

SECOND-HAND MOTOR VEHICLE IMPORTS IN ZAMBIA: JUICING FROM LEMONS?

Based on the study “Used Motor Vehicle Imports and the Impact on Transportation in Zambia”, by Zali Chikuba, December 2014

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The sustained positive growth of the Zambian economy has resulted in many shifts in consumption patterns of Zambian households. One notable change is the increased consumption of consumer durables, particularly motor vehicles. Motor vehicle ownership has increased substantially since 2004. The increase in motor vehicle ownership owes in part to the highly unbridled access to second hand motor vehicle imports. The downside of the relaxed motor vehicle import regulations as observed in Zambia is the ageing of the motor vehicle fleet and deterioration in fleet safety. Second hand motor vehicles imported in the country may be fine, but they may also be unreliable – commonly referred to as lemons in economic literature – and costly to maintain thereby generating serious financial, road safety and environmental concerns. Considering that Zambia is one of the highest road fatality risk countries in Africa with 23.7 road traffic deaths per 100,000 people, the ageing fleet of motor vehicles only compounds the risk. Thus, more deliberate measures to ensure lives are safeguarded and consumers get value-for-money on motor vehicle imports should be devised and implemented urgently.

The condition of some of the second-hand motor vehicle imports has been a subject of concern to stakeholders. The position of Government however, appeared to be uncertain on this matter with some sections calling for tighter regulation and others defending the status quo. Those in defence of the status claim to be doing so in order to avoid disadvantaging the majority of Zambians who can hardly afford to buy motor vehicles.

While it may be argued that more liberal motor vehicle importation policies are likely to see more Zambian consumers able to afford a motor vehicle, ZIPAR in “*Used Motor Vehicle Imports and the Impact on Transportation in Zambia*” finds that increases in motor vehicle ownership have occurred side by side with increases in motor vehicles’ age

and a decrease in general road worthiness. Conventionally, older motor vehicles are less likely to be road worthy than newer vehicles. Similarly, older vehicles are potentially more prone to road crashes than newer vehicles.

With no car manufacturer in the country, virtually all motor vehicles in Zambia are imported. Nearly 75% of these are imported from the second-hand market. This scenario imposes both risks and benefits to the consumer.

On the positive side, the increase in privately owned vehicles provides an alternative to the inefficient public transport system currently obtaining in Zambia. Further, it can be argued that the current motor vehicle importation policies have contributed to improving the transportation

of goods around the country and thus, facilitating trade. Indeed, between 2004 and 2013, motor vehicle ownership increased from a mere 9 motor vehicles per 1,000 people to just below 40. On average, 50,000 motor vehicles have been registered in Zambia every year since 2004. This is evident in the heavy traffic which has become part of everyday life in Zambia's major cities.

The consequences of the relaxed second-hand motor vehicle imports regime are alarming and deserve unreserved attention. The following are some of the key findings of the study:

1. Shorter average road worthy lifespan of motor vehicles from the second hand market

Motor vehicles from the second-hand motor vehicles market have a shorter average road worthy lifespan (under 4 years) compared to motor vehicles bought new (greater than 12 years).

2. Average age of vehicles has increased significantly

The average age of Zambia's motor vehicle fleet has increased from 13 years in 2006 to 17 years in 2014. If current trends continue, the average age of motor vehicles could reach 20 years in the next five years.

The ageing of the fleet is associated with increasing average age at which motor vehicles are being imported into Zambia. Used motor vehicle age at the time of import has risen from 10.5 years in 2006 to just under 13 years in 2014.

This increase in the age of the fleet potentially matters for three main reasons. First, the risk of breakdowns increases with all the associated costs for consumers. Second, it has an impact on the environment. There is clear deterioration in the emissions behaviour as motor vehicles become older mainly because of the aging of catalytic convertors and degradation of their emission control systems. Thirdly, there is a risk of worsening road safety.

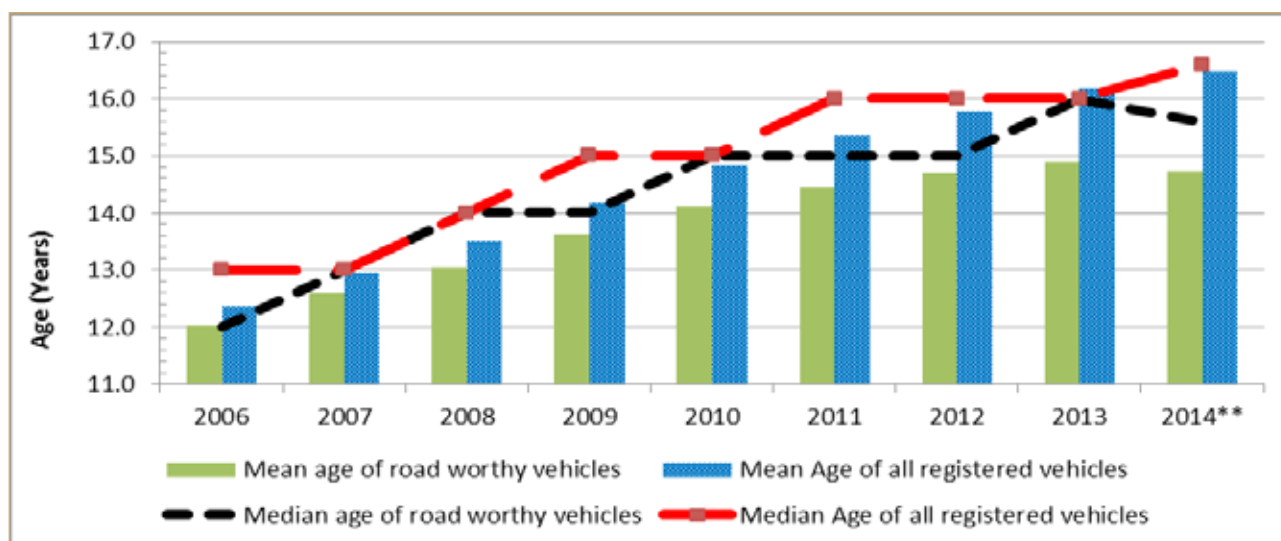
3. The road worthiness of vehicles has significantly deteriorated

The road worthiness status of Zambia's motor vehicle fleet over the same period has worsened. The proportion of motor vehicles without roadworthiness certification has increased from 14% in 2006 to 32% in 2013.

4. Road Worthiness Inspections

It is worth noting that these large increases in the number of unfit vehicles have occurred with the current motor vehicle road worthiness inspection (RWI) system. Local RWI procedures are largely discretionary and lack performance audit mechanisms. Imported second hand vehicles entering Zambia from Asia, the Middle East and United Kingdom are required to undergo pre-shipment RWI and certification. The purpose of the pre-shipment RWI is to minimise the risk of importing faulty and unsafe vehicles. Some weaknesses in the current pre-shipment RWI were observed and these include avoidance by buyers in order to cut costs and in extreme cases

Figure 1: Age Profile of Zambia's Motor Vehicle Fleet



counterfeiting of the RWI by some dealers to gain business advantage. Further, it was observed that the reach of the company authorised to conduct pre-shipment RWI is limited and leaves great latitude for fraud.

Policy incongruence

The policy guiding motor vehicle importation is in bits and pieces managed by various ministries and their agencies. Those considered include taxation, import standards, safety, environmental and health, and ownership of motor vehicle policies. Some policies seem to conflict with each other while still others appear inappropriate for the present social and economic age. In order to address the issues of aging and fitness, the following 6 policy measures for both the short-term and the medium to long term response are proposed.

Six measures proposed to deal with the motor vehicle ageing and fitness issues

We make the following recommendations in the short-term:

i. A strengthening of the pre-shipment road worthiness assessments.

Government, through the Zambia Bureau of Standards, has already shown commitment in this area by engaging an additional pre-shipment fitness assessments company bringing the number to two. This is likely to enhance quality assurance and value for money through competition for inspection orders. We further urge that measures be instituted for greater transparency and information access on how effectively these assessors identify faulty motor vehicles. The desired information should be capable of facilitating procedures of assessing the reliability of motor vehicles inspected by each dealer.

ii. Changes to the current tax treatment for imported motor vehicles.

Taxes on imported vehicles are largely based on the value of the vehicle. Since older second-hand vehicles are cheaper, the tax is relatively low. As a result, the situation now is such that older and older vehicles get imported as seen from the increasing average age of vehicles imports. Therefore, a revision of the tax system could assist

in the containment of this trend by making new (or almost new) motor vehicles more affordable.

iii. Placing a cap on the age of vehicles imported into Zambia.

Limiting the allowable age of second-hand motor vehicle imports is one way of dealing with an ageing motor vehicle fleet. The policy has been adopted in many other countries. The East African Community through the Council of Ministers decided on harmonising the age limit of vehicles imported into the region by 2009. Accordingly, the 10 years age limit from the time of first registration was proposed. A spectrum of age limits ranging from 8 years in Kenya to 10 years in Tanzania has been adopted. Other neighbouring countries adopting age limits for second hand motor vehicle imports are Congo DR (10 years and 7 years) and Namibia (8 years).

In the medium to long-term, policy options may include:

i. A strengthening of the public transport system.

Poor public transport services have contributed to the increased demand for privately owned vehicles particularly second hand imports. Hence, a revamping of public transport systems could help arrest the influx of older second-hand vehicles. In the "Trip Modelling and Cost Analysis for the Public Transport System in the City of Lusaka" detailed recommendations on how this can be achieved are made. These recommendations can easily be replicated to other towns and cities in Zambia.

ii. Introducing motor vehicle scrappage policy ("cash for clunkers")

Some countries have devised programs in attempts to reduce the older fleet of vehicles through award of rebates to vehicle owners allowing them to exchange older vehicles with new ones. Such a program requires careful consideration, however, as it entails offering subsidies on new purchase as incentive for voluntary scrappage and committing quantifiable resources for hard-to-measure benefits.

iii. Setting up local motor vehicle assembly plants for popular models

Controls over motor vehicle quality such as age and fitness could be flouted if all the manufacture

is done from abroad. Hence, attracting private investment in local manufacture to replace imports does not only translate into higher economic growth and jobs but also has a bearing on application of standards. In countries with motor vehicle manufacture, an increase in average fleet age signals strong demand for motor vehicle ahead. The market for newer motor vehicle in Zambia is just getting bigger and manufacture could take advantage it. The proposed mechanism for the establishment of motor vehicle manufacture is a PPP where government offers a market guarantee for a sustainable proportion of the manufacture.

Conclusion

The second-hand motor matter affects almost everyone in Zambia. With about one car for every twenty households in Zambia, the second-hand motor vehicle subject emerges as an important debate at policy level. The policy framework that governs the tradition and practice of motor vehicle ownership at any cost is now tested in part. The main issues concerning the current policy regime on second hand motor vehicle importation in Zambia centres on the ageing and fitness status of the motor vehicle fleet. In the six remedial measures suggested, Government can find an optimal balance of affordability, consumer economy, environmental protection, decency and road safety in the delivery of transportation services in Zambia.

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