Lessons Learned from PPIAF Ongoing Activities: Core Strategic Transport for Eastern and Southern Africa

Eastern and Southern Africa has a significant number of major transport corridors that provide trade and mobility for coastal and landlocked countries. In 2008 PPIAF funded the Definition and Investment Strategy for a Core Strategic Transport Network for Eastern and Southern Africa, which examines strategic core transportation networks in the region. The study’s objective was to diagnose the present and potential future constraints for transport corridor operations, as well as assess the future trade and transport demands and patterns. The analysis prioritized transport corridor infrastructure development requirements, and identified and proposed options for public-private sector participation in the development of the core network. This note seeks to draw out key lessons from this PPIAF-funded study.

Study Overview

The study is organized as four separate reports and compiled in the Definition and Investment Strategy for a Core Strategic Transport Network for Eastern and Southern Africa: Main Volume, which provides a review of corridor performance, and an assessment of each mode of transportation and what would be required for it to perform optimally within the Eastern and Southern Africa network. The reports included in the study are as follows:

- **Corridor Review and Performance Report**: describes the regional trade and logistics environment for each corridor in the region. This volume also analyzes the performance of the corridors and the choice of corridors offered to major economic centers in the region. Corridor performance is analyzed in terms of the time, cost, and reliability of each transportation mode and recommends areas of improvement for each corridor.

- **Strategic Transport Network Model Report**: describes the historic trade flows in the region and provides trade demand and trade flow projections.

- **Investment Plan**: identifies a strategic network for the region’s freight transport and a set of prioritized project investments between 2015 and 2030.

- **PPP Strategy Report**: evaluates the proposed investments and past experience with PPPs. The main aim of this report is to lay out the policy, legal and institutional measures that the Core Network States need to adopt to create a PPP enabling environment. This is useful as the strategy goes beyond identifying projects that are financially feasible and likely to attract private sector interest, and identifies the measures necessary to ensure that when PPP projects are floated, they attract the interest of the “right” investors through improvements to the enabling environment.

Key Issues and Trends

Some key issues, developments, and trends are identified which may have a direct influence on planning, prioritization, and future sustainability of the various elements of the regional network, particularly with respect to major capital intensive infrastructure projects:

- **Lack of coordination**: there are many examples of the difficulties of coordinating large regional transport infrastructure projects due to the cross-border nature of these types of projects. It is an extremely challenging task to align the priorities, funding, planning, and legalities of each country’s involvement. Successful regional projects will only occur where there is demonstrable ‘buy-in’ from all corridor countries and where the project has been suitably tailored in design and planning to adjust each individual country’s needs.

- **Managing Interfaces**: The cross-border nature of regional corridors can lead to significant design and technology interfaces that must be addressed in the most efficient way. For example,
in rail projects, track gauges can vary across borders and this can make the cross-border interoperability of rolling stock very difficult and inefficient (in terms of cost and time). Project planners and decision-makers must carefully appraise the options for addressing such issues. For example, unifying gauge standards may significantly increase operating efficiency but the benefits may not offset the potentially large capital costs of such an intervention and therefore may not represent value for money for the governments concerned.

- **Duplication of studies:** a significant number of studies have been undertaken over the past five years by various institutions and in many cases it would be more productive to update the study rather than call for a new study. This approach would also allow more focus on the status of the implementation of the recommendations of the previous study.

- **Lack of understanding of the PPP process:** it is assumed that most new infrastructure projects will be privately financed despite recent failures, particularly in the rail sector. In many cases, the role and ongoing participation of the government, including the provision of guarantees, risk sharing, and necessary performance monitoring or regulation is not fully understood.

- **Definition of regional corridors:** there are disagreements on the definition and purpose of regional corridors, particularly with respect to the North South Corridor.

- **Continued modal-shift to road:** The poor reliability of rail services continues to drive cargo onto roads, preventing shippers from selecting rail as their preferred mode, even if rail is the lower price. As a result, cargo that is better suited for rail (heavy, low cost commodities that travel long distances and are not time sensitive) is forced onto road. When this occurs across the transport sector, it has a clear negative impact on a country’s overall economic competitiveness.

- **Increasing haulage costs:** Road transport prices are higher than necessary due to external influences such as regulatory requirements that cause low vehicle utilization; empty backhaul; delays at ports, border posts, and in-country customs clearance; and significant trade imbalances on most corridors. Higher transport prices can double the price of commodities.

**Lessons Learned**

- Many of the regional railway systems in East and Southern Africa are not functioning as they should, in virtually all respects—poor reliability, high accident and failure rates, and high costs and low volumes. The railways are operating at a loss and are not financially sustainable. The reasons for this include the initial loss of volumes and income from road transport deregulation, followed by lack of investment and deferred maintenance, which led to declining reliability and further loss of traffic. Paradoxically, the regional railways will all have to substantially increase their freight volumes in order to become viable. In order to recapture substantial volumes from roads, railways would have to focus on delivering better services to existing rail customers and build new share of the future market. The regional rail systems will also require much improved reliability and investment.

- In reviewing trade and transport facilitation, it emerged that borders are a critical factor in time spent and cost of transport. As a result, attention has been turned to integrated or collaborative border management—developing a clearance system that addresses the coordination of all agencies with as many interventions as possible being done in parallel.

- Though roads in the region generally have excess capacity, lack of maintenance due to insufficient funds slows traffic and leads to higher vehicle repair costs. Roads also suffer most from frequent stops for weighbridges, customs check points, police check points, road taxes, etc. Some of these stops are also used for requests for informal payments.
A further consideration is that economic and social factors in many countries inevitably place a constraint on their ability to implement a wide range of different PPPs. This is especially true of more sophisticated PPPs, such as road build-operate-transfer schemes, which are dependent on minimum traffic levels and widespread road user ability and willingness to pay. In countries with low vehicle populations and thin traffic flows, toll roads are unlikely to be an option for several years. This does not prevent such countries from making use of innovative and less complicated alternatives.

The analysis highlights that there is a strong correlation between the existence of a formal PPP policy and the number of PPP projects. The adoption of a policy is an expression of the seriousness of a government's intent to pursue PPP options. It sends a strong signal to the private sector that a government is committed to PPP solutions and serves to stimulate investors' interest and risk appetite.

The existence of transparent and predictable procedures (e.g. PPP-type procurement rules) is a further factor that contributes positively towards investors' risk perceptions. It influences investors' pricing of risk, as it provides assurances that projects are well-conceived and have been thoroughly assessed for financial feasibility, and that governments are committed to their implementation. Thus, it enables states to procure at lower costs.

**Conclusion and Next Steps**

Ideally, the different transport modes should operate as a seamless service on each of the corridors with highly efficient modal transfer points (inland intermodal terminals) and operational interchange points. The weakest point in the logistics chain has been shown to be the interface between the marine ports and the land side road/rail services. Border post delays are being addressed through the implementation of the 'One Stop Border Post' program on all major border posts in the region. The absence of a seamless cross border rail freight service remains a major obstacle to reducing regional transport costs and increasing transport capacity in Eastern and Southern Africa.

A high level Tripartite & IGAD Conference on Infrastructure Investment held in Nairobi (Kenya) on September 28-29, 2011 allowed the Chairpersons of Common Market for Eastern and Southern Africa (COMESA), East African Community, Southern African Development Community and Intergovernmental Authority for Development (IGAD) authorities to outline the critical underpinnings for rolling out the various projects and programs in the region. The Conference also allowed the regional economic communities and member states to outline the bottlenecks to trade and infrastructure development which need to be removed in a sequential manner, if trade costs are to be reduced.

Priority projects were also highlighted for development partners and private sector investors to support. It was noted that while most of the infrastructure projects are implemented at the national level, regional projects will require coordination and support at the regional level, particularly for cross-border or multi-country projects. In addition, regional harmonization of regulatory policies is necessary to ensure optimal use of multi-country networks such as transport corridors and energy transmission networks. Regional harmonization is also important in improving the enabling environment for infrastructure development.