%
	Mombasa-Kampala	79%	13%	6%	2%
Southern Africa	Kampala-Kigali	67%	31%	1%	1%
	Lusaka-Johannesburg	51%	48%	1%	0%
Southern Africa	Lusaka-Dar-es-Salaam	60%	38%	1%	1%

- Fuel and lubricants account for the bulk of vehicle operating costs and then variable costs (50-70%).
- Informal payments (roadblock payments) vary by corridor. The numbers are not negligible, although not as significant as general perception.
- Maintenance cost are not excessively high, which questions the justification of upgrading roads in some cases.

Upgrading roads condition in Africa is scarcely justified economically

Indicative internal rate of return of infrastructure rehabilitation in three African sub-regions

		West Africa		Central Africa		East Africa	
		50 km project	100 km project	50 km project	100 km project	50 km project	100 km project
Fair to Good	Min. traffic	<0%	<0%	<0%	<0%	7%	0%
	Max. traffic	<0%	<0%	<0%	<0%	30%	15%
Poor to Good	Min. traffic	<0%	<0%	<0%	<0%	38%	20%
	Max. traffic	8%	1%	12%	3%	127%	65%

How do cartels operate in transport?

- Bilateral transit treaties with quotas, freight allocations and queuing system lead to poor quality of services and low productivity with no incentives for companies to improve their efficiency.
- Bilateral transit treaties are justified to protect landlocked countries' fleets. However, the intended benefits are captured by few players and cartels were created instead and slows down regional integration.
- System is prone to bribe because the structure in charge of enforcing quotas (often linked to transporters) "auctions" out market access in exchange of a high price.

Impact of various measures on prices and costs

In a cartelized environment:

Measures	Decrease in transport costs	Increases in sales	Decreases in transport price
Rehabilitation of corridor from fair to good	-5%	NS	+/- 0%
20% reduction of border-crossing time	-1%	+2/+3%	+/- 0%
20% reduction of fuel price	-9%	NS	+/- 0%
20% reduction of road informal payment	-1%	NS	+/- 0%

In a competitive environment:

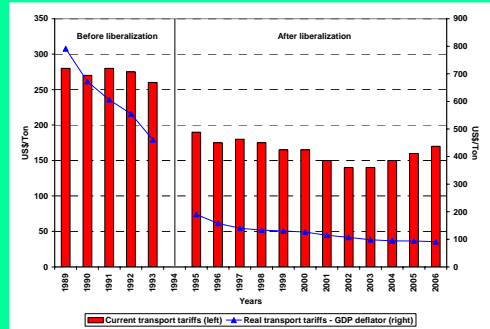
Measures	Decrease in transport costs	Increases in sales	Decreases in transport price
Rehabilitation of corridor from fair to good	-15%	NS	-7/-10%
20% reduction of border-crossing time	-1/-2%	+2/+3%	-2/-3%
20% reduction of fuel price	-12%	NS	-6/-8%
20% reduction of road informal payment	-0.3%	NS	+/- 0%

Under a competitive environment: Transport costs are highly sensitive to the fluctuation of fuel price, but transport costs reduction does not lead to any price reduction.

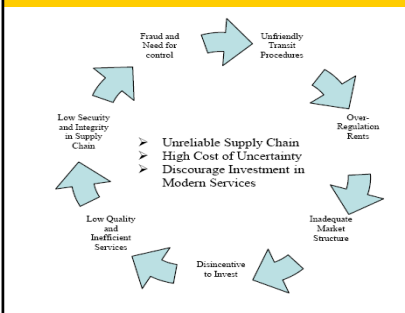
Under a cartelized environment: Transport costs show higher degree of sensitivity to fuel price and road condition, and the reduction in costs has a trigger down effect to price reduction.

Under both locked environments: TC and TP are not sensitive to road informal payments.

Example of market liberalization: Rwanda



Why is it difficult to improve transit facilitation in developing countries?



Facilitating transit trade equals for a transit country to abandon a "natural" power over the landlocked country.

Win-win for countries but not for individuals...

- Many individuals *in landlocked and transit countries* would considerably lose in case of facilitated transit trade: protected trucking companies, chambers of commerce perceiving fees for transit carnets, owners of trucks...
- => Coalition of interest for the *statu quo* all the more as the potential losers are powerful.

How to build a coalition of interests in favor of reforms?

To build trust requires institutions that create incentives for cooperation and that reward cooperation

- increase dependency of a transit country over a landlocked country by increasing transparent transit fees (e.g. Togo),
- reduce the nuisance power of the potential losers by financing them to exit the market (e.g. compensation schemes for truckers).
- make public the extent of rent-seeking activities.

But it must be tailor-made and focused on transit countries in most cases

A typology of landlocked countries

Case 1: transit country is logistically-friendly (South Africa for Zambia) = connection to the outlet,

Case 2: transit country is not logistically-friendly but dependent on transit (Togo for Burkina Faso) = negotiations can be undertaken to the interest of both countries

Case 3: transit country is not logistically-friendly and not dependent on transit (Cameroon for CAR) = reforms in the transit country is the only option. CAR depends on the outcome of reforms in Cameroon.

Some examples of this approach in Africa: the WB regional trade and transit facilitation projects

- **East Africa Trade and Transport Facilitation Project**

(Kenya, Uganda, Tanzania and Rwanda),

- **CEMAC TTF Project in Central Africa**

(Cameroon, Chad, CAR ; Douala corridor),

- **West Africa TTF Project in West Africa** (Ghana, Burkina Faso, Mali ; Tema corridor),

- **Abidjan-Lagos TTF Project**

(Ivory Coast, Ghana, Togo, Benin, Nigeria).

Lessons from projects under supervision

- **Importance of strong drivers in countries:** implementation is carried out at the country level not at the regional level,

- **Port/Customs combination is key to drive the initial facilitation process,**

- **Border-post component is extremely slow to be implemented.**

- **Involvement of all stakeholders** (corridor authorities, private sector and public sector) is fundamental.

- **Large supervision budgets** required.



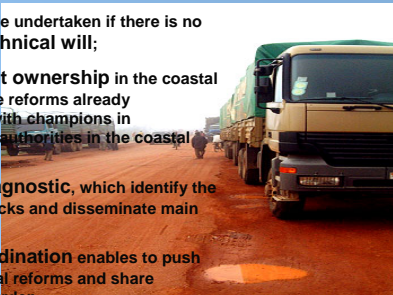
Prerequisites to Prepare Successfully a TTF Project

- **Nothing can be undertaken if there is no political/technical will;**

- **Government ownership** in the coastal country (some reforms already undertaken) with **champions in customs/port authorities** in the coastal country;

- **Detailed diagnostic**, which identify the main bottlenecks and disseminate main findings;

- **Donor coordination** enables to push on institutional reforms and share complexity burden.



In conclusion, the cost of being landlocked does not derive from...

- Transport time from port exit to landlocked countries,
- Bad road condition along the main international corridors,
- A lack of regional agreements,
- Technical problems on transit and a technological gap.

The cost of being landlocked derives from...

- Delays and unpredictability in ports,
- Rent-seeking activities and governance problems (customs, controlling agencies, quotas...), including in landlocked countries,
- Protection of trucking services of landlocked countries,
- Bad practices from the private sector (customs brokers, importers...).

Conclusions

1. Political economy is critical to move ahead on this agenda, otherwise it could remain a wishful thinking for decades,
2. **Need to develop new analytical tools** to measure "dependency ratio" and who benefits from transit trade and what is their political leverage,
3. **Need to better tailor donors' interventions** – one approach does not fit all landlocked countries and the emphasis should be on transit countries.

For more information, see *WPS 4258 - The Cost of Being Landlocked* (co-authored with Jean-Francois Arvis and Jean-Francois Marteau) and *Transport Prices and Costs in Africa* (co-authored with Supee Iervaninhorn).