THE LOGISTICS VALUE CHAIN IN SADC:

ISSUES AND SCOPE FOR INTERVENTION

JULY 2018

CONTEXT

- SADC Regional value chain project
- Every value chain report (soya, poultry, retail, agricultural inputs) cited transport costs and logistics costs as a major impediment to corporate, sectoral growth and regional trade.
- CCRED did initial work on unpacking regional transport costs
- TIPS work built on this foundation and looked at the logistics value chain as a cross cutting issue
  - Tried to unpack and understand the operational economics underlying uncompetitive transport costs
  - Suggest possible solutions

The logistics value chain

- Average Value chain cost components:
  - 70% transport costs
  - 20% value added services (head office, IT systems)
  - 10% profit
- Transport cost and efficiency is therefore the most important driver of the working of the logistics value chain
- SADC Transport performance so poor that:
  - Average speed of a truck traversing the N-S corridor is 6km an hour (lower than a horse and carriage)
  - Cost of road haulage btw Zambia and SA is double the cost it should be
  - On average SADC transport costs 60% higher than equivalent SE Asian countries

CURRENT SADC PERFORMANCE

Regional LPI overall performance 2016 (World Bank)

Region	LPI Score*	Customs	Infrastructure	International Shipments	Logistics Competence	Tracking and Tracing	Timeliness
Sub Saharan Africa	**2.47**	**2.36**	**2.29**	**2.49**	**2.42**	**2.39**	**2.84**
Europe and Central Asia	3.03	3.16	3.14	3.17	3.24	3.62	3.75
East Asia and Pacific	3.14	2.98	3.02	3.08	3.07	3.12	3.54
Middle East and North Africa	2.89	2.6	2.78	2.96	2.81	2.86	3.29
Latin America and Caribbean	2.66	2.48	2.46	2.69	2.6	2.67	3.05
South Asia	2.62	2.42	2.45	2.68	2.56	2.56	3.03

Measured on a scale of 1-5 with 5 being a perfect score; Source: World Bank Logistics Performance Indicators, 2016 (World Bank, 2016)

- Logistics Matter because poor logistics :
  - undermine company level competitiveness
  - Lowers intra regional trade volumes (SADC 15% , North America 40%, EU 60%)
  - Limits opportunities to diversify into higher value production
  - Curtails access to global value chains which require a minimum score of 3 to be considered

TRENDS IN PERFORMANCE

	Rank 2010	Rank 2012	Rank 2014	Rank 2016	
South Africa	28	23	34	20	↑
Botswana	134	68	120	57	↑
Tanzania	95	88	138	61	↑
Namibia	152	89	93	79	↑
Mozambique	136		147	84	↑
Zambia	138		123	114	↑
Democratic Republic of Congo (DRC)	85		159	125	↓
Madagascar	88	84	132	147	↓
Zimbabwe		103	137	151	↓
Lesotho		142	133	154	↓

COUNTRY SCORES (2016)

	Customs	Infrastructure	International shipments	Logistics competence	Tracking and Tracing	Timeliness	Total LPI score
South Africa	3.6	3.78	3.62	3.75	3.92	4.02	3.78
Botswana	3.05	2.96	2.91	2.74	2.89	3.72	3.05
Tanzania	2.78	2.81	2.98	2.92	2.98	3.44	2.99
Namibia	2.65	2.76	2.69	2.63	2.52	3.19	2.74
Mozambique	2.49	2.24	3.06	2.44	2.75	3.04	2.68
Zambia	2.25	2.26	2.51	2.42	2.36	2.74	2.43
DRC	2.22	2.01	2.33	2.33	2.37	2.94	2.38
Angola	1.8	2.13	2.37	2.31	2.21	2.59	2.24
Madagascar	2.33	2.12	2.17	1.93	2.01	2.35	2.15
Zimbabwe	2	2.21	2.08	2.13	1.95	2.13	2.08
Lesotho	1.91	1.96	1.84	2.16	1.92	2.35	2.03

PROBLEM PRIORITISATION

Drivers of high transport costs in SADC: interview results (average %)

	Large Logistics Companies	Small Logistics Companies (small transporters)
Border Delays (standing time)	60%	45%
Direct Costs (fuel, wages)	7%	10%
Border charges and fees (road user charges, carbon taxes)	3%	5%
Lack of backhaul opportunities	30%	40%

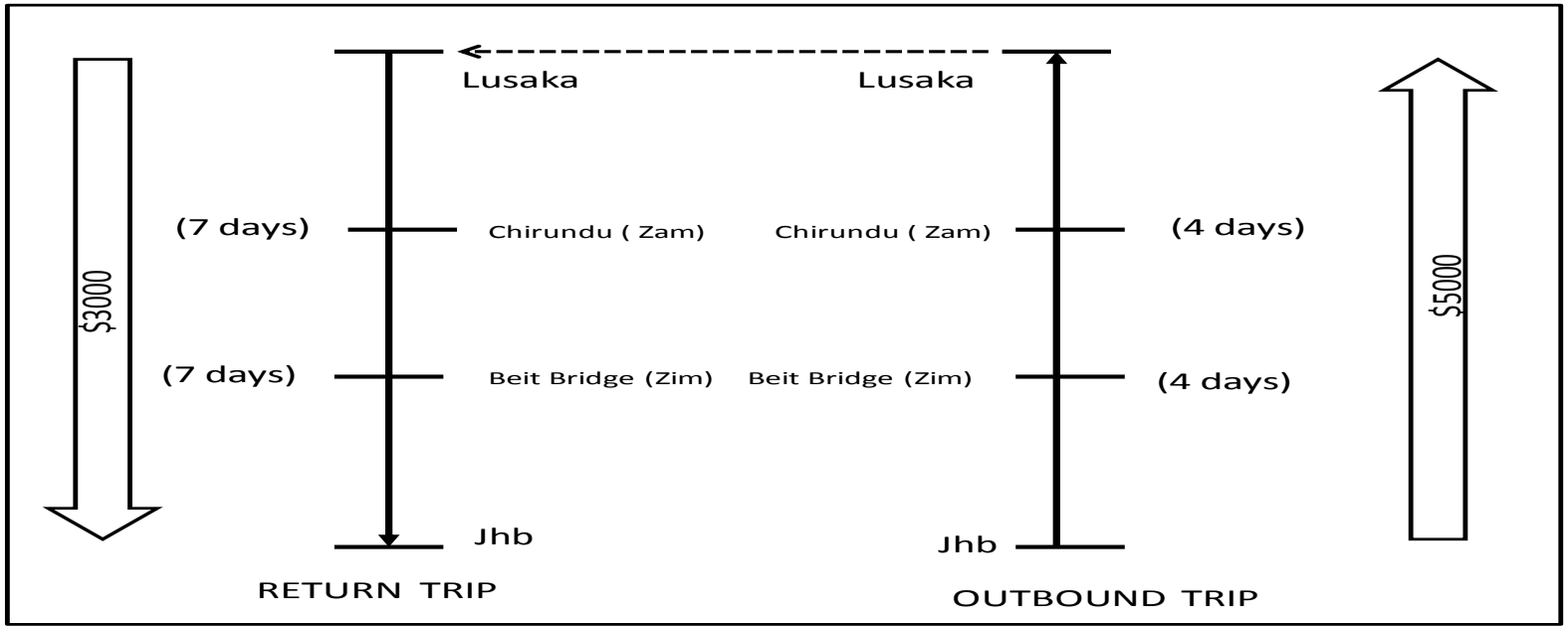
Source: interview findings (Lowitt 2017)

- Contrary to popular opinion the most pressing problem is NOT a lack of backhaul opportunities
- The SINGLE biggest factor contributing to poor logistics performance across SADC is Border delays.
- Interview Findings corroborated in other research (CBRTA 2015, 2016, Tripartate Community Monitor 2014)

THE ECONOMICS OF BORDER DELAYS

- Transport costs = direct costs (fuel, drivers wages, vehicle crossing fees at border posts etc) + fixed costs (depreciation and fleet financing)
- Fixed costs incurred whether truck is stationary or moving and earning revenue.
- Standing cost/standing time = period when a truck is not earning revenue but fixed costs are still being incurred.
- Average fixed cost for a truck in a relatively new fleet is between US$400 and US$600 a day.

THE ECONOMICS OF BORDER DELAYS



- Can earn US$ 5000 on S-N trip. E.g. SA groceries to Zambia
- Can earn US$ 3000 on return N-S trip (more supply so lower price). E.g. copper from Zambia to SA port
- Standing cost $400 a day
- 14 days standing time on return trip = 14x400 = US$5600 fixed costs
- Fixed cost greater than contract value .
- More rational for truck to return empty (fewer delays if empty)
- SO: Cost on initial S-N trip must bear total cost of round trip making logistics cost for importing company high and uncompetitive

SUMMARY OF BORDER DELAY ISSUES

Border Post delays : Hard Infrastructure Cross Cutting Issues

Feeder road system into border posts that allows for separate lanes for commercial and passenger traffic; and pre cleared and not pre cleared traffic and for empty trucks. Where such lanes already exist they must be utilised in day to day operations as intended
lack of inspection bays
unpredictable electricity supply which shuts down border posts creating long catch up queues when electricity is restored. Ensure the supply of generators of sufficient size to maintain normal operation . Ensure the maintenance of such generators.
unpredictable LAN, WAN, internet connectivity. Need to be upgraded
lack of truck queuing space within border precinct
expanded administrative buildings
lack of parking within border precinct
lack of queuing space at weighbridges

Border Post delays : Soft Cross Cutting Issues

preclearance ineffective as still need to wait in line to reach front of the queue
lack of integration of internet based clearing system
high rate and totally random physical inspections
lack of a single window leading to duplication of processes even at so called one stop border posts. Limited cooperation between border post personnel
multiple inspections
Lack of sufficiently skilled people at border posts and training in silo's
delays in waiting to be scanned (equip often out of order)
limited and uncoordinated customs operating hours for commercial vehicles. Bad work ethic among border stakeholders
delays in non customs agency inspections and processes
Standardisation issues: non standardised system for import declarations, non standardisation system for payment of import duties; non acceptance of certificates and trade documents; incorrect tariff classifications
lack of bond guarantee schemes
lack of harmonisation of : road weight limits; driving licence requirements; driving hours and compulsory affixing of recording devices; visa and work permits for drivers; axle load limits; road worthiness certificates; categorisation of classes of vehicles

CHARACTER OF PROBLEM

- Overall research suggests that soft management and co-ordination issues far out-weight any hard infrastructure issues (World Bank 2010, 2011, 2012, 2013, 2014, 2015, 2016, CBRTA 2015,2016, Tripartate Community Monitor 2015, Lowitt 2017)
  - World Bank 2016 measured that 82% of the reason for border delays was operational and management related NOT hard infrastructure related.
  - "repositories of dis-organised chaos" – partly by design

- Biggest failure is a co-ordination failure
  - Up to 12 different departments and agencies have personnel operating at a border post or managing/overseeing border post operations and policy (e.g. agriculture dept, transport dept, finance department, police dept)
  - Most operate in silos with their own agenda or policy priorities
  - Lack of co-ordination results in duplication, multiple inspections, paperwork inefficiencies and redundancies
  - When there are improvements in one link of the chain no positive overall impact since rest of the chain left unchanged
  - No single entity bears overall responsibility for operations and policy so lack of co-ordination is a systemic problem

POSSIBLE WAYS AHEAD

- Border delays to become the focus issue
- Due to the importance of logistics costs across every regional value chain – remove the logistics/border delay issue from the moribund transport and infrastructure agenda and place it in the industrial integration agenda
- Due to systemic co-ordination failures and poor management being the key drivers of under performing border posts – set up a specially dedicated multi disciplinary task team to tackle these constraints
- Due to the complexity of the number of players involved in the operations and co-ordination of border post services and policy make the task team report directly to Heads of State

END THOUGHTS

- The problems identified in the report are well known across the region
- Over the years multiple plans, policies, initiatives and implementation programmes have been penned and approved
- On the ground nothing really changes
- Hard to conclude anything other than the reality that states are using transport and logistics inefficiencies (especially at border posts) as non tariff barriers to protect local markets
- Recent debates on dealing with the issues not from a supra national level but from a bottom up perspective may be an important contribution to resolving the issues.