Trucking Industry: East Africa

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Content

• Hypothesis and assumptions on transport costs and prices
• Industry surveys in East Africa
• Main results and lessons
Transport and poverty reduction as we all know it

- **Infrastructure:** Improved road infrastructure
- **Logistics services:** Reduced vehicle operating costs (VOC)
- **Shippers:** Reduced transport prices

Trade growth and poverty reduction
Focus on road transport prices and costs

**Infrastructure**
- Improved road infrastructure

**Logistics services**
- Reduced vehicle operating costs (VOC)
- Reduced transport prices

**Shippers**
- Trade growth and poverty reduction

**Conditions on:**
- Network condition
- Truck fleet profile

**Conditions on:**
- No capture of cost savings by trucking companies
- Pressure to reduce prices

**Assumptions:**
- High share of transport prices in products/production costs
- Market issues
Messages

• In 2008, ‘Transport Costs and Prices in Africa: A Review of the Main Corridors’ (TCP) compared trucking services along corridors in West, Central, East, and Southern Africa

• Key lessons:
  – In dysfunctional markets (West and Central Africa), reduction in VOC do not automatically translate into lower prices to shippers
  – In functioning markets (East and Southern Africa), trade facilitation (notably reduction of delays) is equally important
Factors influencing transport costs and prices

Transport price paid by the shipper / trader

Transport costs

- C&F agents / intermediaries
- Trucking gross margin
- Other costs
- Trucking company fixed costs
- Vehicle operating costs

- Cartels / competition
- 'tracasseries'
- Road blocks
- Truck financing
- Operating conditions
- Company structure
- Fuel & tires costs
- Maintenance
- Drivers

Access to transport market
Trade facilitation
Access to trucking profession
Infrastructure
Trucking industry in East Africa

• The Transport Observatory program of the TTCA is a comprehensive effort to monitor performances along the Northern Corridor to define facilitation interventions aiming at enhancing the economic competitiveness of the region

• Information on the trucking industry in East Africa was scarce, and trucking companies surveys were under consideration to fill that knowledge gap

• Trucking associations were supportive of the effort to generate information on the industry
Background

• A conducive economic outlook for the trucking industry:
  – High economic growth despite the international crisis of 2008
  – An increasing sophistication of logistics chains (dry ports and ICDs, growth of containerized trade)
  – No competition from rail transport
Organization of the surveys

- Partnership formed with national trucking associations, corridor authorities and universities:
  - CCTTFA, TATOA, RTA, KIST and DIT for Tanzania and Rwanda
  - TTCA-NC, MPUC, KTA for Kenya
- Surveys conducted in March – April 2012

<table>
<thead>
<tr>
<th></th>
<th>Kenya</th>
<th>Tanzania</th>
<th>Rwanda</th>
</tr>
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<tbody>
<tr>
<td>Registered companies</td>
<td>1,574</td>
<td>732</td>
<td>220</td>
</tr>
<tr>
<td>Truck Fleet</td>
<td>17,066</td>
<td>12,356</td>
<td>444</td>
</tr>
<tr>
<td>Companies surveyed</td>
<td>101</td>
<td>117</td>
<td>19</td>
</tr>
<tr>
<td>Fleet of surveyed</td>
<td>4,531</td>
<td>4,393</td>
<td>133</td>
</tr>
<tr>
<td>% of companies</td>
<td>6%</td>
<td>16%</td>
<td>9%</td>
</tr>
<tr>
<td>% of truck fleet</td>
<td>27%</td>
<td>36%</td>
<td>30%</td>
</tr>
</tbody>
</table>
Results: a concentrated industry

- Large and small companies coexist and compete:
  - The largest 5% control:
    - 45% of the Kenya truck fleet
    - 40% in Tanzania
  - At the other end of the spectrum, the smallest 50% control:
    - 7 trucks or less in Tanzania
    - 4 or less in Kenya
  - In Rwanda, 80% of the trucking companies operate only one truck
Controlled by the region

- The vast majority of the trucking companies is owned by individuals or families.
- The shareholding company form is rare, but when it is the case, shareholders are regional.
- Subsidiaries of international logistics groups are medium size players in East Africa.

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<thead>
<tr>
<th></th>
<th>Kenya</th>
<th>Tanzania</th>
<th>Rwanda</th>
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</thead>
<tbody>
<tr>
<td>Individual / Family owned</td>
<td>71%</td>
<td>89%</td>
<td>74%</td>
</tr>
<tr>
<td>Local shareholding</td>
<td>16%</td>
<td>2%</td>
<td>16%</td>
</tr>
<tr>
<td>Foreign shareholding</td>
<td>3%</td>
<td>2%</td>
<td>0%</td>
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<tr>
<td>Publicly owned</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Others</td>
<td>6%</td>
<td>1%</td>
<td>0%</td>
</tr>
<tr>
<td>Not specified</td>
<td>3%</td>
<td>7%</td>
<td>11%</td>
</tr>
</tbody>
</table>
With nuances across countries

- Kenya is overall more modern and advanced, with more recent truck fleet, driven by a preference for acquisition of new trucks:
  - In Kenya, 2 trucks out of three are acquired new
  - In Tanzania, 1 out of 5
- Trucks are mostly financed from company cash flow, or short bank loans (3 yrs.)
- Tanzania overall lags behind, while Rwanda has mixed characteristics

- Average age of the truck fleet:
  - Kenya 7.5
  - Rwanda 12.6
  - Tanzania 16.2

- Use of GPS for fleet management:
  - In Kenya and Rwanda over 50% of companies, all size, rely on GPS systems for fleet management
  - In Tanzania, only 20% of the companies overall
Tanzania corridors transport prices

- Different price levels according to different corridor conditions:
  - Balanced prices in Rwanda and Burundi despite high imbalance in volumes
  - High volume / competition routes have lower prices (Zambia / DRC)
  - Greater variance of prices for high competition routes
Mombasa corridor transport prices

- Different price structure:
  - High competition routes more stable (‘market rate’)
  - Comparison with 2006 surveys show actual decrease:
    - CPI doubled between 2006 and 2012
    - Fuel prices increased 25%
    - Transport prices increase only by 10%
  - But infrastructure development and facilitation programs transformed the Northern Corridor during that period: shows that lessons from TCP are valid

![Graph showing truckload to Kampala costs and cost of fuel/price comparison between 2006 and 2012](https://example.com/graph.png)
Possible lessons for other regions

• The East Africa Trade and Transport Facilitation Program rehabilitated road infrastructure and contributed to reduce delays, which translated into higher utilization of trucks and contained price increases

• Competitive environment do not necessarily advantage foreign controlled logistics operators

• In a growth context, trucking generates sufficient revenue to enable truck financing from cash flow
Thank you for your attention