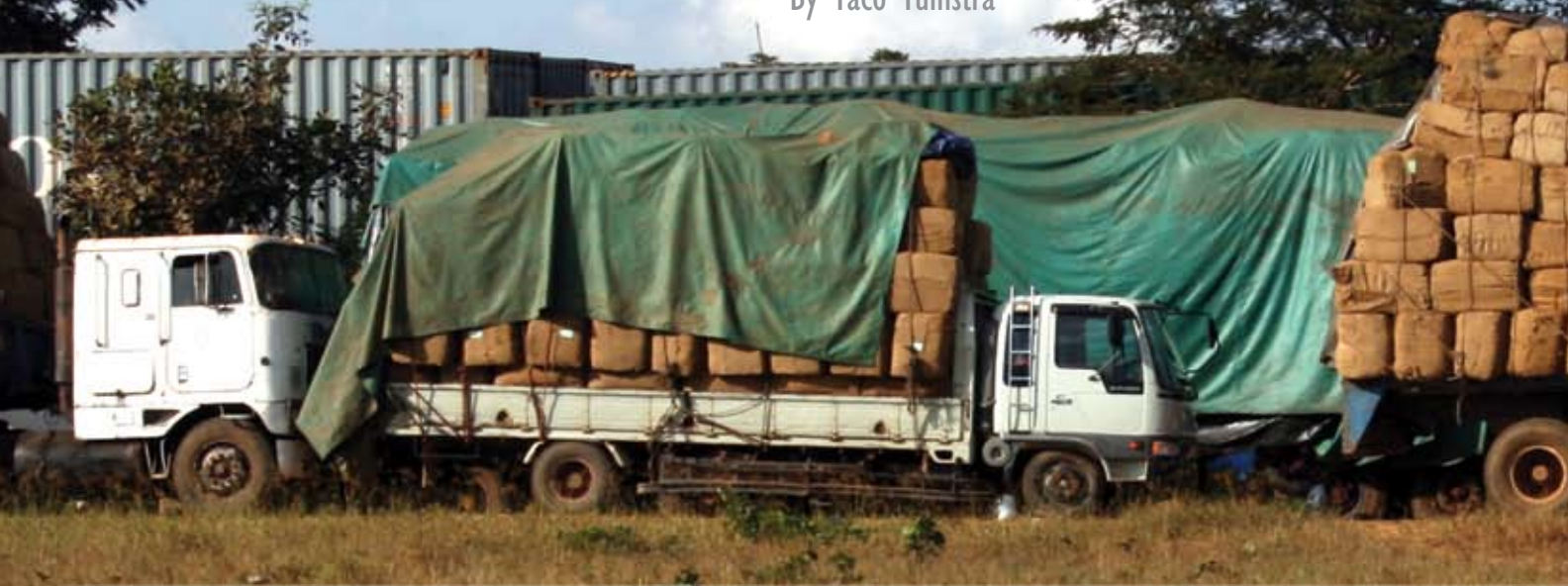


OUT OF AFRICA

Africa's inefficiencies make exporting leaf tobacco more difficult than it should be.

By Taco Tuinstra



Guy Harvey, CEO of Transcom Sharaf, likes to plan ahead. But that's easier said than done when you're running a transportation company in southern Africa. Crumbling roads, corruption, fuel theft and endless red tape make the trucking business here unpredictable, to say the least. To succeed, you need not only a plan B, but also a plan C, D and E. Flexibility—along with a healthy sense of humor—is the key to survival.

In June, *Tobacco Reporter* hitched a ride on a tractor trailer to learn what it takes to get a load of African tobacco to port.

The asphalt ahead looks as if it's been hit by a cluster bomb. Some of the craters are deep enough to bathe a small child in, and Alex Nkalamba slows his truck to a crawl. Bouncing violently in his seat, he navigates around the potholes, sometimes driving around them and sometimes going straight through. "If I approach a hole from the wrong angle, I could tip the truck," explains Nkalamba, who is

Transcom Sharaf's most experienced driver.

At times, the best option is driving *next* to the pavement. But that too must be done with care. More than a decade after Mozambique's civil war, many areas remain infested with landmines, and the danger zones are marked only vaguely by red-and-white pieces of plastic tape. Apparently, unexploded ordinance is so common that local children sing a countdown song about a baboon family that gradually gets smaller as it loses its members to landmines.

Sticking close to the asphalt—or what's left of it—Nkalamba makes sure they won't be singing about hapless truckers next.

We are overtaken by a Toyota Landcruiser and, embarrassingly, a bicycle. But with 20 tons of precious tobacco in tow, we must continue our slow-motion slalom. The speedometer seldom exceeds 10 km (6 miles) per hour. Two children are "fixing" the road by throwing sand in the potholes. Nkalamba hands them some money but then grumbles that they should be in school.



After three and a half hours of precarious navigation, the road starts improving, and we continue our two-day journey from Lilongwe, Malawi, to the port of Beira in Mozambique. We've driven a mere 75 kilometers.

Non-value-added cost

The drive from Changara to Gulu provides a small, if vivid, illustration of what tobacco transporters are up against in Africa. Poor infrastructure not only increases travel times, it also takes a toll on hardware, adding costs for everybody in the supply chain.



A recent study by the World Bank revealed that the high price of moving goods in sub-Saharan Africa reduces profits, slows economic growth and raises prices for consumers. The bank estimates that landlocked countries in southern Africa lose between 1 and 1.5 percentage points of economic growth each year due to high transport costs. Needless to say,

the cost of transportation also affects leaf tobacco, a major African export.

Back in Lilongwe, Harvey shows around a visitor in Transcom Sharaf's workshop. The place is littered with tattered tires, bent axles, broken shocks and various parts that are harder to identify for the mechanically challenged.

"When we ordered spring bushes, the U.S. manufacturer could not understand why we needed so many of them," recalls Harvey, holding up a piece of metal encased in shredded rubber. The only time American truck operators might need to replace this part is in case of serious accident. In Africa, by contrast, replacing spring bushes is part of regular maintenance.

Because most spares are unavailable locally, they must be shipped in from Europe, the United States or other countries. All of Transcom Sharaf's tires come from Malaysia, for example. But imports mean additional shipping expenses, customs duties and stock-keeping. Because there is no support infrastructure in Africa, transportation companies



here must maintain far greater inventories than do their counterparts in the developed world.

Border delays

But bad roads are not the only concern keeping African transportation executives awake at night. An even greater challenge facing trucking companies, according to the World Bank study, is delays at border crossings.



It takes about 90 minutes for Nkalamba's paperwork to clear at the Dedza border between Malawi and Mozambique—and Dedza is probably one of the region's more efficient crossings. Later, we catch up with another Transcom Sharaf driver who has just returned from Johannesburg, South Africa. He spent four *days* waiting at the Zimbabwean border. In theory, the journey from Johannesburg to Lilongwe can be completed in 72 hours. Add in the hours spent waiting at border crossings, however, and the travel time increases to almost a week.

The World Bank estimates that delays at border crossings account for a whopping 30 percent to 40 percent of transport time in sub-Saharan Africa. The crossings at Beit Bridge (between Zimbabwe and South Africa) and Chirundu (Zimbabwe and Zambia) are particularly notorious, but they pale in comparison with the Lubumbashi border post between Zambia and Congo, which “easily” takes seven days to cross. The bank calculates that, if border crossing delays were cleared, truck utilization could be increased by 30,000 km to 40,000 km per year.

The border holdups are related to another nuisance that adds cost but no value—informal payments. The level of corruption appears to have an inverse relationship with poverty. Before Zimbabwe started to self-destruct, in the late 1990s, truck drivers had little to fear from that country's police. Today, Zimbabwean officers are



Africa's crumbling infrastructure increases travel times and adds cost.

among the region's worst extortionists.

It's easy to see why. With hyperinflation outstripping pay increases—the Reserve Bank introduced a z\$5 *billion* banknote this summer—Zimbabweans have been forced to supplement their incomes in whatever way they can. Those with access to foreign currency use their privilege to speculate

on the black market, while those in uniform take advantage of their position to demand bribes—or write phony tickets.

Nkalamba's colleague recalls how Zimbabwean officials once fined him us\$60 for being overloaded. But the scales in Mozambique, and later in Malawi, showed his truck's weight was well below the legal limits. He was still lucky, because the fines for overloading have recently escalated to absurd levels in Zimbabwe. Malawi's Road Transport Operators Association has reported fines as high as us\$93,000 for overloading in Zimbabwe—enough to put a small- to mid-sized trucking company out of business.

Congo, another poverty-stricken country, can be an expensive destination too. Nkalamba says that when a Congolese police officer asks for your driver's license, you'd better show it from behind the windshield. "If you hand it to him, he will stick it in his shirt pocket and charge you us\$100 to get it back."

The situation in Malawi and Mozambique, by contrast, is improving along with the economies of those countries. We encounter our first police stop at the outskirts of Lilongwe, but the officer waves us through, perhaps because he carries no speed gun. The night before, a fellow motorist told us that the speed guns that were donated to the Malawi police force several years ago have all mysteriously stopped functioning. No matter how slowly you drive, they now consistently return a reading of 90 km per hour. What exactly the speed limit is remains open to interpretation. We don't encounter a single sign during our 1,100 km journey to Beira.

But overall, Malawi police seem relaxed, and those in Mozambique have gotten much better as the country regains its footing. In the 1990s, shortly after the civil war, the police in Mozambique were notorious for shaking down travelers, charging them with bogus offenses such as "driving with sunglasses."

In an attempt to improve the country's image and make it a more attractive destination for investors, the government has cracked down on corruption. Also, as Mozambique's peace endures, a sense of normalcy has returned, and government officials appear to take their responsibilities more seriously. Perhaps most significantly, officers' salaries are said to have increased.

We are stopped only once in Mozambique. Ignoring Nkalamba's unfastened seatbelt, the officer takes a quick look in the cabin to ensure there are no unauthorized passengers. Hitchhiking is a way of life in Africa, where distances are long and few people own vehicles. Many truck drivers make money on the side by doubling as a bus service, but trucking companies try hard to discourage the practice—not only because it is against the law, but also because they are liable for passenger injuries in the event of an accident. What's more, carrying passengers stresses the equipment beyond its capacity; truck cabins are designed to hold two or three people, not 12.

Satisfied that nobody is hiding under the blankets, the officer sends us on our way. Nkalamba visibly relaxes, memories of the bad old days still fresh in his mind.



Punishing roads also take a toll on hardware. Truck parts that last a lifetime in Europe or the United States must be frequently replaced as part of regular maintenance in Africa.

Facilitation fees

But even as the Mozambican police force is less corrupt than it was in the past, trucking in Africa still requires many "facilitation fees." Prior to entering the port of Beira, truck drivers must clear their paperwork at a decrepit customs building

Some 20 young men are hanging around with no obvious purpose. We meet the gaze of one of them, and he responds with a hand gesture that seems to be the local equivalent of a raised middle finger. As Nkalamba enters the customs building, he slips the apparent ring-leader a few banknotes—the price of trouble-free passage. "So they don't break my mirrors or steal my cell phone," he says. ►





Fuel theft is a big business in southern Africa. While the individual transactions are small, the numbers add up quickly, and trucking companies lose hundreds of thousands of dollars annually.

In the port, money changes hands again. First, to persuade the operator of a reach-stacker (a machine resembling a giant forklift) to unload our container now—instead of whenever he might feel like it. And when Nkalamba goes to collect his return cargo, a load of grain, he “tips” the foreman of the load crew to get to work straight away.

After a few days in Mozambique, it’s clear why: A truck weigh station operator who got nothing kept babbling on his cell phone, seemingly oblivious to the rapidly growing queue of trucks waiting to be cleared.

Remarkably, Nkalamba pays the various “fees” out of his own pocket. They allow him to deliver his loads faster and, ultimately, make more trips. The extra money earned that way more than compensates for the cost.

Of course there is a flipside: while speeding up the journey, making informal payments also helps keep the system in place. In addition to adding expenses, they require truck drivers to carry large amounts of cash, making them attractive targets for robbers. Nkalamba says he has been lucky so far but is well aware that he too could become a victim. “In some areas, villagers will throw stones at trucks and rob any driver who

stops to inspect the damage,” says Nkalamba.

Surprisingly, drivers’ personal belongings are often more desired by robbers than the cargo they carry. Processed leaf tobacco, for example, is considered an unattractive target, because there are few ready buyers. Fertilizer, by contrast, comes in conveniently sized bags and can easily be sold to small-scale farmers, of which there are many in the region. Break bulk is most susceptible to theft, but thieves target containers also. “They’ll just use chain cutters,” says Nkalamba.

To deter theft, Transcom Sharaf covers its break bulk in nets. “The system is not invincible, but if a thief has a choice between our covered load and someone else’s uncovered load, hopefully he will target the uncovered truck,” says Harvey.

Diesel

In addition to corruption and excessive border delays, transportation companies operating in Africa incur another expense that their counterparts in Europe and the United States seldom have to account for—fuel theft by drivers. It’s an easy way for truckers to supplement their incomes. With petrol stations few and far between in Africa, there are plenty of potential buyers. At regular intervals, we encounter villagers waving jerry cans alongside the road, soliciting a sale.



We also witness a truck driver sucking a hose protruding from his parked truck’s fuel tank. Once a vacuum has been created, he places the hose into a portable drum and the diesel automatically flows from one owner to the next.

The quantities sold per occasion are relatively small—the disappearance of 20 liters from a 1,000-liter gas tank will go unnoticed, and drivers can conceal the “loss” by driving economically—by coasting in neutral when traveling downhill, for example. But the liters and dollars add up quickly when you take into account the number of drivers and trips. Transcom Sharaf has more than 150 trucks in its fleet. In a back-of-the-envelope calculation, Harvey reckons his company loses about US\$350,000 per year to fuel theft. “And that’s a conservative estimate,” he says.

Fuel theft is difficult to prove or prevent. When the company fitted its fuel tanks with anti-siphoning devices, drivers used the breather hole instead. One reportedly even rigged his truck’s fuel supply system in such a way that it gradually filled a gasoline drum in the cabin while driving.

It’s a cat and mouse game, and the drivers always seem to be one step ahead. “These guys spend long hours alone on the road,” says Guy Fawcett, managing director of Transcom Sharaf Malawi. “They have lots of time to come up with ways to divert fuel.”

But the driver is not always to blame. Nkalamba recalls a trip to Congo, when a young boy asked him to fill a small Coca-Cola bottle with diesel to use for lighting at his home. Nkalamba took pity but quickly regretted his generosity. As the boy filled the bottle, the entire village lined up with drums and cans, with some of the men indicating that refusal would not be an option. He lost 500 liters of diesel that day. ►

Unlike their employers, most drivers don't consider fuel theft a big deal. Rather, they view it as a legitimate way to help make ends meet. The opportunity to make money on the side makes truck driving a popular profession in Africa. In addition to ferrying passengers and stealing fuel, drivers can supplement their incomes by smuggling cigarettes and other goods that are subject to different tax levels in the countries they travel through. A Zimbabwean trucking official tells the story of one driver who made so much money with side businesses that he didn't even bother to collect his salary for more than a year.

In order to operate in Africa, he says, you must understand the local mentality. With life expectancies as low as 37 years, many Africans live from day to day. They don't have the luxury of long-term planning or worrying about tomorrow. In such an environment, the certainty of earning extra money today outweighs the risk of being jobless down the road.

The trick, says the official, is to work the system in such a way that there is enough room to steal while still allowing the trucking companies to make a profit.

Start over again

In the port of Beira, the journey comes to an end. Our cargo, on the other hand, has only started its long voyage to the customer—Philip Morris Germany, in this case. The container has been booked on the MSC Chaneca, which will take it to Durban, South Africa, where it will probably sit for a few days until it can be loaded onto a mainliner—one of those huge containerships that traverse the high seas.

Depending on where else the mainliner will call—Rotterdam or perhaps Antwerp—the trip to Bremen can take up to four weeks.

When Philip Morris' employees finally unload the Malawi tobacco—probably around the time you are reading this article—they are unlikely to reflect on the dedicated efforts and careful coordination that made the delivery possible.

And they shouldn't have to.

After all, if the transportation companies are doing their jobs well, their clients will never have a clue about the obstacles that must be overcome to get them their tobacco.

African's tobacco trucking companies, on the other hand, will be scratching their heads about how to overcome the next unforeseen obstacle, such as the aftermath of Zimbabwe's elections, which were scheduled for late June. Concerned about politically motivated violence, Nkalamba says he would like to avoid driving through Zimbabwe until the dust in that country settles. But doing so would add hundreds of kilometers to the journey from Malawi to South Africa, increasing vehicle wear and fuel consumption.

So trucking executives will again be spending many hours trying to plan for the unforeseen—only to be sideswiped by an entirely new development. But they aren't complaining. This is simply what they do for a living, after all. As Harvey points out, "The transportation business is not for sissies." And nowhere does this statement ring more true than it does in Africa.

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Taking charge

So what is a transportation executive to do in an environment as fickle as that of Africa? "You try to bring under your control as many factors as possible," says Guy Harvey, CEO of Transcom Sharaf Group. Seeing a need for a logistics company specializing in tobacco exports, Harvey founded Transcom in 2003. Until then, most tobacco exports were handled by shipping agents, who in turn contracted with local trucking companies and warehouse operators.

Harvey, by contrast, wanted to offer a total supply chain solution, a service widely available in Europe and the United States but not yet in Africa. By investing in its own trucks and warehouses, Transcom would assume a greater share of the risk but also be able to provide tobacco exporters a more complete—and, presumably, more attractive—package.

Universal Leaf Tobacco Co., which at the time was setting up its factory in Tete, Mozambique, liked the concept and helped finance the new company.

Because new trucks would be hard to justify on Africa's punishing roads, Transcom initially purchased 70 used tractor-trailer combinations from operators in the United States. "Using new trucks would have added 30 percent to our shipping rates," explains Harvey. To keep down its spares bill, the company decided to use only one brand of truck: Freightliner.

But Transcom still had to create from scratch an infrastructure for truck maintenance, because there was none in Malawi. With skilled labor in short supply, the company had no choice but to train its own drivers and mechanics. To further reduce its reliance on third parties, Transcom leased a container facility and a 3,000-square-meter warehouse near the Port of Beira in Mozambique.

Beira was a logical choice. Already a major outlet for tobacco shipments from Malawi and Mozambique, the



Transcom Sharaf CEO Guy Harvey says the Beira warehouse provides much-needed flexibility.

port is set to grow considerably as China and other emerging countries satisfy their hunger for African raw materials and fossil fuels. Mozambique is home to some of the largest coal deposits in the southern hemisphere.

Transcom's business flourished and soon its Beira facility was filled to capacity. In 2007, Sharaf Group of the United Arab Emirates acquired a 50 percent stake in Transcom, and the company changed its name to Transcom Sharaf. The purchase enabled Transcom Sharaf to invest in a new warehouse and container terminal. With storage capacity of 20,000 square meters and 2,500 TEUs (twenty-foot equivalent units), the new facility is the largest outside the Port of Beira.

At the time of *Tobacco Reporter's* visit, in June, contractors were putting the finishing touches on the warehouse, which used to be a textile factory. While the buildings were structurally sound, Transcom Sharaf obviously needed to make them tobacco compliant. Among other things, this meant encasing lights in metal boxes (to prevent glass from falling into the tobacco if a bulb were to shatter); using tobacco-approved paints and chaining locks to doors (again to prevent contact with stored leaf). Complying with the lighting requirements alone cost US\$450,000, partially because all existing fixtures had to be removed.

The investments are long term, however. Not only does the new facility allow Transcom Sharaf to avoid the port's high storage fees, it also offers the flexibility and independence that Harvey desires. "We can now continue operating even if the port shuts down."

Because tobacco is a high-value product, Transcom Sharaf spent much time, money and effort on getting its operations right. To minimize opportunities for human error, the company installed a state-of-the-art IT system. Among other capabilities, the system automatically allocates warehouse space for incoming loads. And if a forklift driver accidentally approaches the wrong box, the clams simply won't open.

"Our goal is to provide full accountability," says Harvey. "We'll give customers scenarios in advance, asking, 'If such and such situation were to arise, who must be notified?'" There are many other examples: When receiving tobacco, for instance, the incoming load is automatically compared to the ex-factory file to ensure there have been no losses in transit. And if tobacco is financed, Transcom Sharaf cannot clear it until it gets permission from the bank.

While some customers perceive Beira as "dirty," Harvey firmly believes it's all a matter of management and proper hygiene. To illustrate the point, he opens an empty beetle trap. "Three weeks and not a single beetle," says Harvey.

With its Beira facility nearing completion, Transcom Sharaf is already looking ahead. Anticipating rapid growth, the company plans to expand the warehouse by 5,000 square meters as soon as volumes justify it.

To further increase flexibility and improve its services, Transcom Sharaf will invest in warehouses in Johannesburg (15,000 square meters) and Durban (12,000 square meters) over the next 18 months. It is also planning a 10,000-square-meter facility in Lilongwe. The company is even



Transcom Sharaf's new Beira warehouse helps customers avoid expensive storage fees in the port.



A "new" Transcom truck fresh off the boat from the United States



Previously a textile factory, Transcom Sharaf's warehouse is now fully tobacco compliant.

considering expanding into the shipping business, taking advantage of its partnership with Sharaf Shipping.

Harvey believes the coming months will be crucial for Transcom Sharaf. "The company must prove itself in Beira this season," he says.—*T.T.*