Competition Reforms in the Zambia: Exploring Options in Bus Transport

CREW Project

CUTS International

NATHAN

The Republic of Zambia gained its independence in 1964. The earlier policies of independent Zambia focussed on exercising government control over the industry in order to ensure inclusive growth of the country. However, reforms were introduced in 1991, after which, the government enacted the Competition and Fair Trading Act in 1994. The Zambia Competition Commission (ZCC) became operational in 1997 and was responsible for enforcing the Act. However, the enforcement of the legislation faced a number of constraints and it was repealed in 2010. It was replaced by the Competition and Consumer Protection Act, renaming ZCC as the Competition and Consumer Protection Commission (CCPC), setting up an appellate body (the Competition Tribunal) and introducing a competition policy in 2010. Many crucial sectors of the country continue to be under government control, with entry barriers and regulatory restrictions thwarting competition. This study assesses the state of competition and the impact of competition-focussed reforms in the bus transport and staple food (maize) sectors.

Regulatory Evolution of the Bus Transport Market

Zambia's transport sector has been governed by a multitude of regulations and regulatory bodies over the past two decades. One of the most prominent government policies governing the sector was the Road Sector Investment Programme (ROADSIP). ROADSIP was introduced in 1998 with the objective of improving the road transport network and safety in the country. Another critical regulation, the National Transport Policy (NTP), was introduced in 2002 to ensure provision of inexpensive, fast, frequent and safe transport, and encourage private investors to enter the transport sector. The NTP provided for the enactment of various laws such as the Road Traffic Act No. 11 of 2002, which provided for the establishment of the Road Traffic and Safety Agency (RTSA), responsible for planning, implementing and monitoring government policy on road transport and safety in Zambia. Other relevant regulations are the Public Roads Act No. 12 of 2002 (for management of road infrastructure), the National Road Fund Act No. 13 of 2002 (for resource mobilisation for road construction, maintenance and road safety), and the Markets and Bus Stations Act No. 7 of 2007 (for the establishment and regulation of markets and bus stations).

The Ministry of Transport, Works, Supply and Communications (MTWSC) governs the administration of the National Transport Policy, along with its specialised departments and agencies such as the Ministry of Commerce, Trade and Industry (MCTI), the Ministry of Local Government and Housing (MLGH) and local authorities. Fares, which constitute an important element of the transportation service, are regulated by the RTSA and revised in consultation with MTWSC and other stakeholders, including consumer interest groups.

Reforms in the Bus Transport Market and their Impact

In 1968, the newly independent Government of Zambia introduced a nationalisation policy in order to provide cheap services to its people. Under this policy, which also covered transportation, a state-owned transport provider, United Bus Company of Zambia (UBZ), offered transport services at subsidised rates to the poor. Liberalisation was introduced in the country in 1991, after which consumer subsidies were removed, state-owned enterprises were commercialised and entry of private firms was encouraged. The UBZ was also privatised and eventually liquidated. As a consequence of this liquidation and to incentivise private players to enter the transport sector, the government also removed customs duty on imported buses in 1993, resulting in increased competition in the sector.

Liberalisation reforms of 1991 had various repercussions on transport service users as well as service providers. According to the service providers surveyed in the CREW project, deregulation of the sector and the accompanying measures introduced by the government like tax concessions on import of buses, reduction in the time required to obtain bus licenses and improved access to infrastructure such as bus stops and stations – have had a positive impact on the entry of service providers and thereby, competition in the sector. Besides these measures, low license fees also facilitated entry of new participants.

For consumers, reforms in Zambia's transport sector had a positive impact by improving access to bus transport, observed in the form of reasonable waiting time as well as an increased choice of buses. According to the consumer perception survey, about 65 percent respondents indicated a noticeable increase in the type of buses in the intra-city route over the past five years, and over 62 percent indicated an improvement in the choices available in terms of types of inter-city buses to use, which shows an increase in the choice available. In terms of waiting time, 74% of respondents indicated a waiting time of at most 15 minutes for intra-city buses, and 78 percent indicated the same waiting time in case of inter-city buses.

Issues in the Bus Transport Market in Zambia

Despite the benefits of increased access to service, deregulation of Zambia's transport sector and the resultant increase in competition has not been able to generate significant benefits for the users of the service in terms of bus transport quality as well as (increasing) fares. In intra-city bus transport, 62.5 percent of respondents revealed that their journey was uncomfortable due to factors such as overloading, uncomfortable seats and rude bus crew. This percentage was around 66% in case of inter-city bus transport, with commuters attributing the discomfort to overcrowding. The poor quality of service, despite the presence of a quality control system under RTSA, indicates implementation flaws which must be reviewed and rectified.

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These results indicate that the increased competition has not been sufficient to cater to the demand for bus transport service in Zambia, and consumers have few alternatives given the high cost of other modes of transport. Among the reasons for slow entry into the bus market after deregulation are high capital outlay costs and poor road infrastructure. A major issue for bus operators has been the cost of procuring buses, which creates an entry barrier for potential competitors into the market and also cost issues for those in the market. The minimum investment needed for starting a bus service ranges from about ZMW 600,000 (US$100,000) to about ZMW 1,000,000 (US$167,000) for inter-city buses, requiring between 1-5 years of service for the operator to recover its investment. Tax incentives started in the 1990s helped ease import costs and led to an increase in buses servicing both inter and intra-city routes.

Additionally, in the absence of route allocation (currently, licenses permit operators to choose any route in the inter-city/intra-city routes), bus service providers have the freedom to choose more lucrative routes, thus creating an imbalance in availability of bus services in some areas which causes overcrowding in such areas.

> ***An increase of 18 percent per annum in the fares over three years reflects the negligible bargaining power held by consumer groups***

The fare setting process in Zambia is initiated by a joint request by operators to RTSA for fares to be adjusted upwards. The RTSA discusses the request with MTWSC, consumer interest groups and other stakeholders. In terms of fare revision, the consumer perception survey revealed that average commuters spent around 8.6 percent of their monthly income on transport. Further, according to RTSA, the annual average intra city bus fare in Zambia increased at a compound annual growth rate of 18 percent from US$0.55 in 2010 to US$0.90 in 2013 as compared to a seven percent compounded annual growth rate (CAGR) increase in Zambia's CPI during this period. The survey data revealed that intra-city commuters spend up to 14.5 percent of their monthly income on public transport. These figures indicate that reforms, while leading to entry of new participants in Zambia's transport sector, have not been successful in reducing fares for the benefit of service users. While there has been periodic increase in bus fares, there has not been any corresponding improvement in the quality of the buses (comfort level remains low and risk fairly high). Hence the role of bureaucracy in fare regulation needs to be reviewed in order to minimize corruption and the interference of transport providers. An increase of 18 percent per annum in the fares over three years also reflects the negligible bargaining power held by consumer groups and / or potential corruption in fare fixing. Additionally, a joint request for fare revision also creates a platform for collusion among the operators, thereby resulting in increased prices.

The current scenario of the Zambian transport sector can also be attributed to the presence of too many regulatory authorities governing the sector, which not only open additional channels for corruption but also lead to mismanagement.

Way Forward

There have been positive steps taken towards liberalising the bus transport market in Zambia. The industry has become more profitable for operators as the bus fare system was liberalised and tax incentives mitigated some of the cost of procuring buses. These efforts and a reduction in licensing requirements have led to increased entry into the market and greater provision of services. Access of consumers to buses has increased, with few

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consumers having to wait more than 15 minutes for a bus.

However, issues remain, particularly regarding quality and safety for consumers. In order to address the issues of consumer dissatisfaction with respect to bus transport service in Zambia as well as to stimulate competition in the sector, it is imperative that the current regulatory framework be assessed and loopholes be removed.

For instance, with respect to the fare setting mechanism, a solution to check fare increases (due to plausible collusion amongst operators) is to involve the CCPC in assessing fare applications. However, in order to minimise corruption emanating from multiple layers of bureaucracy, it might be prudent to have a single regulatory body to oversee bus fares in the country. Further, initiatives to set up an effective route allocation system should be encouraged in order to introduce more discipline in the sector and balance in service provision. Lastly, it is imperative that measures be taken to reduce the overlap across numerous regulatory bodies governing the transport sector and replace the same with a single body to supervise the sector. This will also strengthen regulations and allow benefits of increased competition in reaching the ultimate consumers.

This ' Policy Options' Note has been prepared under the CUTS CREW project (http://www.cuts-ccier.org/crew/) to initiate the discussions on competition reforms in two key sectors by highlighting implications on consumers and producers thereof

About the CREW Project

The Competition Reforms in Key Markets for Enhancing Social and Economic Benefits in Developing Countries project ("CREW") is being implemented over three years in four countries (India, Ghana, the Philippines and Zambia) to develop an approach for assessing the impacts of competition enhancing (or reducing) reforms on consumers and producers in two selected markets (staple food and bus transport). Supported by DFID (UK), BMZ (Germany) and facilitated by GIZ (Germany), CREW aims to demonstrate to policymakers and development partners the impacts of competitive markets on consumers and producers to garner greater attention and support to this issue and motivate the allocation of resources for implementing competition reforms in developing countries. For more information see www.cuts-ccier.org/CREW.

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Competition Reforms in the Zambia: Exploring Options in Maize

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The National Food Authority's (NFA) statutory monopoly in Philippines rice market along with a self-sufficiency target has restricted private entry in the import market, led to a decline in the import quota and intensified the protection of domestic producers, adversely affecting competition.

Regulatory Evolution of Zambia's Maize Sector

Accounting for about 70 percent of the total cultivated land in Zambia, maize is a very critical crop in Zambia that contributes to majority of the calorie intake in the country. As a result, there have been various reforms in the maize sector in Zambia.

Prior to liberalisation in 1991, Zambia's maize sector was characterised by government price controls and centralised delivery of critical inputs such as credit, fertilisers, transport, as well as marketing services aimed towards self-sufficiency. After liberalisation, structural reforms were introduced in order to promote competition – reduction of subsidies, privatisation of milling industry, elimination of maize transport subsidies, removal of price controls, leasing of warehouses to private players, abolition of National Marketing Board (NAMBOARD) and engagement of government supported lending institutions and private players in maize marketing.

Post 1995, the government established specialised agencies to ensure national food security, maintain the income of poor farmers, and provide a level playing field to private participants in the maize sector. These government policies, while established to ensure welfare of the poor, did not succeed in promoting competition in the maize sector of the country. The study examines the impact of three policies:

- The Food Reserve Agency (FRA) was established in 1996 to ensure national food security and income of farmers. Accordingly, the FRA began purchasing agricultural crops from small farmers at a pan-territorial floor price (during harvest) and distributing to economically disadvantaged areas of the country.
- The Fertiliser Support Programme (FSP) was introduced in 2002 with a view of improving access to inputs by small scale farmers and enhancing participation by the private sector in the supply and distribution of agricultural inputs. The FSP was restructured and renamed to Farmer Input Support Programme (FISP) in 2009 to ensure efficient selection of target beneficiaries and expanding the share of inputs available to farmers (though focusing on fertilisers). The restructuring of the programme also entailed a reduction in the subsidies offered to farmers which were reduced from 8x50Kg of fertiliser and 2x10Kg bag of maize seed to 4x50Kg bags of fertiliser and one 10Kg bag of maize seed, respectively.
- In 2011, FRA began subsidising the price of maize to maize millers with the hope that millers would pass the subsidy to Zambian consumers in the form of lower retail maize meal prices.

Key Issue 1: FRA's Maize Price Floor

FRA's floor price setting mechanism stabilised the market for maize by reducing the variance of wholesale prices of maize by 13.5 percent on average. In Choma and Lusaka, FRA's floor setting activities reduced the variation in maize prices (as measured by the coefficient of variation) in the period from 2003 to 2008 by 34 percent and 36 percent respectively. A stable market allows consumers to use rational expectations to estimate their future expenditures. However, by raising the prices of maize in the country, the price setting mechanism had a beneficial impact only for net sellers of maize, accounting for only 28 percent of the farming households of Zambia rather than the poor farmers who were net purchasers of maize, accounting for 49 percent of the total farming households. Further, often farmers complained of late payments from FRA, which limited their ability to purchase inputs when needed.

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In terms of competition in the sector, FRA's pricing mechanism also imposed barriers to entry for private players. This is substantiated by the results of the perception survey about 60 percent of the surveyed farmers indicated that the available channels for selling maize were not adequate, with the government being the preferred buyer by around 72 percent of the farmers due to the high price offered. Finally, because of emphasis on maize, FRA's initiatives have resulted in increased production of maize at the cost of other crops.

FRA's pricing mechanism also imposed barriers to entry for private players

Hence, it can be said that FRA's activities in effect have reduced competition, having adverse effect on investments. Further, they have not been pro-poor and have had negative distributional effects on the resource poor farmers.

Key Issue 2: FISP's Support to Farmers

Distribution of subsidized fertilizers as a result of FISP's activities has had a mixed impact on welfare of the Zambian economy. Along with FRA, they have led to an increase in maize production in Zambia (Zambia is self-sufficient in maize). However they have also led to a high fiscal burden for the Zambian government. Subsidising fertiliser accounts for much of the government's poverty reduction budget but does not lead to self-sufficiency, and stifles competition from private players. In 2011, around 73 percent of the poverty reduction budget was allocated to FISP whereas the headcount rural poverty rates increased from 77.3 percent in 2004 to 77.9 percent in 2010. Further, analysis of data covering 8000 smallholder farmers reveals that households which received inputs from FISP in the previous year are not likely to produce enough food to be sufficient through the year, thereby questioning the ability of the programme to make farmers self-sufficient.

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In terms of service providers, the FISP has been responsible for distorting the market. While the selection of the fertiliser distributing company through the government's competitive bidding process is conducive to encouraging private players, there are certain inefficiencies resulting from the scheme. Further, it seems there is scope to make the bidding process more competitive, which will help the government save scarce resources.

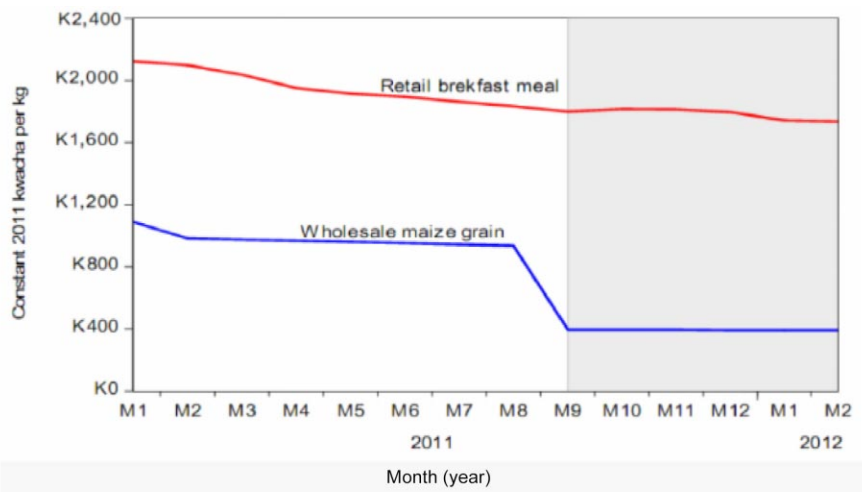
Some of the factors that have been identified as challenges for FISP include the failure to successfully target poor farmers, which results in subsidised inputs going disproportionately to wealthier farmers; delays in input distribution; poor fertiliser use efficiency among beneficiary farmers; poor monitoring of programme effects; leakages, whereby inputs intended for the subsidy programme are diverted and resold in the commercial market; and crowding out of private sector fertiliser purchases and suppliers, often due to high costs of serving remote areas with roads that are barely maintained. This evidence indicates that FISP has not had the intended impact on the beneficiaries and has also failed to promote competition in the sector.

Key Issue 3: Subsidies to Millers

Between January 2000 and August 2011, millers in Zambia purchased maize from the market or from the FRA at competitive prices. However, from September 2011 to March 2012, FRA began subsidising maize grain to millers, assuming the same would be passed on to consumers. However, the mill-to-retail marketing margins (difference between the wholesale maize price and retail meal price) increased significantly by about 55 percent between August and September 2011 (Figure 1). Also, this was not accompanied by an immediate

> ***Benefits of subsidised maize were not passed on to consumers by the millers, as retail prices remained high.***

Figure 1: Constant Prices of Wholesale Maize Grain & Retail Breakfast Meal per Kg (in Lusaka)



Source: Kuteya and Jayne, 2012

or gradual fall in the retail price for maize (mealie meal), indicating that millers accrued the benefits from the subsidy, and not the consumers.

Further, the programme excluded some informal and small/medium-scale millers who mostly serviced the low income consumers in urban areas and a majority of rural consumers. As a result, these millers were not provided a level playing field since they could not acquire maize grain at as low a price as the others. Thus, this reform distorted market competition. The subsidies were subsequently removed in 2013 so are no longer an issue.

Way Forward

Evidence on these three government programmes indicates that their benefits such as increased maize production have been outweighed by their negative outcomes – disproportional allocation of benefits to wealthy farmers, crowding out of private players, elimination of competition from the market, increased fiscal burden on government. Additionally, they failed to have the intended impact on the beneficiaries in terms of poverty reduction, increased competition or reduction in prices of maize for the poor consumers. These observations suggest that there are loopholes in the design of these programmes that need to be addressed in order for them to achieve the intended benefits.

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